The Washington Post

A-Section

Brazilian siblings to pay $5 million to SEC Google exec disputes European complaints

594 words
11 October 2013
The Washington Post
WP
FINAL
A13
English

Two Brazilian brothers agreed to pay $5 million to resolve Securities and Exchange Commission allegations that they used confidential information to make options trades ahead of an announced deal to buy H.J. Heinz.

Michel Terpins, 36, and Rodrigo Terpins, 40, turned a profit of more than $1.8 million from trades placed the day before Warren Buffett's Berkshire Hathaway and 3G Capital said they would pay $23 billion to acquire the Pittsburgh-based ketchup maker, the SEC said in a statement Thursday. Heinz shares jumped 20 percent after the announcement.

The SEC filed a lawsuit related to the "suspicious trading" by unknown persons on Feb. 15, the day after the announcement. In an amended complaint, filed with the U.S. District Court in Manhattan, the agency did not specify how the brothers allegedly obtained the confidential information. The agency won an asset freeze when the traders failed to appear in court Feb. 22.

"Rodrigo and Michel Terpins obtained confidential information prior to any public awareness that a Heinz deal was in the works, and they exploited it to the disadvantage of all other traders in the marketplace," said Sanjay Wadhwa, senior associate director for enforcement in the SEC's New York office.

Eric Schmidt, Google's executive chairman, said Thursday that he respects but disagrees with complaints about his company's privacy policies made by data protection authorities in six European countries.

Schmidt said the Internet search and ad giant has "very broadly communicated" its policies to authorities in the countries where the complaints have been made.

Data watchdogs in France, Britain, Germany, Italy, Spain and the Netherlands have said Google needs to provide additional guarantees to comply with national privacy protection rules in each of those countries.

Schmidt made his comments in Athens while attending a technology event, and after meeting with Greek Prime Minister Antonis Samaras.

l Boeing said Thursday that it will restructure its commercial airplane strategy and marketing functions, just days after the company lost a $9.5 billion order in Japan, previously its most secure market. The action, announced in a memo by Boeing Commercial Airplanes chief executive Ray Conner that was obtained by Reuters, follows Japan Airlines's decision Monday to pick Airbus planes to replace its Boeing 777s, rather than the next-generation Boeing 777X model.

l Syncora Guarantee, which insured payments by Detroit on some of its interest-rate swaps, on Thursday appealed a bankruptcy court order that allowed the city continued access to casino revenue that the city says it needs to avoid running out of cash. Syncora had tried to block Detroit from accessing an estimated $11 million in monthly tax revenue from three casinos, claiming it had a lien on the money, which had been used as collateral since 2009 to secure the city's interest-rate swap agreements.

l Barclays failed to pay $488 million in fines and disgorgement demanded by the Federal Energy Regulatory Commission for rigging California electricity prices, the agency said in a court petition seeking to enforce the July order. The agency asked a federal judge Wednesday in Sacramento to affirm the penalties, as more than 60 days had passed since they were imposed. The regulator alleged that the British bank and its employees engaged in a "fraudulent scheme to manipulate electricity prices" between 2006 and 2008.

l 8:30 a.m.: Retail sales.

l 9:55 a.m.: Consumer sentiment.

l Earnings: Wells Fargo, Winnebago.

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Document WP00000020131011e9ab0000z

A-Section
Return of the mega-merger

Katerina Sokou
673 words
6 August 2013
The Washington Post
WP
FINAL
A09
English

Luxury retailer Saks agreed last week to be bought by Canada's largest department store, Hudson's Bay, for $2.9 billion. On the same day, pharmaceutical company Perrigo paid $6.7 billion for Irish biotechnology firm Elan. A day earlier, advertising companies Omnicom and Publicis decided to join forces to create a $35 billion market giant.

The recent spike in activity reflects the return of the mega-merger and a gradual uptick in business confidence in the economy, analysts say. It has been most evident in the ongoing battle for Dell computers, with founder Michael Dell upping his bid for the company to $25 billion Friday, and the high-profile buyout of H.J. Heinz by Warren Buffett's Berkshire Hathaway.

Although the number of mergers is down compared with the corresponding period last year, a series of mega-mergers has helped increase the value of merger activity in 2013 to $607 billion, from $486 billion during the corresponding period in 2012.

Activity is picking up after an uneventful 2012, when no mega-mergers were announced, analysts said. But it is still far from 2011 levels, when low valuations contributed to a rush for deals.

The availability of cheap corporate loans is helping spur the rebound in deals this year. The U.S. Corporate Bond Index reached its lowest levels this year on June 25, meaning that companies could borrow money more cheaply.

This is allowing many companies to pay cash rather than swapping stock to complete a deal. In 2012, more than 70 percent of mergers were paid for with cash, compared with 56 percent in 2009, according to FactSet Mergers data.

This year "could play out as a battleground between cash only and stock swap deals, at least in the mega-merger arena," FactSet Mergers said in a recent research note.

Some of the biggest deals since 2009 have taken place in the health-care sector, as the industry consolidates. Hospitals, in particular, are bracing for the effects of the Affordable Care Act, which is expected to put pressure on their profit margins, analysts said.

Last week, Community Health Systems agreed to buy Health Management Associates for about $3.6 billion in cash and stock, a long-expected union of the for-profit hospital systems. The biggest merger since 2009 was in the pharmaceutical industry: the $68 billion acquisition of Wyeth by Pfizer. The second biggest was Abbott Technologies' deal to sell its AbbVie division to shareholders for $64 billion.

Most mergers since the recession have focused on building efficiencies through cost-cutting and increasing market share by expanding to new markets and segments, analysts said. However, the merger wave is raising concerns that big companies could also gain too much control over the market and raise prices on consumers.

Britt Beemer, chairman and chief executive of American Research Group, said that with its acquisition of Saks, Hudson's Bay gained access to a valuable and loyal customer base in the United States, as Saks "is chasing a small percentage of the market, the top 6 to 7 percent of American consumers."

But customers probably won't notice. "It won't make much difference to the consumer," Beemer said. "But it will provide credit lines with vendors for Saks."

Some mergers have the potential to create market dominance. According to analysts, that appears to be the case in the merger of Omnicom and Publicis. The merger is expected to create the world's biggest advertising company, with a market value of $35.1 billion.

This merger "brings in a new level of scale and consolidation in different parts of the media and advertising business," Larry Chiagouris, a professor of marketing at Pace University's Lubin School of Business in New York, said in a recent research note.

Direct competitors "will not be able to remain in place as is," he said, but will need "greater size in order to maintain bargaining power" when working with agencies.

WP20130806deals0806

Document WP00000020130806e9860002m

The Washington Post

CapitalBusiness
Diamond deal: McLean-based Cap

44 words
5 August 2013
The Washington Post
WP
FINAL
A08
English

Diamond deal: McLean-based Capital One Financial said that it has reached a multi-year extension of its private label credit card program agreement with North Kansas City, Mo.-based Helzberg Diamonds.

WP20130805Ear-money5

Document WP00000020130805e9850003d

The Washington Post

A-Section
Geico pursues growth aggressively

J.D. Harrison
718 words
8 July 2013
The Washington Post
WP
FINAL
A12
English

Geico has made a rare leadership change and accelerated its advertising spending as the company and its little green lizard climb the ranks of the nation's largest auto insurers.

Warren Buffett's Berkshire Hathaway, which owns the Chevy Chase-based insurance company, last week elevated Bill Roberts to president and chief operating officer at Geico. Roberts is stepping up from the role of executive vice president, in which he has focused on marketing, advertising and online business, all areas in which the company has excelled in recent years.

"Bill will take on a greater role in managing Geico's day-to-day operations," Tony Nicely, who previously served as president and will continue to serve as chairman and chief executive, said in a statement.

Nicely, who has spent more than a half-century at Geico, said that he "will continue to be very actively involved in the overall management of the company" but that he "could not be more confident that Bill is ready to tackle these new responsibilities."

The leadership shuffle comes as the company closes in on Allstate as the nation's second-largest auto insurer. The industry leader is State Farm.

Geico surpassed Allstate in business during the first quarter of the year, posting $4.72 billion in new auto insurance premiums, compared with its competitor's $4.53 billion. Allstate, though, has picked up more business over four quarters, $17.65 billion in premiums to Geico's $17.16 billion, according to data released late last month by SNL Financial, a provider of business information.

Geico executives rely on annual data from A.M. Best when referring to their standing in the market, and the latest report from A.M. Best still had the company in third place. The company would not comment on its movement in the rankings - but others have.

"After years of consistent premium growth, Geico is in position to become the second largest U.S. personal auto writer in 2013," SNL analysts Raisa Luis and Terry Leone wrote in a research report.

Competitors are taking notice. A couple of years ago, Allstate purchased online auto insurer Esurance for about $1 billion, aiming to recapture some of the market share it was losing to smaller rivals, including Buffett's company.

"We acquired Esurance so that we could really compete effectively against Geico and Progressive in that customer segment," Allstate chief executive Don Civgin told analysts during a quarterly earnings call in February.

On the same day as Geico's leadership announcement, the company reported that it had sold its 12 millionth car policy. (The firm now covers more than 18 million total vehicles.) Meanwhile, the company's underwriting profit jumped 18 percent last year and its employee rolls have grown to 28,000, about 5,000 of whom are based in the Washington area.

Continued investments in the company's familiar gecko mascot and several new advertising campaigns - featuring an array of cavemen, a talking pig and folk singers - have fueled some of that growth.

In 2012, Geico spent more than $1.1 billion on advertising, up 12.45 percent from the year before and an even greater boost than the 10.1 percent increase its posted between 2010 and 2011, SNL's data show. A company representative declined to answer questions about advertising spending.

It was by far the most spent by any property insurer last year - Allstate was a distant second, at $828.8 million - and the fifth-largest amount spent on advertising by any company in the United States, according to data Ad Age planned to publish Monday.

Geico's multimedia campaigns now represent a "vast majority" of the advertising budget at Berkshire Hathaway.

Buffett highlighted Geico's overall success and that of its marketing campaigns in a letter to shareholders in March, noting that the firm's share of the auto market has surged to 9.7 percent from 2.5 percent when he took control in 1995.

"The credit for Geico's extraordinary performance goes to Tony Nicely and his 27,000 associates," Buffett wrote. "And to that cast, we should add our Gecko. Neither rain nor storm nor gloom of night can stop him; the little lizard just soldiers on"

WP20130708geico0708

Document WP00000020130708e9780000q

The Washington Post

A-Section

Three more charged with insider trading Berkshire headed for big stake in Goldman

779 words
27 March 2013
The Washington Post
WP
FINAL
A11
English

Federal prosecutors announced criminal charges Tuesday against three new defendants in the government's broad-based insider-trading probe.

Authorities said David Riley, a former chief information officer at Foundry Networks, leaked tips about the company's pending $3 billion takeover in 2008 by Brocade Communications Systems to hedge fund analyst Matthew Teeple.

The government said Teeple then tipped others, resulting in trades that led to more than $27 million in profits and avoided losses. Teeple was an analyst at Artis Capital Management, a San Francisco-based hedge fund, according to people familiar with the matter.

Teeple also had leaked information to Karl Motey, a California technology consultant who pleaded guilty in the probe and has been cooperating with prosecutors, the government said.

U.S. Attorney Preet Bharara said Riley and Teeple, who are friends, engaged in a "high-stakes game that has repeatedly proven to be unwinnable." He added that the case shows that "the ranks of privileged professionals who behave as if they are above the law continue to swell."

Another defendant, John Johnson, 46, pleaded guilty to one count each of securities fraud and conspiracy, Bharara said.

Warren Buffett's company will likely become one of the biggest shareholders in Goldman Sachs Group later this year, and Berkshire Hathaway won't even have to part with any cash to accomplish it.

Berkshire and Goldman said Tuesday they had renegotiated an agreement that gave Berkshire the right to buy 43.5 million shares of the investment bank for $115 per share. The 2008 deal will be settled with stock this fall.

Buffett and Goldman's chairman and chief executive, Lloyd Blankfein, characterized this new deal as an endorsement of the investment bank - much like they did when Buffett invested $5 billion in Goldman during the financial crisis.

"We intend to hold a significant investment in Goldman Sachs, a firm that I did my first transaction with more than 50 years ago," Buffett said.

Goldman spokesman Andrew Williams said Tuesday that at current share prices the new warrant agreement would put Berkshire in the lower end of the top 10 of Goldman's biggest shareholders, but the number of shares Berkshire will ultimately receive will be determined by Goldman's stock price this fall.

l Stocks rallied Tuesday, with the Dow Jones industrial average climbing 111.90 points to close at a record 14,559.65. The Standard & Poor's 500-stock index gained 12.08 points to finish at 1563.77, only 1.38 points below its all-time closing high.

l The Federal Reserve has ordered Citigroup to better police itself for the risk of money laundering, part of a broad U.S. regulatory crackdown on the potential for illicit money flows. The Fed told Citigroup's board to submit a plan within 60 days to improve its oversight of companywide anti-money-laundering compliance, according to a March 21 consent order made public Tuesday.

l T-Mobile USA on Tuesday said it will start offering the iPhone on April 12, filling what its chief executive said was "a huge void" in its phone lineup. "This is a big deal for us," T-Mobile chief executive John Legere said at a New York event.

l Martin Durbin, executive vice president and chief lobbyist for the American Petroleum Institute, will become head of the American Natural Gas Alliance on May 1, according to an industry source and a note sent to ANGA members. The group represents 27 large independent natural gas exploration and production companies who are actively drilling in shale gas areas. Durbin is the brother of Senate Majority Whip Richard J. Durbin (D-Ill.).

l The Central Bank of Cyprus appointed accountant and banker Dinos Christofides as a special administrator to run the island's largest commercial lender, Bank of Cyprus. As part of a $13 billion bailout, Cyprus agreed to fold small deposits of shuttering Cyprus Popular Bank, also known as Laiki, into the Bank of Cyprus. Its chairman, Andreas Artemis, has submitted his resignation.

l Google selected 8,000 people who will be given a chance to don a pair of Internet-connected glasses. The pool chosen by Google won a contest last month requiring U.S. residents to submit 50-word applications to explain how they would use a technology being hailed as the next breakthrough in mobile computing. The winners will have to pay $1,500 apiece if they want a test version of the product, called "Google Glass."

l 10 a.m.: Pending home sales index for February released.

WP20130327digest0327

Document WP00000020130327e93r0000x

Business

S&P 500 on a 7-week winning streak

309 words
17 February 2013
The Washington Post
WP
FINAL
G07
English

U.S. stocks rose for the week, sending the Standard & Poor's 500 Index to its longest winning streak in two years, amid optimism over corporate dealmaking and better-than-estimated economic data.

H.J. Heinz Co. rallied 19 percent after Warren Buffett's Berkshire Hathaway Inc. and 3G Capital agreed to buy the ketchup maker. General Electric Co. rose 3.5 percent as Comcast Corp. agreed to buy the remainder of NBC Universal.

The S&P 500 fell on the last trading day as Wal-Mart Stores Inc. slumped after e-mails showed the world's largest retailer had the worst sales start to a month in seven years.

The S&P 500 rose 0.1 percent to 1519.79 for the week. The benchmark U.S. equity measure touched its highest level since Oct. 31, 2007. The Dow Jones Industrial Average fell 11.21 points, or 0.1 percent, to 13,981.76. The gauge closed at a five-year high on Feb. 12.

"When Warren Buffett does a deal, people listen," Chad Morganlander, a portfolio manager at Florham Park, New Jersey-based Stifel Nicolaus & Co., which manages $127 billion, said by telephone. "Investors are seeing a gradual improvement within the U.S. economy. That combined with very low volatility in financial markets is the perfect cocktail for mergers and acquisitions."

The S&P 500 has rallied for seven straight weeks, the longest winning streak since January 2011.

The Treasury will sell $35 billion in three-month bills and $30 billion in six-month bills on Feb. 19. They yielded 0.11 percent and0.14 percent, respectively, in when-issued trading. The Treasury will also sell four-week bills and $9 billion in 30-year TIPS.

WP20130217stocks0217

Document WP00000020130217e92h0002p

The Washington Post

Extras
Manassas-based newspaper sold to billionaire

Jeremy Borden
254 words
20 May 2012
The Washington Post
WP
FINAL
T03
English

Billionaire Warren Buffett's BH Media Group has purchased 63 daily and weekly newspapers from the media company that owns the Manassas-based News & Messenger.

The Berkshire Hathaway subsidiary agreed last week to buy the newspapers from Media General for $142 million, according to news reports. Media General is based in Richmond and owns newspapers, television stations and Web sites across the country.

The sale includes the News & Messenger, InsideNoVa.com, InsideNoVa Weekly, the Stafford County Sun, PW Business magazine, the Belvoir Eagle and the Quantico Sentry, said an article posted online by Steve Pendlebury, managing editor of Media General's InsideNoVa Network.

Berkshire Hathaway, which also extended a $445 million loan to Media General and took a 19.9 percent stake in the company, is the largest shareholder of The Washington Post Co., with a 23 percent share.

Buffet has said that he thinks that news operations must charge for online content. But according to Pendlebury's article, Douglas Hiemstra, president of World Media Enterprises, which will manage the newly purchased properties, told News & Messenger staff members that such a decision has not been made.

"We would make those decisions locally, but one of the things that we do believe as a company is that we can't continue to spend millions of dollars gathering content and then give it away," Hiemstra said in the article.

The sale is expected to be completed June 25.

WP20120520pw-mediageneral20
Document WP00000020120520e85k0002q

The Washington Post

A-Section
Goldman's profit masks decline in revenue streams

Christina Rexrode
598 words
18 April 2012
The Washington Post
WP
FINAL
A13
English

NEW YORK - On the surface, Goldman Sachs had a triumphant first quarter. By one popular measure, its profit more than doubled, and the bank announced it would raise its dividend.

But those achievements masked lurking problems. The jump in earnings was a quirk related to repaying Warren Buffett's Berkshire Hathaway last year. Revenue fell 16 percent compared with a year ago. And to make up for those weaknesses, the storied investment bank - Wall Street's almost-perennial winner - had to turn to cost-cutting.

Goldman shed 3,000 jobs over the year, or about 8 percent of its work force. It cut back on salaries, trimmed occupancy costs and paid less in brokerage fees, cutting total expenses by 14 percent. Average compensation per employee, which includes benefits, fell to $135,000 for the quarter, down from $148,000 a year ago.

Net income available to common shareholders rose to $2.1 billion, a 128 percent spike from $908 million in the first quarter of 2011. However, the $908 million strips out payments that the bank made that quarter to Berkshire Hathaway, when it bought back the investment that Berkshire gave Goldman as a lifeline in the height of the financial crisis. If that payment is included, then Goldman's profits fell 23 percent.

Like the rest of the banking industry, Goldman is struggling to navigate a world of stricter government controls that will dry up some of its key revenue streams. Regulations taking effect this year will reduce Goldman's ability to trade for its own account, which has previously been a big source of profits, especially in volatile markets. Analysts want the bank to clarify its new game plan.

In a call with analysts, Chief Financial Officer David Viniar said he expected the regulatory uncertainty to last "for a while" as rulemakers hammer out exactly how to implement the government's new regulations.

"Until the rules are finalized," he said, "we don't know exactly where it's going to go."

Unlike most of the banking industry, Goldman doesn't have a large consumer banking arm to fall back on when investment banking revenues are bumpy or get crimped by new rules. Goldman's clients are largely hedge funds and multinational corporations that need to hedge their bets on foreign currencies, fluctuating interest rates and commodities.

Stricter new rules for European banks have made analysts wonder if Goldman can benefit by taking some of their market share. Viniar said Goldman had "seen some opportunities to buy assets," but that purchases had been "muted."

On a per-share basis, earnings were $3.92. That beat the $3.52 predicted by analysts. Goldman's stock fell 87 cents to close at $116.86 Tuesday.

The bank also announced it would raise its quarterly shareholder dividend to 46 cents per share from 35 cents, something it is allowed to do after passing the government's most recent round of stress tests. Citigroup and Bank of America, on the other hand, are paying token dividends of just a penny.

Still, the cracks in Goldman's foundation are showing. It recorded a quarterly loss last fall, only its second since going public in 1999. In 2010 and 2011, its net income fell year over year in six of the eight quarters. Return on equity in the first quarter was about 12 percent, in line with a year ago. But that was down sharply from 38 percent five years ago, before the global economic meltdown.

WP20120418goldman0418

Document WP00000020120418e84i0002n

The Washington Post

A-Section

Buffett says possible successor lined up at Berkshire

Josh Funk
634 words
26 February 2012
The Washington Post
WP
FINAL
A02
English

OMAHA - Billionaire investor Warren Buffett said Saturday that the Berkshire Hathaway company has someone in mind to replace him eventually, but he emphasized that he has no plans to leave.

In his annual letter to Berkshire shareholders, Buffett, 81, offered a couple of details about Berkshire's succession planning, to reassure investors who have long worried about who will replace him as Berkshire chairman and chief executive.

Buffett said the Berkshire board is enthusiastic about the executive it has picked and said there are two good backup candidates.

"When a transfer of responsibility is required, it will be seamless, and Berkshire's prospects will remain bright," Buffett said.

Previously, Buffett had said only that the board had three internal candidates for the chief executive job. Berkshire plans to split Buffett's jobs into three parts to replace him with a chief executive, a chairman and several investment managers.

Glenn Tongue, a managing partner at T2Partners investment firm, said he was struck that Buffett chose to deal with the succession topic as one of the first items in his letter.

"I think this was a forceful and stronger attempt to put this issue to bed," Tongue said.

Even though the successor wasn't named, stockbroker and author Andrew Kilpatrick said the way Buffett described the person makes him more confident that the leading candidate is Ajit Jain, who runs Berkshire's reinsurance division.

"The more I think about it, the more I think we have a successor," said Kilpatrick, who wrote "Of Permanent Value: The Story of Warren Buffett."

Besides Jain, the other Berkshire managers believed to be possible successors as chief executive are Greg Abel, president and chief executive of MidAmerican Energy; Tony Nicely, chief executive of Geico; and Matt Rose, chief executive of Burlington Northern Santa Fe.

Berkshire has also cleared up some succession questions in the past two years by hiring two hedge fund managers, Todd Combs and Ted Weschler. Buffett said those two have the "brains, judgment and character" to manage Berkshire's entire portfolio eventually.

Buffett said Combs built a $1.75 billion portfolio last year, and Weschler is in the process of doing the same.

Buffett said he spent $67 million in the fall buying back Berkshire stock for the first time since taking over the firm in 1965 because he believed it was undervalued. He said he regrets buying out shareholders at prices less than what the stock is worth.

Buffett has authorization to buy back stock anytime it is selling for less than 110 percent of its book value.

In his annual letter, Buffett also said that he was "dead wrong" with a prediction that the U.S. housing market would begin to recover by now, but he remains optimistic about the nation's economy.

He said he is sure housing will recover and help bring down the nation's unemployment rate. But he did not predict when that will happen.

Investors eagerly await the letter from Buffett, the "Oracle of Omaha," who built a roughly $44 billion fortune by following a steadfast, no-nonsense investing strategy.

Buffett said housing "remains in a depression of its own," but he predicted, in typical plain-spoken style, that the housing market will come back because some human factors can't be denied forever.

"People may postpone hitching up during uncertain times, but eventually hormones take over," he wrote. "And while 'doubling-up' may be the initial reaction of some during a recession, living with in-laws can quickly lose its allure."

The housing prediction proved painful for Berkshire. It owns more than 80 subsidiaries, including the Geico insurance company and See's Candy, and five of them rely heavily on construction activity.

WP20120226buffett0226

Document WP00000020120226e82q0002e

The Washington Post

A-Section

Railroads among potential winners in Keystone XL decision

Jim Efstathiou Jr.
969 words
5 February 2012
The Washington Post
WP
FINAL
A05
English

NEW YORK - U.S. and Canadian railroads stand to benefit from the Obama administration's decision to reject TransCanada's Keystone XL oil pipeline permit.

With modest expansion, railroads can handle all new oil produced in western Canada through 2030, according to an analysis of the Keystone proposal by the State Department.

"Whatever people bring to us, we're ready to haul," said Krista York-Wooley, a spokeswoman for Burlington Northern Santa Fe, a unit of billionaire investor Warren Buffett's Omaha-based Berkshire Hathaway. If Keystone XL "doesn't happen, we're here to haul."

The State Department denied TransCanada a permit Jan. 18, saying there was not enough time to study the proposal by Feb. 21, a deadline Congress imposed on President Obama. Calgary-based TransCanada has said it intends to reapply with a route that avoids an environmentally sensitive region of Nebraska, something the Obama administration encouraged.

The rail option, though costlier, would lessen the environmental impact, such as a loss of wetlands and agricultural productivity, compared with the pipeline, according to the State Department analysis. Greenhouse gas emissions, however, would be worse.

If completed, Keystone XL would deliver 700,000 barrels a day of crude from Alberta's oil sands to refineries along the Gulf of Mexico, crossing 1,661 miles over Montana, South Dakota, Nebraska, Kansas, Oklahoma and Texas.

Investors such as John Stephenson, who helps manage $2.7 billion for First Asset Management in Toronto said he anticipated the project would move forward next year. Pipeline shipping costs remain lower than rail, and a lack of readily available tanker cars may create a bottleneck.

The availability of tank cars may create a temporary "hiccup" in transport capacity, according to Tony Hatch, an independent railroad analyst in New York. Rail cars are "a pretty hot commodity," as a result of demand from oil producers in North Dakota, he said.

Rail car production is already at a three-year high as manufacturers such as Greenbrier and American Railcar Industries expand to meet demand for sand used in oil and gas exploration, according to Steve Barger, an analyst at Keybanc Capital Markets in Cleveland, citing Railway Supply Institute statistics.

Rail-car suppliers can add capacity, Hatch said.

"Railroads are not just a stopgap while we wait for a pipeline," Hatch said in an interview. "They are potentially part of the long-term solution."

Railroads are being used in North Dakota, where oil producers have spurred a fivefold increase in output by using intensive drilling practices in the Bakken, a geologic formation that stretches from southern Alberta to the northern Great Plains. During 2011, rail capacity in the region tripled to almost 300,000 barrels a day as higher production exceeded what pipelines handle, according to the State Department report on Keystone XL.

Shipping oil using tank cars on rail costs about $3 more a barrel than pipeline transport, using prices in North Dakota, a differential "unlikely" to slow the development of oil sands crude if no pipeline is built, the State Department said. The gap is shrinking as larger storage terminals are built, the agency said.

Burlington Northern carries about 25 percent of the oil from the Bakken, said Krista York-Wooley, the railroad spokeswoman. The company can carry higher volumes from North Dakota or Alberta, she said.

Canadian Pacific Railway's shipments from North Dakota climbed to more than 13,000 carloads last year from about 500 in 2009, Ed Greenberg, a spokesman, said in an e-mail. The Calgary-based company has a similar plan in western Canada.

"With an extensive rail network and proven expertise in moving energy, CP offers a flexible option for transporting crude oil and other energy-related products to and from key locations in North America," Vice President Tracy Robinson said in an e-mail. "Rail is scalable, allowing CP to effectively keep pace with the shipping needs of producers."

Canadian National Railway, the biggest Canadian railroad based on annual sales, considers Alberta's oil sands a chance to expand its business, according to company filings.

"CN continues to work closely with customers in Alberta to capitalize on oil- and gas-related opportunities," the Montreal- based company said. "CN sees potential for the outbound movement of oil sands products such as bitumen and synthetic crude to refineries in the U.S. Gulf Coast region, or eventually through West Coast ports to offshore markets."

Imperial Oil, a Calgary-based unit of Exxon Mobil, will consider "various transportation options" for oil sands exports, according to Pius Rohlheiser, a spokesman. Cenovus Energy uses railroads to bring in dilutants needed to mix with heavy crude before it can be shipped by pipeline, and to export oil from the Bakken formation in Canada, according to Jessica Wilkinson, a spokeswoman.

Environmental groups such as the Natural Resources Defense Council have campaigned to stop Keystone XL because leaks could threaten drinking-water supplies and processing Alberta crude produces more greenhouse gas emissions than conventional oil.

Railroads, too, present environmental issues. Moving crude on trains produces more global warming gases than a pipeline, the State Department said.

Union Pacific, based in Omaha, anticipated an increase in rail traffic with or without Keystone, chief executive Jim Young said in an interview.

Rail allows shippers to reach different markets and capture better prices at refineries, said John Mims, a transportation analyst at Friedman Billings Ramsey in Arlington County.

"It's a good secular growth story for the railroads," Mims said in an interview." They're playing an increasing role, especially as you see this push-back from a regulatory standpoint on the pipelines."

Bloomberg News reporters Natalie Doss in New York and Bradley Olson in Houston contributed to this report.

WP20120205bd-keystonerail

Document WP00000020120205e8250000r

A-Section
Buffett's firm buys $10.7 billion in IBM shares

Josh Funk
722 words
15 November 2011
The Washington Post
WP
FINAL
A23
English

OMAHA - Warren Buffett said Monday that his company has spent $10.7 billion to buy more than 5 percent of IBM's stock this year, a surprising move by the billionaire investor, who has long shied away from investing in high-technology companies.

His company, Berkshire Hathaway, also revealed several other new investments made during the turmoil of the third quarter. Besides the new IBM investment, Berkshire added much smaller stakes in Intel, DirecTV, General Dynamics and CVS Caremark.

Most of the details emerged from the quarterly update Berkshire filed with regulators on its $59 billion U.S. stock portfolio. Buffett disclosed some details in interviews earlier in the day.

Monday's filing doesn't offer a full picture of Berkshire's holdings, however, because the Securities and Exchange Commission allowed the Omaha-based company to keep some of its investments confidential.

Buffett has long refused to invest in high-tech companies because he has said it's too difficult to predict which technology businesses will prosper in the long run.

But he said he recently realized his view of IBM was wrong based on what he read in the company's annual reports and what he learned by talking to information-technology departments at Berkshire subsidiaries. He said he should have realized years sooner that hardware is no longer the heart of IBM's business.

"Now they're very much a services company, and they're very intertwined with their customers," he said. He added that IBM's customers are reluctant to change once they start working with IBM.

So Berkshire has bought about 64 million shares since March, or about 5.5 percent of IBM. Buffett says he thinks IBM has a sound plan for the future.

Andy Kilpatrick, the stockbroker-author of "Of Permanent Value, the Story of Warren Buffett," said that it's surprising to see Buffett invest in a high-tech company, but that the investment appears to be an example of Buffett spotting something in plain sight that he had previously overlooked. "I don't think it moves things very far from what he's always done," Kilpatrick said.

IBM joins several other American business icons in Berkshire's stock portfolio. Buffett's company already holds stakes in Coca-Cola, American Express and Wells Fargo, among others.

IBM officials declined to comment Monday on Buffett's investment.

The company's stock has more than doubled since the depth of the recession in 2008. IBM shares gained as much as $2.46 Monday to trade near its 52-week high of $190.53 before slipping to close at $187.35, down 3 cents.

Buffett said Berkshire paid an average of about $170 per share for the IBM stock.

The third-quarter report filed Monday doesn't include all of Berkshire's new IBM stake because Buffett said some of the shares were bought in the fourth quarter.

A couple of the other new investments revealed Monday are tech companies. At the end of September, Berkshire held 9.3 million Intel shares, 4.2 million DirecTV shares, 3.1 million General Dynamics shares and 5.7 million CVS Caremark shares.

But those other new investments, besides IBM, were worth less than $200 million at the end of September. That dollar figure suggests those investments were made by Berkshire's new investment manager Todd Combs, who manages between $1 billion and $3 billion.

It's not clear who picked the investments because the filing doesn't differentiate between investments Berkshire makes, investments any of about 80 subsidiaries make, or investments Buffett makes.

Besides the new investments, Berkshire reported changes in some of its other holdings, including:

l Increasing its sizable stake in Wells Fargo to 361.4 million shares, from 352.3 million in June.

l Reducing its holdings of Kraft Foods to 89.7 million shares, from 99.5 million.

l Boosting its Dollar General stake to 4.5 million shares, from 1.5 million.

l Increasing its stake in insurer Torchmark to 4.2 million shares, from 2.8 million.

Berkshire's investments are closely watched in the market because of Buffett's successful record. He has said Berkshire has been buying aggressively during the recent market turmoil.

WP20111115buffett15

Document WP00000020111115e7bf0001m

The Washington Post

A-Section

Sokol wants to set up a 'mini Berkshire Hathaway'

Josh Funk
- Associated Press

448 words
1 April 2011
The Washington Post
WP
FINAL
A12
English

OMAHA - The high-ranking Berkshire Hathaway executive who resigned this week says he wants to start his own investment firm patterned after Warren Buffett's company.

David Sokol appeared Thursday on CNBC, one day after Buffett announced that Sokol had resigned. Many investors thought Sokol had been the leading candidate to eventually replace Buffett as Berkshire Hathaway's chief executive. (Buffett is a director of The Washington Post Co.)

Sokol also defended personal trades he made in Lubrizol stock before Berkshire announced last month its $9 billion deal to buy the specialty chemical company.

"I don't believe I did anything wrong," Sokol said. "I was making an investment I believed in."

Sokol said that he had been thinking of resigning for more than two years and that the time was right because the Berkshire subsidiaries he oversaw were all in good shape. He was chairman of Berkshire's MidAmerican Energy Holdings, NetJets and Johns Manville units.

Sokol told CNBC that he wants to set up a "mini Berkshire Hathaway" similar to the investment partnership Buffett set up in 1965.

Sokol said that he likes to build companies, never aspired to be Berkshire's CEO or ever had a conversation with Buffett or any board member about the job.

Sokol also answered questions about Lubrizol stock trades he made before Berkshire announced its deal for the specialty chemical company.

Buffett said he learned March 19 that Sokol had bought 2,300 shares of Lubrizol in December one day after he asked an investment banker to contact the specialty chemical maker about possible deal talks. Sokol sold those initial shares a week later but then bought nearly 100,000 Lubrizol shares in early January about a week before recommending that Berkshire make a bid.

Buffett said that the decision, announced March 14, to offer $135 in cash for each share of Lubrizol was entirely his but that the deal wouldn't have happened without Sokol's early efforts.

Sokol said that at the time he invested in Lubrizol he didn't have any idea Berkshire would actually buy it. "I made the decision to buy the shares because I thought it was a good investment for my family and would do it again tomorrow," Sokol said. He stands to make roughly $3 million on the Lubrizol stock if Berkshire's acquisition goes through.

Buffett said in a statement Wednesday that he didn't think those stock purchases were illegal and that Sokol told him they weren't a factor in his decision to resign. Buffett declined to comment further.

WP20110401sokol1

Document WP00000020110401e7410004a

The Washington Post

A-Section
Berkshire manager resigns after stock buy

667 words
31 March 2011
The Washington Post
WP
FINAL
A16
English

David Sokol, one of Warren Buffett's top managers at Berkshire Hathaway, resigned after helping to negotiate the acquisition of a company whose shares he had purchased.

Sokol, 54, bought about 96,000 Lubrizol shares before recommending the company as a takeover target, Buffett, Berkshire's chairman and chief executive, said Wednesday in a statement. (Buffett is a director of The Washington Post Co.) Buffett said that he did not ask for the resignation and that Sokol's stock purchases were not unlawful.

Lubrizol, an Ohio-based maker of engine lubricants, agreed this month to be purchased by Berkshire for about $9 billion. Sokol bought 96,060 Lubrizol shares Jan. 5, 6 and 7, less than two weeks before recommending the company as a Berkshire acquisition, Buffett said.

Sokol's stake as reported by Buffett would have been worth about $9.92 million Jan. 7, based on the closing price on the New York Stock Exchange.

The shares have risen about 30 percent to $134.01 since Buffett's deal was announced, boosting the stake, if Sokol still owns it, to $12.9 million.

Robert C. Ryan, the Federal Housing Administration's chief risk officer, will be tapped as the agency's acting commissioner starting Friday.

Ryan will take over for outgoing FHA Commissioner David H. Stevens, who is leaving the agency this week to head the Mortgage Bankers Association.

Ryan joined the agency in October 2009 after a nearly three-decade career at mortgage finance company Freddie Mac. As the FHA's first chief risk officer, he created a division devoted to managing and mitigating risk to the agency's various insurance funds.

The administration continues to search for a new commissioner. A spokesman declined to name candidates under consideration or comment on the timing.

The first of many meetings between state and federal authorities and the nation's largest mortgage servicers took place Wednesday, with one of the lead negotiators describing it as a productive gathering on a wide range of divisive issues that will take time to sort.

The negotiator, Iowa Attorney General Tom Miller, declined to detail the substance of the closed-door discussions when he spoke to reporters after the meeting, except to say, "There are a lot of differences between us and the servicers." U.S. Associate Attorney General Tom Perrelli, another lead negotiator, said the issues would "take some time to work through."

The gathering came after the attorneys general and federal authorities presented five of the nation's largest servicers with a draft term sheet that proposed revamping the ailing mortgage servicing system. The servicers countered with their own proposal this week.

The servicers at the meeting included Bank of America, J.P. Morgan Chase, Wells Fargo, Ally Financial and Citigroup. Officials from the Justice Department, Treasury Department, Department of Housing and Urban

Development, and Federal Trade Commission also took part in the talks, as did five attorneys general and roughly a dozen other state officials.

l Google high-speed network: Google announced that Kansas City, Kan., is the winner of the company's contest to build a one-gigabit-per-second network in an American city. More than 1,100 cities applied for the high-speed network, delivering connections more than 100 times as fast as the U.S. average.

l Flights to Japan suspended: American Airlines is suspending two of six daily flights to Japan next week because of a slump in traffic since the earthquake and tsunami. American will suspend the flights Wednesday and resume them April 26. One goes from New York to Tokyo's Haneda Airport, and the other flies between Dallas and Tokyo's Narita Airport.

l Microsoft book: Paul Allen, co-founder of Microsoft, has written a memoir that reveals an antagonistic relationship between him and Bill Gates. Allen's book includes allegations that Gates plotted to take Microsoft shares from Allen while the latter was undergoing cancer treatment.

WP20110331digest31

Document WP00000020110331e73v0000f

The Washington Post

Financial
Frank Reiner Position: Pre ...

84 words
17 May 2010
The Washington Post
WP
FINAL
A09
English

Frank Reiner

Position: President of the Chlorine Institute, an Arlington-based not-for-profit trade association of chlor-alkali producers, packagers, distributors, users and suppliers.

Career highlights: Vice president of transportation and emergency preparedness, Chlorine Institute; director and chief product engineer, Union Tank Car Co.

Age: 49

Education: BS, civil engineering, Illinois Institute of Technology; MS, management, Purdue University.

Personal: Lives in Ashburn with his wife, Joy. They have two daughters and a son.

WP20100517NEWATBOX17
Document WP00000020100517e65h0000i

The Washington Post

A Section

Suspicion greets Democrat's opposition to bill

by Brady Dennis and Lori Montgomery
524 words
29 April 2010
The Washington Post
WP
FINAL
A10
English

For the third day in a row, Sen. Ben Nelson (D-Neb.) broke with his Democratic colleagues Wednesday and voted to block the start of formal Senate debate on a far-reaching bill to overhaul financial regulations.

Nelson has repeatedly said his objections center on the impact the legislation could have on businesses beyond Wall Street.

But there has been widespread skepticism on Capitol Hill about Nelson's public explanation for his dissent, and the bill's sponsor, Sen. Christopher J. Dodd (D-Conn.), added further doubts by saying that Nelson raised concerns about a provision concerning exotic financial instruments called derivatives.

That provision has drawn fire from Berkshire Hathaway, the Omaha-based company of billionaire Warren Buffett, and Nelson's biggest donor over the past decade. (Buffett is a director of The Washington Post Co.)

Berkshire Hathaway or individuals associated with the company have contributed $75,550 to Nelson's campaign war chest since 2000, according to records filed through the end of March and analyzed by OpenSecrets.org, a project of the Center for Responsive Politics. One Berkshire company, MidAmerican Energy, also contributed $9,600 to Nelson's Nebraska Leadership PAC.

The Dodd bill would require most derivative contracts to be traded on open exchanges and approved by separate entities called clearinghouses. In addition, companies trading in derivatives would have to post certain collateral in case one party to the contract defaults.

A version of the measure initially proposed by Sen. Blanche Lincoln (D-Ark.) would have exempted owners of existing derivatives contracts from having to post additional collateral. This exemption would have kept firms from potentially tying up substantial amounts of money that could be put to other uses.

A Senate aide said Nelson, a member of the Agriculture Committee, which Lincoln chairs, had sought the exemption when committee members were drafting the bill. "Senator Nelson did ask for us to make a change. We were trying to accommodate him," said the aide, who was not authorized to speak publicly.

The aide said Berkshire Hathaway and "a lot of other parties" had lobbied for the exemption.

But the exemption was dropped from a final version of the legislation that merged derivatives bills passed by the agriculture and banking committees.

In a statement Wednesday, Nelson said an "important principle" was at stake in his insistence on the exemption. "Big government should not reach back and rewrite existing contracts between American companies executed in good faith that help our economy grow. It's unconstitutional. Not only that, it's just wrong," he said.

At the same time, Nelson acknowledged that Berkshire Hathaway had contacted him to say it would be "adversely affected" by the new derivatives legislation. In turn, Nelson said he raised those concerns with the Agriculture Committee.

Nelson's most recent financial disclosure form, filed last year, shows that he and his wife owned between $1.5 million and $6 million in Berkshire stock in 2008 -- by far Nelson's largest listed asset.

dennisb@washpost.com

montgomeryl@washpost.com

WP20100429DERIVATIVES29
Document WP00000020100429e64t0000b

The Washington Post

A Section

Geico wins case involving overtime pay; Appeals court says auto adjusters are exempt from rules

Bloomberg News
387 words
6 January 2010
The Washington Post
WP
FINAL
A12
English

Berkshire Hathaway's Geico insurance unit does not have to pay overtime to auto adjusters, an appeals court ruled, reversing a lower court's decision.

The U.S. Court of Appeals for the District of Columbia said Tuesday that the adjusters can be classified as "administrative employees" who are exempt from federal rules requiring time and a half for hours worked beyond 40 per week.

"The primary duty of Geico's auto-damage adjusters includes the exercise of discretion and independent judgment, and thus they come in within the administrative employee exemption" of the federal Fair Labor Standards Act, Circuit Judge Karen L. Henderson wrote for the three-judge panel.

The decision may help chief executive Warren Buffett contain costs at Chevy Chase-based Geico, one of more than 70 Berkshire subsidiaries that sell products that include Fruit of the Loom underwear and Dairy Queen ice cream. Company executives have cut jobs and closed plants at some Berkshire businesses as demand slowed in the recession. Berkshire is based in Omaha. (Buffett is a director of The Washington Post Co. and the largest non-family shareholder.)

Hundreds of auto-damage adjusters in New York and other states sued Geico, claiming the company improperly denied them overtime benefits. A district judge sided with the employees in December 2008, saying they lacked the decision-making authority to qualify as administrative employees.

The workers, one of at least three categories of employees who may service an auto claim, each handle more than 1,000 claims a year, totaling more than $2.5 million, on average, court records show. Geico supervisors initial each estimate and review some claims, though not until the claim is paid.

The amount of discretion the adjusters have in determining the payouts without direct supervision qualifies these jobs for the exemption to the overtime rule, Henderson said in her opinion, reversing the lower court.

"The district court had no occasion to decide whether the job of a Geico auto damage adjuster is so easy a caveman could do it," Henderson wrote in a footnote, referring to the company's ubiquitous advertising campaign.

The case is Robinson-Smith v. Government Employees Insurance Co., 08-7146.

WP20100106GEICO6

Document WP00000020100106e6160001z

The Washington Post

STEVEN PEARLSTEIN
A Section
Highlighting the corporations that stepped up to help the neediest in a rough 2009

Steven Pearlstein
1,698 words
23 December 2009
The Washington Post
WP
FINAL
A16
English

No, Virginia, 2009 was not a great year for corporate philanthropy. The $10,000 and $25,000 gifts that once arrived almost like clockwork at local nonprofits came this year in denominations of half that size, if they came at all. With the economy in recession and companies scrambling to reduce payroll just to remain profitable, there was simply less money to spread around. All the more reason to celebrate those companies that maintained their giving or stepped up to do more.

When the downturn first hit last year, the Community Foundation for the National Capital Region was quick to anticipate the increased urgency for resources at those safety-net organizations that provide those most in need with a meal, medical attention and a roof over their heads. So it launched a special Neighbors in Need Fund. The World Bank was the first to respond with a $150,000 donation, followed in short order by $500,000 from Bank of America, whose own balance sheet at the time was in a world of hurt. All in all, Neighbors in Need has distributed $3.6 million this year to more than 70 frontline organizations.

Meanwhile, in Prince George's County, the Community Foundation and the Washington Regional Association of Grantmakers were tackling a somewhat different problem -- the lack of organizational and management capacity in many of the county's nonprofit organizations. Kaiser Permanente stepped up first, with a donation of $200,000 to the Partnership for Prince George's County. Right behind it was Wachovia (now Wells Fargo), Freddie Mac, Fannie Mae, Riderwood Village and Stewart Funeral Home.

Things were looking bleak again this year for the Boys & Girls Clubs of Greater Washington until someone came up with the idea of relocating its headquarters staff from leased space in Silver Spring to one of its District clubhouses. The move shaved $200,000 off the clubs' annual operating expenses, but was done almost without cost thanks to architect Salditt & Associates and Forrester Construction.

And let's not forget the $150,000 donated by E-Trade to Habitat for Humanity for its Maple Ridge community in Northern Virginia.

Firms come through

The real estate bust was particularly bad news for the Alexandria Seaport Foundation, which was counting on support from construction companies to complete 4,500 square feet of new shop space for its wooden boat building apprenticeship program. That's when the concrete division of Clark Construction Group stepped up with the men and materials to complete the project.

While the indefatigable Joe Robert gets most of the credit for creating and sustaining "Fight Night," Joe will be the first to tell you that there is a ton of corporate support behind his Fight for Children. This year, none was more important than that from Geico, which volunteered to take the lead in putting on a first-ever golf tournament for the benefit of the nonprofit. The insurer not only came up with a $125,000 check and a team of volunteer organizers for the October event at the TPC Potomac at Avenel Farm, but corralled General Electric, Pepco and PNC to serve as co-sponsors.

And while we're on the subject of sport, I should mention NII Holdings, which for the second year sponsored a golf tournament that this year raised $100,000 for Reston Interfaith; local Hooters franchisees who raised $18,000 for the Autism Society of Northern Virginia through their golf tourney; and Acumen Solutions, which for the last three years has sponsored a road race in November that this year raised $35,000 for 13 charities.

As it has opened more stores in the region, Wal-Mart has noticeably increased its philanthropic presence, particularly in fighting hunger and homelessness. Since May, its Gaithersburg and Waldorf stores have donated all their leftover produce, meat, dairy and bakery products to the Capital Area Food Bank. Wal-Mart also donated $200,000 this year to the D.C. Central Kitchen, while the Wal-Mart Foundation pledged another $300,000 to the Central Kitchen's Campus Kitchens Project, which runs meals programs on college campuses across the country. By its count, Wal-Mart distributed more than $700,000 to Washington-area nonprofits this year.

At the premium end of the supermarket spectrum, Whole Foods also did its part, this year donating cash and 100,000 pounds of perishable foods to Manna Food Center, the food bank in Montgomery County.

We in the press haven't always given CareFirst the most favorable press over the years, but there is no denying its generosity. Last year the local Blue Cross company increased its community giving by more than 10 percent, to $46 million, much of it for free medical care and discounted drugs.

CSC celebrated its headquarters move to Fairfax County this year with a $50,000 donation to the county that will fund a computer learning center in Falls Church.

And let's raise a glass of eggnog, shall we, to Argon Engineering in Fairfax city, which sets aside 1 percent of its pretax profits every year for local charities chosen by a committee of its employees.

Partners in giving

What sustained many nonprofits this year were the partnerships that they have developed over the years with a handful of corporations.

The law firm of WilmerHale deepened its relationship with D.C.'s Bread for the City this year with its pledge of $100,000 -- that on top of legal advice, a clothing drive and 1,250 pounds of just-picked apples.

And I'd be remiss if I didn't mention the partnerships between CGI Federal and the Catalogue for Philanthropy; Security Storage and the National Multiple Sclerosis Society; NBC Universal and the Sitar Arts Center; KPMG and First Book; PricewaterhouseCoopers and Martha's Table; REI stores and Nature Rocks; Pyramid Systems and the American Red Cross; CapitalSource and Arlington's Doorways for Women and Families; and Deloitte and the Capital Area Food Bank.

Also Excella Consulting and Homestretch; BB&T and Melwood; Money One Federal Credit Union and the Foundation Schools; W.R. Grace and Meals on Wheels; Apple Federal Credit Union and Northern Virginia Family Service; IBM and the Latin American Youth Center; Apex CoVantage of Herndon and OAR of Fairfax County; Capital Group Cos. and the Falls Church-McLean Children's Center; Pepco and Mentors Inc.; Sprint Nextel and the Character Education Partnership; and Combined Properties and Our Daily Bread of Fairfax.

Also Linder & Associates and Horton's Kids; the Kiehl's store in Georgetown and Potomac Riverkeeper; Wilkie Farr & Gallagher and A Greater Washington Field of Dreams; Ernst & Young and Phillips Programs for Children and Families; Waiter on the Way and Stepping Stones Shelter; Corporate Executive Board and Ashoka; and Beazer Homes and HomeAid Northern Virginia.

CrisisLink was able to double its capacity thanks to the Virginia Hospital Center, which donated office space, and Jack Bays, a construction firm that helped to renovate it.

One of my favorite nonprofits is DC Scores, which somehow manages to combine soccer, poetry and service in a successful program for elementary- and middle-school students in the District. Stephen Harrell, owner of Bicycle Stations, also likes the program -- so much so that his company donated a new bike for one boy and one girl in each of the 23 schools participating in the program.

Capital One stepped up its commitment to financial literacy this year with a five-year, $2.5 million commitment to build and run a financial education center in collaboration with Fairfax County Schools and Junior Achievement.

One of the best ways for companies to give back is through in-kind services, and Capital One has come up with a creative new online system to connect its employees with nonprofits. At last count, the program was generating about 3,000 hours a year in free services.

As pro bono goes, however, it would be hard to beat Latham & Watkins, which over the last year has assigned 90 attorneys and 22 staff to spend thousands of hours on a project for Appleseed, the social action network, studying the operational problems at the U.S. Immigration Court and recommending solutions. That works out to more than $5 million in unbilled hours.

Other examples of in-kind donations include the grounds upkeep Brickman does for the Howard County Conservancy; the video production provided by RP3 Agency for the Washington Area Women's Foundation; the legal advice provided by DLA Piper for Bread for the City's new addition; the boat that Potomac Riverboat donated to Potomac Riverkeeper for its annual gala; and the roof provided by Dryhome Roofing and Siding this year for the Hebron Women and Children's Shelter.

Holiday spirit

The holidays would not be the holidays without toy drives, secret Santas and turkey giveaways too numerous to mention. In the same spirit, employees of Perdue Farms in Salisbury, Md., have a tradition of cleaning and decorating some of their trucks each December and driving to the Holly Center to give the disabled residents a ride on a "big rig." And in cooperation with the USO, employees at BAE Systems in Reston once again this year donated 300 bicycles to the "Bikes for Tykes" program for children of local military families in need.

Because of a cut in city funding, it looked as if there would be no performance of the Nutcracker this year by the Washington Ballet at THEARC in the District. That's when developer Chris Smith of William C. Smith & Co. stepped in to fill the $50,000 gap, making a generous donation himself, hitting up friends and recruiting FedEx as a sponsor. The sugar plum fairies made it to Anacostia after all.

To those who helped in compiling this catalogue of corporate philanthropy, many thanks. To the many businesses whose generosity was overlooked, please accept my apologies. And to all of you, dear readers, best wishes for a joyous holiday and a more prosperous new year.

pearlsteins@washpost.com

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The Washington Post

A Section

Buffett casts his lot with railroad industry; $34 billion investment is a bet on BNSF, the U.S. and oil prices

by Frank Ahrens
692 words
4 November 2009
The Washington Post
WP
FINAL
A21
English

Berkshire Hathaway chairman and world's second-richest man Warren Buffett said Tuesday that his $34 billion purchase of Burlington Northern Santa Fe Railway is a bet on America's future.

It's a bet, but not just on America. With the investment, Buffett is also betting on China's rebound and growth, the price of oil going back up, the continued use of coal to make electricity and a higher profile for the nation's railroads, thanks to a push from the White House.

Buffett already owned 22 percent of the Western U.S. railroad giant; the deal announced Tuesday would give him the entire railroad, the second-largest of the nation's six major lines. It marked the biggest deal to date for Buffett, who also owns or has large stakes in Coca-Cola, Dairy Queen, Wrigley, Geico and several other companies, including The Washington Post Co., where he is a director and the largest non-family shareholder.

Buffett began buying into Burlington Northern (BNSF) in 2007, and took his position up to 22 percent. His accumulation of BNSF shares coincided with the resurgence of America's moribund freight rail industry. In the 1970s and '80s, traffic had dropped so much that companies actually tore up unused tracks, as manufacturers switched their shipping away from railroads to cheaper 18-wheelers. But as fuel prices soared and U.S. demand for Chinese imports surged, railroads experienced a rebirth. Their stock soared.

Railroad stocks peaked in summer 2008, when oil hit its high of $147 per barrel. As the recession kicked in, fewer goods were shipped, hurting the railroads. When oil prices drop, manufacturers switch their shipping from trains back to trucks, which can transfer goods directly without the transfers required in rail travel. To help out the industry, the federal government set aside $48 billion of the $787 billion stimulus for infrastructure improvement, some of which goes to railroads. BNSF's cut of stimulus money is $28.7 million, for a bridge between Iowa and Illinois.

Given the up-and-down nature of the U.S. railroad industry, why is Buffett investing $34 billion in it now in a cash-and-stock deal that includes $10 billion in debt?

"Our country's future prosperity depends on its having an efficient and well-maintained rail system," Buffett said in a release. "Conversely, America must grow and prosper for railroads to do well. Berkshire's $34 billion investment in BNSF is a huge bet on that company, chief executive Matt Rose and his team, and the railroad industry."

The 79-year-old Buffett invests for the long-term; meaning, for decades after his death.

"Buffett is making an elephant-sized bet on three things here and all are related," said Art Hogan, Jefferies managing director. "He thinks the economy in the U.S. is getting better and will continue. He believes that energy prices will continue to rise and that trains will be more productive than trucks in that environment, and third, and most important, he sees Burlington Northern as cheap with a longer-term investment time horizon."

Miller Tabak equity strategist Peter Boockvar said: "He's betting on global population growth and global wealth increasing, thus raising the world's purchasing power to buy stuff that the U.S. makes, and also a bet that we will still import stuff that the rest of the world makes."

Buffett, an early supporter of President Obama, also is betting on the administration's promises to shore up the nation's infrastructure and support railroads as a way of taking trucks off the road. Also, the White House supports "clean-coal" technology, signaling a prominent place for coal in the nation's energy future.

Shares of BNSF are trading well up off their March bottom -- they closed up 28 percent at $97 Tuesday on the Buffett news and took the rest of the railroad sector along for the ride up.

ahrensf@washpost.com

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The Washington Post

Metro
Air Show Schedule

336 words
16 May 2009
The Washington Post
WP
FINAL
B06
English

The public is invited to attend the annual Joint Service Open House Air Show this weekend at Andrews Air Force Base. Admission is free.

Because of security concerns and limited parking, guests cannot park at Andrews. Shuttle buses will run from FedEx Field parking lots and the Branch Avenue Metro station. Check 301-981-4600 for delays or cancellations caused by weather or other circumstances.

Today

9:45 to 10 a.m.

Sean Tucker and the Collaborators

10 to 11 a.m.

Opening ceremony commemorating the 50th anniversary of the Army's elite parachute team, the Golden Knights, and the 65th anniversary of the D-Day invasion. Attended by special guests, veterans who participated in the invasion.

Liberty Jump Team (D-Day commemoration)

Team McCowan jump

Army's 82nd Airborne jump

11 to Noon

Fagen Inc.'s Greg Poe

Army's Golden Knights

Air Force Thunderbirds engine run

Noon to 4 p.m.

GEICO Skytypers demo

Navy F/A-18F tactical demo

Oracle's Sean Tucker

Fagen Inc.'s Greg Poe

Air Force A-10 demo

2 to 3 p.m.

Air Force F-22 demo

Air Force Heritage Flight

Red Bull Air Force helicopter, MiG and Sky Jumpers

Army's Golden Knights 2nd Show

3 to 4:30 p.m.

Air Force Thunderbirds

Tomorrow

9:35 to 10 a.m.

Sean Tucker and the Collaborators

10 to Noon

Liberty Jump Team (D-Day commemoration)

Team McCowan flag jump

Army's 82nd Airborne jump

Fagen Inc.'s Greg Poe (Practice)

Army's Golden Knights

Air Force Thunderbirds engine run

Noon to 2 p.m.

GEICO Skytypers

Navy F/A-18F tactical demo

Red Bull Air Force helicopter, MiG and Sky Jumpers

Oracle's Sean Tucker

Air Force A-10 demo

P-51 demo

2 to 3 p.m.

Air Force F-22 demo

Air Force Heritage Flight

Fagen Inc.'s Greg Poe

Army's Golden Knights 2nd Show

3 to 4:30 p.m.

Air Force Thunderbirds

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The Washington Post

Financial
Berkshire, GE Lose Top Credit Ratings; Downgrades Reflect Impact of Recession

Binyamin Appelbaum
Washington Post Staff Writer
534 words
13 March 2009
The Washington Post
WP
FINAL
D01
English

General Electric and Berkshire Hathaway yesterday lost their places on a prized short list of the healthiest corporations.

The ratings agency Standard & Poor's, which evaluates the safety of lending money, said that General Electric no longer numbered among the companies most likely to repay its debts. GE was downgraded one notch from the highest S&P rating, AAA, which could force it to pay higher interest rates to investors.

Fitch, a smaller agency whose ratings are used by fewer investors, removed Berkshire Hathaway from its highest category.

Both agencies said the downgrades reflected the impact of the global recession. GE and Berkshire are sprawling conglomerates with diverse holdings, but their profits in recent years came heavily from selling financial services. GE is among the world's largest lenders; Berkshire, among the largest insurers. The crisis in the financial industry has shaken both companies from longstanding records of consistent and massive profitability. The downgrades both reflect and exacerbate those difficulties.

S&P said that GE's other businesses remain strong, but it was concerned about rising losses at the financial unit, GE Capital, which finances aircraft and industrial equipment, provides banking services to corporations and offers consumer loans including credit cards and mortgages.

GE Capital made much of its money by trading on the reputation of its parent company, which allowed the unit to borrow at low cost. Now its losses will cost GE that rating, which it had held since 1956, further straining GE Capital's ability to make money.

GE said in a statement that it did not expect the downgrade to have a significant impact on its operations or its funding model.

"While no one likes a downgrade, this review and rating reaffirm the relative strength of the company," chief executive Jeffrey R. Immelt said.

Some financial analysts had predicted a larger downgrade, and GE's share price rose 13 percent after the S&P announcement, closing at $9.57.

Moody's, the other major ratings firm, has said that it is reviewing its own Aaa rating for GE, which dates back to 1967.

Berkshire Hathaway retains the highest rating from both S&P and Moody's, but the downgrade by Fitch -- which often acts faster than its larger rivals -- reflects the mounting pressure on the company. Like GE, Berkshire's profits depend heavily on its reputation, which reassures its insurance customers and allows it to borrow money at low cost.

But Berkshire has bet billions of dollars through derivative contracts tied to the performance of stock markets and financial instruments, and Fitch said that it couldn't regard a company so heavily engaged in financial services as among the safest borrowers.

Fitch also noted the risk of the company's dependence on its chief executive, Warren Buffett, who is also a director of The Washington Post Co.

Following GE's downgrade by S&P, only four companies other than Berkshire retain the highest ratings from Moody's and S&P: American Data Processing, Johnson & Johnson, Exxon Mobil and Toyota.

WP20090313RATINGS13

Document WP00000020090313e53d0002x

The Washington Post

Financial
LOCAL BRIEFING

449 words
15 January 2009
The Washington Post
WP
FINAL
D04
English

LEGAL

Gender-Bias Suit Filed Against Lockheed

A class-action lawsuit has been filed against Lockheed Martin, the nation's largest defense contractor, which alleges sex discrimination against female employees, according to the plaintiff's attorneys.

The suit, filed on behalf of employee Carol Bell in the U.S. District Court for the District of New Jersey, alleges that women at the Bethesda-based company have been denied opportunities to advance to upper-management positions.

The suit seeks an order for fair employment practices regarding promotion and hiring, an injunction barring Lockheed from any future acts of discrimination, and undisclosed compensatory and punitive damages.

In a statement, Lockheed Martin said the lawsuit's allegations are "without merit" and that it will "vigorously to defend against them."

MERGERS & ACQUISITIONS

Constellation Pays MidAmerican $1.05 Billion

Constellation Energy repaid MidAmerican Energy Holdings $1 billion plus about $5 million in interest as part of its unwinding of an aborted takeover by MidAmerican, according to a filing with the Securities and Exchange Commission.

MidAmerican, a unit of Berkshire Hathaway, offered $4.7 billion in September for the energy wholesaler. Constellation was struggling with liquidity concerns, but shareholders later complained about the price. Those holders included Electricite de France, which eventually increased its holdings by buying half of Constellation's lucrative nuclear energy business, scuttling the deal with MidAmerican.

Considering the repayment, Constellation said its estimated liquidity on Dec. 31 was about $2.4 billion.

MEDIA

Gannett to Impose Furloughs on Most Workers

USA Today publisher Gannett imposed one-week unpaid furloughs during the first quarter for most of its U.S. employees, including the chief executive, saying it could help minimize the need for further layoffs amid a severe advertising downturn.

USA Today also declared a one-year freeze on wages, effective Feb. 1.

Although Gannett, of McLean, is regarded by many analysts as one of the nation's most financially sound newspaper publishers, the economic recession and the ongoing migration of advertising to the Internet have pounded its revenue prospects. Gannett had several rounds of layoffs last year, including one in December that slashed the work force at most of its U.S. newspapers by 10 percent.

INSURANCE

Genworth Partners With Long-Term Care Network

The insurer Genworth Financial said it will begin marketing its long-term-care insurance with the National LTC Network, a coalition of 25 long-term-care-insurance distributors.

The National LTC Network will offer the Richmond-based Genworth's long-term-care insurance to both individuals and businesses ad help expand Genworth's distribution.

Compiled from reports by Washington Post staff writers, the Associated Press and Bloomberg News.

WP20090115DIGLOCAL15

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The Washington Post

Financial
EDF Wins Battle Over Constellation, Buys Stake in Plants

Steven Mufson
Washington Post Staff Writer
574 words
18 December 2008
The Washington Post
WP
FINAL
D01
English

The fight over the fate of Constellation Energy Group ended yesterday with a big French utility agreeing to pay $4.5 billion for a half interest in the company's nuclear power plants and a Midwest utility controlled by Warren Buffett getting $593 million in cash plus a 10 percent stake in Constellation to drop its takeover bid.

The agreement ends a three-month saga during which MidAmerican Energy Holdings rushed in with a $4.7 billion, $26.50-a-share takeover bid for the cash-starved Constellation, only to run into a higher, $35-a-share competing offer led by Electricite de France, the state-owned French utility.

The final accord gives EDF a greater platform to press for new nuclear power plants in the United States. The French firm plans to make Constellation's proposal for a new unit at the existing Calvert Cliffs nuclear facility a showcase for federal lawmakers.

Baltimore-based Constellation is the parent company of Baltimore Gas & Electric, the utility that serves more than 1 million Maryland residents. And a coalition of consumer and environmental groups, including foes of nuclear power, yesterday issued a statement calling the agreement a "bad deal" for Maryland ratepayers and American taxpayers who might pay for federal loan guarantees to new nuclear plants.

Michael J. Wallace, vice chairman of Constellation, said the final settlement was "excellent" for the company, putting it back on course to expand its nuclear power portfolio while drastically shrinking the size of the trading operations whose liquidity crisis had sent Constellation running into the arms of MidAmerican in mid-September.

Under the final three-way agreement, MidAmerican would receive a $1 billion note on which Constellation will pay 14 percent interest through Dec. 1, 2009.

While Constellation will pay dearly to terminate its acquisition agreement with Buffett's utility, Wallace said that "the liquidity crisis could have cost us more had MidAmerican not been there to give us the life preserver it did at that time." He called MidAmerican "tremendous" and said the final agreement was "amicable."

Buffett is on the board of The Washington Post Co.

Stockholders were less enthusiastic about the deal. A sell-off drove Constellation's stock price down $5.74, or nearly 20 percent, to $23 a share. The entire market capitalization of the company is $4.1 billion. The company will take a $1.2 billion charge in the fourth quarter to cover the costs of the settlement.

"These are unprecedented times," said Maryland Gov. Martin O'Malley (D). "We thought for sure that the deal [with Mid-American] was going to happen. Now if it's a different deal, I'm certainly glad that Constellation is still in operation."

The new agreement does not require approval by the Maryland Public Service Commission because neither EDF nor MidAmerican will acquire more than 10 percent of the company's shares.

But Maryland lawmakers see an opportunity to continue the battle against Constellation, whose BGE subsidiary raised rates by more than 70 percent in 2006 and 2007. State Sen. James C. Rosapepe (D-Prince George's) said he plans to introduce legislation with Sen. E.J. Pipkin (R-Queen Anne's) to force Constellation to put certain power plants that were spun off to an independent unit back into the regulated BGE subsidiary.

WP20081218CONSTELLATION18
Document WP00000020081218e4ci0000t

The Washington Post

Financial
LOCAL BRIEFING

174 words
11 December 2008
The Washington Post
WP
FINAL
D03
English

MERGERS & ACQUISITIONS

French Firm in Talks With Constellation

Electricite de France has started talks with Constellation Energy Group to buy half of the U.S. utility owner's nuclear business, challenging an agreed takeover by MidAmerican Energy Holdings.

EDF offered to buy the stake in the Baltimore company's nuclear plants for $4.5 billion on Dec. 3. MidAmerican has agreed to pay $4.7 billion for the whole company.

LENDING

Sallie Mae Predicts Higher Loan Losses

Sallie Mae said it expects losses in its private student loan portfolio to rise next year but affirmed that it has enough cash to cover outstanding debt and fund new student loans.

The Reston company expects net charge-offs in its private student loan portfolio to increase to about $1 billion next year from $600 million in 2008. Sallie Mae also said it has expanded its deposit base by $1 billion since Sept. 30.

Compiled from reports by Washington Post staff writers, the Associated Press and Bloomberg News.

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Financial
LOCAL BRIEFING

219 words
9 December 2008
The Washington Post
WP
FINAL
D04
English

MERGERS & ACQUISITIONS

Constellation Board Approves EDF Talks

Constellation Energy Group said its board has given it permission to discuss Electricite de France's $4.5 billion proposal but hasn't changed its recommendation that shareholders support a merger with MidAmerican Energy, a subsidiary of Warren E. Buffett's Berkshire Hathaway.

Constellation, of Baltimore, contributes about 5 percent of nuclear generating capacity in the United States. The bid, which seeks half of the company's nuclear business, would put the French-controlled power company in direct competition with Buffett.

executives

Legg Mason CEO Named Chairman

Legg Mason named Mark Fetting, president and chief executive, to the additional post of chairman.

Fetting succeeds Raymond "Chip" Mason under a succession plan announced earlier this year, the Baltimore company said.

Mason, who had been serving as non-executive chairman, will remain a senior adviser to the company.

Coventry Appoints

Executive Chairman

Coventry Health Care of Bethesda has appointed Allen Wise, a former chief executive of the company, as executive chairman of the board.

Wise served as chief executive for eight years, retiring at the end of 2004. Since then, Wise has been non-executive chairman of the managed-care provider.

Compiled from reports by Washington Post staff writers, the Associated Press and Bloomberg News.

WP20081209DIGLOCAL9
Document WP00000020081209e4c90000i

Financial
LOCAL BRIEFING

335 words
5 December 2008
The Washington Post
WP
FINAL
D03
English

ENERGY

EDF Was 'Approached' for Bid

Electricite de France, the world's biggest operator of nuclear reactors, said it was "approached" by Constellation Energy Group shareholders who were unhappy with a bid from billionaire Warren Buffett.

EDF, which owns 9.5 percent of Baltimore-based Constellation, offered Wednesday to pay $4.5 billion for half of the U.S. utility's nuclear business.

The French company wants to gain generating capacity in North America and defeat a rival bid from Buffett's MidAmerican Energy Holdings, which agreed Sept. 18 to buy all of Constellation for $4.7 billion, amid investor concern the financial crisis could wreck its energy-trading business.

EDF's offer would force Constellation to invest in nuclear power, which would mean less free cash flow, while MidAmerican's bid "should probably deliver a more stable dividend trend," Peter Wirtz, analyst at WestLB in Dusseldorf, Germany, said in a report.

HIRINGS

Va. Company to Hire 480 in Pa.

Sterling-based NEW Customer Service plans to hire 480 people to work at a customer service call center in Altoona, Pa.

NEW provides extended-service and buyer-protection plans for consumer products.

The center is expected to open in late spring and will be home to a customer care team responsible for calls from retail customers.

ENTERTAINMENT

Six Flags Expands to Qatar

Theme park operator Six Flags said it is expanding further into the Middle East after reaching a deal with Qatar-based diversified company Oryx Holdings to open a Six Flags theme park in the tiny Gulf nation by mid-year 2012.

Six Flags agreed to provide Oryx Holdings with concept development and planning services to create a Six Flags park within Qatar Entertainment City, a mixed-use entertainment development.

Six Flags and Oryx will then collaborate on the design, development, construction and management of the park. Financial terms were not disclosed.

Compiled from reports by Washington Post staff writers, the Associated Press and Bloomberg News.

WP20081205DIGLOCAL5

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The Washington Post

Financial
LOCAL BRIEFING

585 words
3 December 2008
The Washington Post
WP
FINAL
D03
English

INVESTING

American Capital Announces Job Cuts

American Capital said it will cut 19 percent of its U.S. and European workforce, or 110 employees, to reduce costs.

"We are not investing at the rates we have in the past and therefore need to size our operations to our current volume of business," chief executive Malon Wilkus said in a statement. The Bethesda-based asset management firm suspended its dividend last month in response to global market turmoil.

ENERGY

Constellation Credits Cash Infusion

Constellation Energy said it probably would have filed for bankruptcy protection had it not received an immediate $1 billion infusion from a unit of Warren Buffett's Berkshire Hathaway as part of that unit's $4.7 billion bid to buy Constellation.

The Baltimore company also warned in a regulatory filing that continued unstable market conditions make the deal with Berkshire unit MidAmerican Energy Holdings critical to complete. MidAmerican announced in September that it would buy Constellation for $26.50 per share, plus the $1 billion investment.

MORTGAGE FINANCE

Freddie Weighs Reverse Stock Split

Freddie Mac, the McLean mortgage-finance company taken over by the U.S. government, is considering a reverse stock split to boost its share price and avoid delisting from the New York Stock Exchange.

The company said it is working with regulators to determine the number of shares necessary in a reverse split to bring its average share price above $1 for 30 consecutive trading days, as required by NYSE rules. Fannie Mae of the District said Nov. 26 that it is considering a reverse split as well.

Freddie has until May 18 and Fannie until May 11 to raise their 30-day average prices above $1.

CONTRACTING

Lockheed Wins $1 Billion NASA Deal

Bethesda-based Lockheed Martin beat separate bids by Boeing and Northrop Grumman for a contract worth as much as $1.09 billion to build the next series of weather satellites for NASA. The contract is for two spacecraft, with options for two additional satellites, NASA said. The craft are called Geostationary Operational Environmental Satellites.

Lockheed also received an additional $720.1 million contract from the Navy for work on subsystems of two kinds of missiles, the Pentagon said. The company will be responsible for the missile body, support equipment production, engineering and logistics for the Trident I and Trident II.

LEGAL

Grace Agrees to Asbestos Settlement

W.R. Grace of Columbia has agreed to pay up to $140 million to settle a class-action lawsuit stemming from its use of an attic-insulating product that contained asbestos. The company will pay $30 million cash into a trust fund and another $30 million cash after three years, and make up to 10 additional annual payments of $8 million if certain conditions are met.

EXECUTIVES

Sallie Mae Names General Counsel

SLM, the student lender also called Sallie Mae, named Mark Heleen as senior vice president and general counsel. Heleen joined Sallie Mae in 1998 and was responsible for legal matters related to financing and derivatives, the Reston company said.

HOSPITALITY

NYSE Warns Interstate Hotels

Interstate Hotels & Resorts of Arlington said the New York Stock Exchange informed it Nov. 25 that it was not in compliance with the listing standard requiring an average closing price of at least $1 a share for 30 consecutive days. Interstate has six months from the notice date to comply.

Compiled from reports by Washington Post staff writers, the Associated Press and Bloomberg News.

WP20081203DIGLOCAL3
Document WP00000020081203e4c30000r

The Washington Post

Metro
REGIONAL BRIEFING

496 words
15 November 2008
The Washington Post
WP
FINAL
B02
English

MARYLAND GOVERNMENT

Panel to Weigh Many Factors on Sale of Utility

Maryland utility regulators indicated yesterday that they will consider whether scrapping the state's politically unpopular policy of deregulated electricity markets is in the public interest when they review the proposed sale of Constellation Energy Group to Warren Buffett's MidAmerican Energy Holdings.

In an order, the Public Service Commission indicated that it would consider whether MidAmerican will have to return power plants owned by Constellation to Baltimore Gas and Electric, its still-regulated utility, effectively returning to regulation.

-- Lisa Rein

Man Shot by Seat Pleasant Police After Chase

A 25-year-old man was shot and seriously wounded by Seat Pleasant police last night after a chase that followed a carjacking, Prince George's County police said. The shooting occurred about 9:40 p.m. near Martin Luther King Avenue and Addison Road, police said.

-- Clarence Williams

PRINCE WILLIAM COUNTY

Lawyer Is Given 11 Years for Defrauding Clients

A Woodbridge lawyer was sentenced to 11 years in prison yesterday for defrauding more than 250 clients and others by settling their personal injury or workers' compensation claims and pocketing the insurance proceeds, prosecutors said.

Stephen T. Conrad, 40, pleaded guilty in August to fraud charges in connection with the scheme, which cost his clients, insurance companies and medical providers nearly $4 million.

-- Jerry Markon

THE DISTRICT

Teenage Victim of Fatal Shooting Is Identified

D.C. police have identified the victim of a fatal shooting Thursday night. Cinquan Tinker, 15, of the 4300 block of Fourth Street SE was found near his home. People can call 202-727-9099, send an anonymous text message to 50411 or leave an anonymous message with Crime Solvers at 800-673-2777.

-- Theola Labbe-DeBose

8 Taken to Hospitals After Collision Near the Mall

Eight people were taken to hospitals last night after a collision near the Mall between a tourist vehicle and a truck, authorities said.

The collision occurred about 8 p.m. at 14th Street and Independence Avenue SW. The injuries were not thought to be life-threatening.

-- Clarence Williams and Martin Weil

City Agency Clerk Convicted of Taking Bribe

A D.C. government clerk was convicted yesterday of receiving a $1,275 bribe from an undercover FBI agent seeking a temporary permit for a billiard parlor and cigar bar. Prosecutors allege that Ikela M. Dean, 32, a former clerk with the D.C. Department of Consumer and Regulatory Affairs, asked for late fees in cash and kept the money.

-- Del Quentin Wilber

Tax Cheat Might Owe the IRS $200 Million

A millionaire tax cheat might owe more than $200 million in restitution to the Internal Revenue Service, an appeals court ruled yesterday. According to the ruling, an error in a plea agreement should not preclude the government from seeking restitution from Walter C. Anderson, who pleaded guilty last year to two counts of income tax evasion.

-- Del Quentin Wilber

WP20081115REGBRIEFS15

Document WP00000020081115e4bf0002q

The Washington Post

Financial
BUSINESS BRIEFING

564 words
18 October 2008
The Washington Post
WP
FINAL
D02
English

RETAIL

Mervyns to Liquidate All Stores

The department store chain Mervyns, which filed for Chapter 11 bankruptcy protection in July, said it plans to begin liquidation sales at its remaining 149 stores and wind down its business.

The chain, based in California, said in a statement that after analyzing its options, including a sale of the company, the board determined that holding liquidation sales during the holiday season was the best way to maximize value for the company's creditors. It also cited a challenging retail environment and declining liquidity.

ENERGY

Deal Could Slow BGE Rate Hikes

A merger between MidAmerican Energy Holdings and the parent of Baltimore Gas & Electric will result in smaller rate increases for BGE customers, MidAmerican executives said.

MidAmerican, a unit of Warren E. Buffett's Berkshire Hathaway, is seeking to buy Baltimore-based Constellation Energy Group for $4.7 billion. The deal must be approved by Maryland's Public Service Commission. MidAmerican filed an application with that agency yesterday.

If the deal goes through, BGE customers will face at most a 2.5 percent rate increase through mid-2011, MidAmerican chief executive Gregory E. Abel said. That's a modest improvement over conditions established in last year's settlement between Constellation and the state.

MidAmerican estimates the potential benefit to customers at $70 million, but they could still pay more if the price of fuel rises.

LEGAL

Pfizer Settles Bextra Claims

Pfizer has reached an $894 million deal to settle most of the lawsuits over its withdrawn pain reliever Bextra, following the lead of Merck, which has settled similar claims over Vioxx.

The Pfizer agreement also would end lawsuits over its popular Celebrex, the only one of the three anti-inflammatory medications still on the market. Vioxx, Bextra and Celebrex have been linked to elevated risk of heart attacks and strokes.

Pfizer said it has agreements to end up to 92 percent of lawsuits claiming that Bextra and Celebrex caused heart attacks, strokes or other harm. The settlement cover roughly 7,000 cases, mainly from plaintiffs who took Bextra, said lawyer Perry Weitz, who represents nearly 2,000 claimants.

LOCAL

WorldSpace Files for Chapter 11

WorldSpace, a Silver Spring company that operates two satellites that transmit radio broadcasts in Asia, Europe and the Middle East, filed for bankruptcy protection after failing to obtain new financing.

The company listed debt of $2.1 billion and assets of $307.4 million as of June 30 in Chapter 11 documents filed today in U.S. Bankruptcy Court in Wilmington, Del. It will use bankruptcy to seek funding to keep operating, chief executive Noah A. Samara said in an affidavit.

The company said in a Sept. 29 filing with the Securities and Exchange Commission that a forbearance agreement with holders of some of its notes had expired four days earlier and no new accord had been reached.

MEDIA

Post Co. Hires New Executive

The Washington Post Co. named Usha Chaudhary vice president, finance and administration/chief financial officer of its Washington Post Media unit, effective Nov. 3. Chaudhary was most recently finance chief at United Way of America and before that was vice president, business executive, development and risk management, at Freddie Mac.

She succeeds Peggy Schiff, who is retiring.

Compiled from reports by Washington Post staff writers, the Associated Press and Bloomberg News.

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The Washington Post

Financial
LOCAL BRIEFING

259 words
16 October 2008
The Washington Post
WP
FINAL
D04
English

MERGERS & ACQUISITIONS

French Firm Drops Bid for Constellation

The French energy company Electricite de France said it is dropping its bid for Constellation Energy Group, a major U.S. power wholesaler based in Baltimore, because of the global credit crisis.

EDF said it still hopes to develop four new nuclear reactors in the United States and is studying other options.

MidAmerican Energy Holdings, a unit of Warren E. Buffett's Berkshire Hathaway, last month said it would buy Constellation for $4.7 billion, or $26.50 per share, plus an immediate infusion of $1 billion.

Provident to Buy Deposits at Grocery Branches

Provident Bankshares of Baltimore said it agreed to acquire the deposits at seven Chevy Chase Bank branches in Giant Food stores in the Baltimore area.

Chevy Chase said in July that it was closing its 54 branches in Giant stores. The deal is expected to close in January, Provident said.

BANKRUPTCY

Carlyle Objects to Sale of Lehman Unit

The D.C. private-equity firm Carlyle Group said Lehman Brothers Holdings shouldn't solicit clients' approval to sell its investment-management business, including the Neuberger Berman division, to Bain Capital and Hellman & Friedman.

Carlyle said in a filing that it intends to bid "for all or part of the business and assets constituting the investment management division" and that it is working with Jeffrey Lane, the former chairman and chief executive of Neuberger Berman.

Compiled from reports by Washington Post staff writers, the Associated Press and Bloomberg News.

WP20081016DIGLOCAL16

Document WP00000020081016e4ag00005

The Washington Post

Financial
LOCAL BRIEFING

355 words
3 October 2008
The Washington Post
WP
FINAL
D03
English

MERGERS & ACQUISITIONS

MidAmerican Moves Forward on Constellation

A unit of Warren E. Buffett's Berkshire Hathaway said it had begun the federal regulatory process needed to complete its acquisition of Baltimore-based Constellation Energy. Shares of the power wholesaler soared on the news, as well as on a report that a French company and a private-equity firm could team up to try to top Buffett's bid.

Constellation said that MidAmerican Energy completed its two-week due diligence of its retail and wholesale businesses, including trading records, and that it expected to proceed with the deal. Mayo A. Shattuck III, Constellation's chairman and chief executive, told analysts last week that the company had accepted what it considered the best offer.

STOCK

General Dynamics 'Resets' Buyback

General Dynamics said its board authorized the repurchase of as many as 10 million shares to replenish an authorization that is less than two months old.

The action "resets" the amount of shares the Falls Church company can buy to 10 million, the same amount authorized by the board on Aug. 6, a company spokesman said. He declined to provide any information on how many shares the company had bought in the past two months or how many were available for repurchase under the earlier authorization.

EXECUTIVES

American Community Properties Names CEO

American Community Properties Trust, a St. Charles-based real estate development firm, named Stephen Griessel chief executive, succeeding J. Michael Wilson. Wilson will continue to serve as chairman.

Griessel has been consulting for the company for the past 16 months, a period in which ACPT had considered taking itself private. He is slated to receive an annual salary of $550,000, restricted stock totaling 363,743 shares, and depending on whether certain performance goals are met, a bonus of up to $330,000.

Separately, the Wilson family agreed to give Griessel the economic benefit of 7 percent of their shares in the company, according to a filing with the Securities and Exchange Commission.

Compiled from reports by Washington Post staff writers, the Associated Press and Bloomberg News.

WP20081003DIGLOCAL3

Document WP00000020081003e4a30000w

The Washington Post

Financial
LOCAL BRIEFING

612 words
24 September 2008
The Washington Post
WP
FINAL
D04
English

ENERGY

O'Malley to Leave Constellation Deal to PSC

Maryland Gov. Martin O'Malley said he would let the state's Public Service Commission decide whether to approve the sale of Constellation Energy to MidAmerican Energy. O'Malley said that the $4.7 billion buyout by the unit of Warren Buffett's Berkshire Hathaway appears to be better than allowing Constellation, which owns Baltimore Gas & Electric, to go bankrupt.

FINANCING

Capital One Plans Share Offering

Capital One Financial plans to offer 14 million new shares as it builds loan-loss reserves by $200 million. The U.S. economy is expected to stay weak, the McLean credit card and banking company said in a statement.

MERGERS & ACQUISITIONS

Shareholders Block Union Street's Two Deals

Union Street Acquisition of Alexandria said shareholders voted against the acquisitions of Archway Marketing Services and Razor Business Strategy Consultants. The company said it may not pursue other deals and would begin returning money to shareholders. Union Street, a blank-check company, was formed in February 2007 and said last February that it would buy Archway and Razor.

Greenhill Unit to Buy Iridium

A unit of Greenhill & Co., the merger advisory company, agreed to buy Iridium Holdings in a deal valuing the satellite-phone service provider at about $591 million. Greenhill will invest $22.9 million in Iridium prior to the purchase by affiliate GHL Acquisition and use $324 million to pay off debt and other costs, New York-based Greenhill said. Iridium shareholders will get about $77 million in cash and 36 million shares in the company to be called Iridium Communications Inc.

CONSULTING

Maximus Sees Sales Growth in '09

Maximus, a consulting, systems and program management services company in Reston, forecast fiscal 2009 revenue growth and revealed plans to sell several business units for $40 million. For the fourth quarter, the company expects earnings per share from continuing operations between 68 cents and 73 cents per share and revenue from continuing operations between $190 million and $195 million.

REGULATORS

CSC Gets Small Settlement in IRS Audit

CSC of Falls Church said it reached a settlement with the Internal Revenue Service that will result in a nominal $370 million tax refund for the company. The settlement of the IRS audit of CSC's tax returns for the fiscal years

2000 through 2004 will result in no additional federal tax payments for the company for that time. CSC will record reductions of about $900 million in tax liabilities for unrecognized tax benefits and related accrued interest, including a $380 million credit that will be recorded as a gain in the current fiscal quarter.

The rest will be reclassified on company books from liability for uncertain tax positions to deferred taxes and taxes payable.

CONTRACTING

Lockheed to Seek Supply-Chain Contracts

Lockheed Martin, the world's largest defense company, plans to further expand its supply-chain management business by targeting an upcoming contract to handle replacement parts for tanks and armored combat vehicles.

The new competition, to be announced by early 2009, may compare in size to the award Lockheed won this month to manage parts for U.S. military trucks and utility vehicles, said Dave Broadbent, vice president of operations and global sustainment. That award was valued at as much as $5.6 billion

INVESTING

American Capital Sets $1 Quarterly Dividend

American Capital Agency of Bethesda said its board declared a regular quarterly dividend of $1. The real estate investment trust said the dividend is payable Oct. 10 to shareholders of record Sept. 29.

Compiled from reports by Washington Post staff writers, the Associated Press and Bloomberg News.

WP20080924DIGLOCAL24
Document WP00000020080924e49o00016

The Washington Post

Southern Maryland Extra
Energy Firm Aims To Assure Workers; Agreement Reached To Sell Constellation

Christy Goodman
Washington Post Staff Writer
780 words
21 September 2008
The Washington Post
WP
FINAL
T01
English

Constellation Energy Group sought to assure its employees and Southern Maryland residents late last week that the Calvert Cliffs Nuclear Power Plant in Lusby, which employs hundreds of area residents, would continue to operate as usual under a new owner.

MidAmerican Energy Holdings, a Des Moines-based subsidiary of Warren E. Buffett's Berkshire Hathaway, reached "a definitive agreement" Friday to buy the Baltimore-based Constellation Energy Group for $4.73 billion, or $26.50 a share.

Gregory E. Abel, president and chief executive of the Des Moines-based subsidiary, said in a statement: "MidAmerican is very comfortable with, and committed to, Constellation Energy's current strategic plan. We intend, as with all of our investments, to allow Constellation Energy to operate autonomously as it pursues its long-term goals."

Abel said that his company would bring financial stability to Constellation, whose stock has plunged amid worries over liquidity. The company's stock has fallen 70 percent since July 31, closing Friday at $25.76.

Maureen Brown, a Constellation Energy Group spokeswoman, said: "Nothing has changed in regard to how we do business every day."

Brown said she did not want to speculate on how the purchase "might or might not affect employees" at the Calvert Cliffs power plant, which employs about 800 people, mostly Southern Maryland residents. She said the company continues to be focused on the safe operation of its facilities and the well-being of its employees.

"Our employees are our most valuable asset," she said. "We don't have all the answers right now."

Local officials hailed the sale, saying it could help assure that the planned third reactor for Calvert Cliffs would be built, producing additional tax revenue for the county.

But given recent volatile stock market activity and the drop in Constellation's value, some people expressed concerns.

David H. Ring, 69, of St. Leonard started working at the plant 20 years ago as an electrician. About seven years ago, he retired as an engineering analyst.

"What is going to happen to the pension?" Ring asked. "I'm hoping it is a solvent account that can't be touched, but I don't know that for sure."

Ring said he watched the plant's bottom line shrink in the years he worked there. Now, he said, his former colleagues are delaying retirement because their 401k accounts are bottoming out because of the drop in the value of Constellation Energy stock.

He said that his bottom line is getting tighter, too, and that the cost of his medical insurance through the company rose $100 last year. "That comes off the top of your pension. Those are the kinds of things as this economy goes that are making things tighter for us, too," Ring said.

Abel, MidAmerican's chief executive, said he does not expect short-term effects for customers of Constellation's Baltimore Gas & Electric, which has more than 7,000 customers in Calvert County. It also serves more than 1.8 million utility customers elsewhere in Maryland.

The agreement between MidAmerican and Constellation includes continuing with the proposed third reactor at Calvert Cliffs Nuclear Power Plant. The plans are undergoing review by state and federal regulatory agencies.

Constellation officials have said they will make the final decision next year on whether or not to build the third reactor.

Wilson H. Parran (D-Huntingtown), president of the Calvert Board of County Commissioners, said Friday that he thinks the sale is "good news."

"Regardless in the charge of players, there is still a need for energy supply," he said.

Parran said Buffett "is considered one of the most successful investors in probably the world." (Warren Buffett is a board member of The Washington Post Co.) He said the improved financial stability of Constellation would benefit the county.

"Hopefully it will get us closer to hearing a decision that [a new reactor] will be in Calvert County," Parran said, adding that the tax agreements the county has with Constellation will not be affected.

The announcement by MidAmerican on Friday evening came shortly after wire reports that European energy giant Electricite de France SA met earlier that day to discuss a strategy for possibly bidding on Constellation.

Electricite de France recently became Constellation's largest shareholder and is a partner with Constellation in UniStar Nuclear Energy, which is the applicant for the proposed third nuclear reactor at the Calvert Cliffs plant.

The merger will be reviewed by federal and state regulators. The deal is expected to be finalized in nine months.

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The Washington Post

Financial
Constellation in Quick Deal With Buffett; $4.73 Billion Sale To Include BGE

Lisa Rein and Steven Mufson
Washington Post Staff Writers
865 words
19 September 2008
The Washington Post
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English

Constellation Energy Group, the Baltimore-based energy giant whose stock has plunged amid worries over liquidity, agreed yesterday to be sold for $4.73 billion to MidAmerican Energy Holdings, a subsidiary of Warren E. Buffett's Berkshire Hathaway.

The quick sale, arranged in about 48 hours, was designed to end what a Standard & Poor's analyst called "an acute crisis of confidence" that had wiped out half the company's value on Monday and Tuesday.

MidAmerican chief executive Gregory E. Abel said his Des Moines-based holding company will bring "financial stability" to Constellation, which needed to raise new collateral for its energy trading arm. Berkshire Hathaway will give MidAmerican the cash for the purchase. Constellation will raise $1 billion right away by issuing preferred stock to MidAmerican. The rest of the $26.50-a-share cash deal needs approval from shareholders and Maryland regulators.

In buying Constellation for half of what the company was worth a week ago, MidAmerican acquires one of the nation's biggest generators of electricity. Constellation operates five nuclear reactors, numerous coal plants, a major energy trading business and Baltimore Gas & Electric.

Abel said Constellation's operations will remain largely autonomous since MidAmerican has no presence on the East Coast. Buffett, who has been beefing up his stake in the energy sector, said the acquisition "will prove beneficial to all constituents."

Constellation's shares fell 57 cents, or 2.3 percent, to close at $24.20 yesterday. That was well off their 52-week high of $107.97 on Jan. 8. Shares dipped as low as $13 Tuesday.

Constellation's shares had fallen 70 percent since July 31 as investor concerns increased over the liquidity needs of the company's energy-trading business, which was growing until this year. That business relies heavily on financing that has all but disappeared with the turmoil in the financial markets.

Investor and lender confidence was damaged by chief executive Mayo A. Shattuck III's August disclosure that Constellation had dramatically underestimated the collateral it would need to put up if its credit rating were downgraded. Then late last month, the company took several steps to raise capital, selling off some natural gas reserves. That appears to have been too little, too late.

Abel declined to comment on Shattuck's future.

At a news conference in Baltimore, Abel said he did not expect any short-term changes in electricity rates for BGE's 1.2 million customers in the Washington suburbs and Baltimore, whose bills have soared under deregulation.

"They won't see any increases or decreases as a result of this transition," Abel said. "What we hope is that we bring long-term benefits and stability."

He also said the sale would not affect Constellation's plans to build a third nuclear reactor at its Calvert Cliffs plant in Lusby, a deal for which the company is seeking federal loan guarantees.

"We're a very big proponent of nuclear energy," Abel said.

Abel said Constellation's energy-trading business would continue, but that it would probably be scaled down.

MidAmerican owns six energy firms, including ones in California and Britain. Constellation is one of the Washington area's largest employers, with 7,500 workers in Maryland. It also owns 83 power plants, which were a big draw for MidAmerican.

"We think they have exceptional assets," Abel said.

Constellation's problems are likely to revive the debate over deregulation of utilities, which helped pave the way for expanded energy trading by utility holding companies and investment banks. In Maryland, the switch to competitive electricity markets also triggered a political battle between Constellation executives and Gov. Martin O'Malley (D). When O'Malley took office last year, he faced a consumer revolt over a 72 percent rate increase for BGE customers. In April, O'Malley and the company reached a legal settlement to give 1.1 million customers in the Washington-Baltimore area a one-time $170 credit and other rate relief. To head off a threat of blackouts in three years if the demand for electricity outpaces supply, the Maryland Public Service Commission has threatened to force BGE and other utilities to build new power plants.

Yesterday, O'Malley praised the sale as good news for Maryland customers.

"Given the volatility of the markets we've seen this week and the wreckage of this mismanaged economy, this appears to be a pretty good result," O'Malley said. "You couldn't find a more reputable, stronger white knight than Warren Buffett."

Buffett is on the board of The Washington Post Co.

The deal ended speculation that Electricite de France, the French nuclear power giant, would make an offer for Constellation.

Because BGE is a regulated utility, the Maryland Public Service Commission must approve the deal. The commission said it would weigh whether the sale is "consistent with the public interest" and does not harm consumers.

The companies said the deal is expected to close within nine months.

Staff writer John Wagner contributed to this report.

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The Washington Post

Financial

A Marketing Master Stroke at Geico: Recognizing the Genius of a Gecko; Ted Ward Leads Charge at Company Known by Its Inventive Ads

698 words
7 July 2008
The Washington Post
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English

Ted Ward serves as vice president of marketing for Geico, or the Government Employees Insurance Co. He joined the company in 1984, was named assistant vice president in 1989, assumed responsibility for Geico's marketing operation in 1994 and moved into his current position in 1996.

Ward is a graduate of the University of Virginia and earned his MBA in marketing at the College of William and Mary. He talked with staff writer Thomas Heath about how Geico comes up with its ad campaigns.

QWhy do you have a little lizard with a British accent as your spokesman?

AA creative guy at the Martin Agency in Richmond and myself came up with the gecko after a focus group was calling our company both geeko and gecko. We were sharing a cold beverage. The guy scribbles on a napkin a picture of a brand icon that's a green lizard, a gecko. The thought was, "I'm a gecko, not to be confused with Geico." We have woven it into the very fabric of the company.

How did you come up with the idea for the commercials involving celebrity interpreters, like Joan Rivers or Little Richard, who sit next to your customers and translate their experiences with Geico?

That is directly from [Geico owner] Warren Buffett's suggestion on the use of testimonials to promote our fabulous claims service. Warren Buffett is a wonderful owner who comes to meetings a couple of times a year. [Buffett is a Washington Post Co. director.]

Explain the caveman thing. I don't get it.

That was a stroke of genius. We decided after meeting with Mr. Buffett that we needed to more significantly promote the online usability of Geico.com.

We needed to let people know how easy it was to deal with us. Our agency in Richmond, the Martin Group, came up with this line: It's so easy, a caveman could do it. It makes fun of a group of people. You have to be careful who you make fun of. And the last time I checked, there was no caveman lobby. The caveman is more geared to the online user. . . . It tends to be a younger audience.

How does owning a powerboat racing catamaran, known as Miss Geico, help you sell insurance?

The Miss Geico is 51 feet long and has a top speed of 185 mph and change. We actually have used it with a great deal of success to promote our power sports line of products. Boats, motorcycles, ATVs, RVs, personal watercraft. We are selling a boatload, no pun intended, of power sports insurance stuff.

You sponsor the fourth-inning President's Race at Washington Nationals baseball games. What's the strategy behind that?

As one of the largest companies in Washington, we like our attachment with some of the premier sports teams. We do business with the Wizards, the Nationals and the Capitals. We do some stuff with the Redskins, too, but the NFL is the king of expensive.

We felt the President's Race was the one element of the game that was consistently fun and intriguing regardless of whether the team is good, bad or indifferent. We have a long-term association with the Nationals.

Why sports events?

Men are very difficult people to reach with advertising without using sports. Men don't watch much television unless it's sports.

Last book read?

I'm a big John Sanford reader. It's low-brow. He has about 16 or 18 things in his "Prey" series. Murder mysteries. . . . I read them on the plane to L.A. when we are going to produce TV commercials.

Last vacation? Next vacation?

Last one was Portugal. We started in Lisbon, went to Oporto and down to the Algarve. We went on our 20th wedding anniversary. The next one is [Tanzania]. Safari to start and beach the second half. My wife has cooked it up. I have teenage children. They won't go anywhere without some beach time.

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The Washington Post

Financial

It's Been a Bear of a Year for Berkshire, but Managers Cite the Long View

Josh P. Hamilton
Bloomberg News
915 words
6 July 2008
The Washington Post
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English

It must be a bear market because even billionaire Warren E. Buffett's Berkshire Hathaway has slumped more than 20 percent since December.

The decline exceeds the drop of the Standard & Poor's 500-stock index and marks the worst first half for the investment and holding company since 1990. Price competition has driven down revenue at Berkshire's insurance units, which account for about half of its income.

Berkshire is "close to getting more fairly priced," said Charles Hamilton, an analyst at FTN Midwest Securities who has a "neutral" rating on Berkshire. "I wouldn't say it presents a buying opportunity right now."

After reporting record company earnings of $13.2 billion last year, the 77-year-old Buffett told shareholders in February that profit margins from insurance will drop.

"That party is over," Buffett wrote in his annual letter to shareholders in February. "It is a certainty that insurance industry profit margins, including ours, will fall significantly in 2008."

Berkshire also has been hurt by the declines of Wells Fargo, American Express and U.S. Bancorp, three of the company's 10 biggest equity holdings at the end of March. Wells Fargo, Berkshire's second-largest holding, dropped 18 percent in the second quarter, while American Express and U.S. Bancorp slipped 14 percent.

Berkshire shares closed at $116,700 in New York Stock Exchange composite trading Thursday, down 21.8 percent from their all-time closing high of $149,200, on Dec. 10. That exceeds the 16.7 percent slide of the S&P 500 in the same period. Berkshire spokeswoman Jackie Wilson didn't respond to a request for comment.

The slide hasn't deterred Buffett devotees, who think Berkshire's decline represents a buying opportunity.

"I'd put a new client in Berkshire right now," said Frank Betz, a partner at Carret Zane Capital Management, which oversees $800 million, including Berkshire shares. "It's probably the highest-quality collection of individual companies that's ever been assembled. Long slides are not in the Berkshire Hathaway lexicon."

Berkshire bulls are betting with history on their side: the shares advanced in 17 of the past 20 years. The last annual decline was 3.8 percent in 2002. The record earnings last year came as Buffett booked a $3.5 billion profit on a $500 million investment in the oil producer PetroChina and insurance units made money selling coverage against storms that never came.

The decline in financial shares may provide Buffett an opportunity to boost holdings, said Whitney Tilson, a principal at T2 Partners, a hedge fund that counts Berkshire among its investments.

"Where Buffett makes his money is taking advantage of weak, chaotic markets," Tilson said. "The odds that Buffett could do a large, transformative deal have gone up substantially."

Buffett built Berkshire over four decades from a failing maker of men's suit linings to a $180 billion company. He plows revenue into companies whose management he trusts and whose business models he deems superior. The billionaire's Berkshire stake makes him the world's richest person, according to Forbes magazine.

With Berkshire's $35 billion in cash, Buffett can scoop up bargains on beaten-down securities and make acquisitions while near-frozen credit markets curb purchases by leveraged-buyout firms, Tilson said.

Buffett entered the bond insurance business in December as the largest companies in the industry, MBIA and Ambac Financial Group, struggled to maintain their credit ratings. CIT Group, a lender that lost 84 percent of its market value in 12 months, said last week that a Berkshire subsidiary agreed to pay $300 million for its portfolio of loans backing factory-built homes.

Tilson calculates the so-called intrinsic value of Berkshire's assets and operations at $157,000 a share. The stock reached intrinsic value in 11 of the past 12 years, Tilson said.

This year's decline emerged as commercial property rates dropped from their peaks after Hurricane Katrina in 2005. Property and casualty prices in the United States fell 14 percent in the first quarter from the first quarter of 2007, according to a survey by the Council of Insurance Agents and Brokers.

For Berkshire, which owns National Indemnity, General Re and Geico, first-quarter earnings from underwriting insurance policies fell 70 percent, to $181 million. Pretax underwriting profit at Berkshire Hathaway Reinsurance Group, which sells catastrophe coverage, dropped 95 percent.

Buffett said the United States is mired in "stagflation," a period of slowing economic growth and accelerating inflation.

"We're right in the middle of it," Buffett said in a June 25 interview. "I think the 'flation' part will heat up, and I think the 'stag' part will get worse."

An economic recovery isn't "going to be tomorrow, it's not going to be next month, and may not even be next year," he said.

Tilson and Carret Zane's Betz said they'll wait. Berkshire has gained 26-fold since 1988 in NYSE trading -- a return more than three times as great as the S&P 500.

"I sleep well," Tilson said. "It's not going to double overnight, but we think it will in five years, which is a 15 percent compounded annual rate. It's the stock you want to own."

Erik Holm in New York contributed to this report.

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The Washington Post

Financial

A Billionaire's Brand Strategy; Even Warren Buffett Puts Stock in Household Names

Tomoeh Murakami Tse and Frank Ahrens
Washington Post Staff Writers
1,649 words
1 June 2008
The Washington Post
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F01
English

From his growing list of acquisitions, Warren E. Buffett seems to be investing like the world's richest 10-year-old boy, if that boy lived in 1955 America.

He is Coca-Cola's largest shareholder. He owns Dairy Queen. Last year, Buffett got a train set, buying into Burlington Northern Santa Fe Railway. And in late April, he bought a piece of the world's largest candy store, sinking $6.5 billion into the Mars-Wrigley chocolate-and-bubble gum merger.

What's next for the Nebraska billionaire investor? DC Comics? Daisy BB guns?

It is true that the 77-year-old Buffett frequently touts his childlike-love of cheeseburgers and Cokes. But his investment strategy turns out to be more sophisticated than that of a schoolboy with change in his pocket, drooling over a candy counter.

In the eyes of many, the Oracle of Omaha -- whose Berkshire Hathaway holding company owns or has major stakes in many iconic brands, including Fruit of the Loom, Kraft Foods and Johnson & Johnson -- looks like a brand investor.

Brand investors buy companies with well-known or well-regarded names -- Apple, Tiffany, Disney and McDonald's, to name a few. The belief is that even though a brand company may produce many unlike products, their qualities -- supported by strong management and a broad marketing and distribution system -- will translate into consistent, above-average returns over a long period.

"Really, nothing can go wrong with the Wrigley and Mars brands," Buffett said on CNBC after announcing that he would finance part of McLean-based Mars's buyout of Wrigley. "They have faced the test of time over decades and decades, and people use more and more of their products every day."

Brand name companies, said professional money managers who consider themselves brand investors, can often charge more for their products than their less-established competitors and weather tough times more smoothly because of their loyal customer bases. They also have the ability to leverage their name recognition to increase business -- whether it's expanding operations by attracting more Marriott hotel franchisees, launching a new flavor of Crest toothpaste or extending the Clorox brand from bleach to moist towelettes. In addition, brand companies tend to have dominance in their fields, making it difficult for new entrants to chip away at market share.

Such qualities, analysts said, are hard to measure but are certainly a force driving profits at companies whose products are consumed by millions of Americans every day.

"Brands themselves are what one might call soft assets -- they don't actually show up in the balance sheet of a company's financial statements," said Robert Millen, chairman and portfolio manager of Jensen Investment Management, which has shares in Procter & Gamble, Coca-Cola and Johnson & Johnson. "But the value of that brand is clearly in the business -- and it takes years and years to build. Once you've built that strength and you continue to feed it and support it over time, then you get . . . pricing power that allows the business to maintain margins throughout varying economic periods. Secondly, you get repeat business. And those two things lead to consistent earnings."

Branded products companies have a higher propensity to pass along price increases when they have increasing costs themselves, said Larry Coats of the Oak Value Fund. This can prove critical in a time of rising food and energy prices.

"The consumer is buying more than just the raw material," said Coats, whose top holdings include 3M, American Express, Oracle, and, perhaps unsurprisingly, Berkshire Hathaway. "They're buying something else, whether it's a trusted relationship, or confidence in the product, an acknowledgement of a higher quality."

To that end, one brand company that Coats, a value investor, has been buying in recent months is Tiffany, whose shares had been beaten down on concern that consumers squeezed by the economic downturn would curtail spending on luxury goods. In Tiffany, Coats has found a company that consistently produces gross margins of 55 to 57 percent, above the 50 percent of typical jewelry retailers.

"Jewelry is a business where the consumer doesn't really know the cost of goods sold are," he said. "They know that they want to buy a high-quality product from a retailer that they can have confidence in. In the consumer's mind, it's always delivered in the blue box. And the blue box is the symbol of that trusted relationship."

One of the key qualities Gary Bradshaw of Hodges Capital Management looks for in brand companies is the ability to expand products overseas. The thinking is that though mature brands may have little room to grow domestically, especially during an economic slowdown, they could use their overseas plants and vast marketing power to tailor their products in a way that would help them gain market share in emerging economies.

"The world is industrializing right now," said Bradshaw, who owns shares of Starbucks, McDonald's and Wal-Mart. "There are 2 billion people who are going to become middle-class citizens around the world. I believe those folks will live like we do in America."

While he is also betting on Coca-Cola, which derives more than 70 percent of its revenue from overseas, Bradshaw said he passed on Dr Pepper Snapple Group when it spun off from Cadbury to debut on the New York Stock Exchange last month, in part because 90 percent of its business is in the United States. "If it was 50 percent oversees, I'd probably be buying it left and right," he said.

Brand investing, perhaps more than any other investing style, is easy to understand and can be followed by patient individual investors who are in it for the long haul and are willing to their homework. But it's not without pitfalls.

Coats quickly realized his mistake when he bought a small stake of Eastman Kodak in 2000, back when it was the leader in the film and developing business. He and his team thought the brand was strong enough to extend its dominant position into the digital age. But ultimately, they concluded that the challenges posed from the proliferation of digital cameras, home printers and electronic imaging was too daunting.

His fund, which had bought the Kodak shares for an average of about $50, sold them off three months later at $39. On Friday, the stock closed at $15.32.

A product with top market share, however, can suddenly be challenged as a result of competitors' mergers and acquisitions.

In the mid-1990s, Matt Kaufler, a portfolio manager of the Touchstone Value Opportunities Fund, took a position in Pet, a food company with several key brands including the Old El Paso line of Mexican products. But then, competitor Pace Foods was acquired by Campbell Soup. And Pepsi began rolling out salsa sauces under the Frito Lay and Doritos labels.

"Picture a vise, and picture Old El Paso in the middle of the vise and on either side is Pepsi and Campbell's squeezing," Kaufler said. "Overnight . . . their competitive posture changed substantially. Their margins began to show the stress of that. They started to miss their earnings numbers because they had to spend more to promote their products."

It was an unsustainable situation that led to the buyout of Pet by a larger British company, which in turn ended up in the hands of General Mills.

Even Buffett has had his share of stumbles despite his long-term record. A 2007 study by researchers at Texas A&M and Ohio universities showed that from 1980 to 2003, Berkshire Hathaway beat the Standard & Poor's 500-stock index in 20 of 24 years. Its annual return beat the index by more than 12 percent over the same period.

But in 1989, Berkshire Hathaway invested $358 million in US Air for 9.25 percent of the airline's preferred stock. In his 1996 letter to shareholders, Buffett wrote that he was "beguiled by the company's long history of profitable operations, and by the protection that ownership of a senior security seemingly offered me."

But, Buffett said, he overlooked a crucial fact: The airline industry was rapidly deregulating. This created cutthroat competition that ate into US Air's earnings even as it had to maintain a cost structure held over from a time when federal regulation protected the carrier's profit. Buffett managed to unload his US Air shares at a gain in 1998, avoiding two bankruptcies by the airline in following years, but he characterized his analysis of the airline as "superficial and wrong."

Buffett also bought into retailer Pier 1 in 2004, just after its stock peaked at more than $25 per share. He sold his stake in 2007, when the stock was trading in the single digits.

Buffett, a director of The Washington Post Co., was unavailable for comment.

As a rule, money managers say, individuals would do well to stick with brand companies that are diversified around the world, have a long record of consistent earnings and sales growth, and a history of supporting their brands. Investors should also try to stick with companies whose brands are No. 1 or 2 in most of their markets, Millen said.

The trick for investors is to buy the companies when they are out of favor because they often trade at a premium, Kaufler said. "Strong brands are rare. And it's even rarer when you can pick them up at an inexpensive price," he said.

Patience, analysts said, is important.

"Warren Buffett would say that when he goes and buys a business, he buys it with the idea that he's going to own it forever," Kaufler said.

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Geico

1 Geico Blvd.

Washington, D.C. 20076

301-986-2500

www.geico.com

Founded: 1936

Chairman, president and CEO:

Tony Nicely

Employees (local): 22,840 (2,243)

As its full name implies, the Government Employees Insurance Co. originally sold insurance to government workers and military personnel. In the mid-1930s, during the Great Depression, founder Leo Goodwin figured he could undercut rivals by targeting low-risk groups and selling to them directly without agents. Today, Geico is one of the nation's largest automobile and property insurers, with more than 8 million policyholders. Warren E. Buffett's Berkshire Hathaway bought the company in 1996.

SAGE ADVICE: Buffett bought his first Geico shares in 1951, after taking a train to Washington for a look-see. The offices were closed, but a janitor directed him to Lorimer Davidson, an investment banker and friend of the founding family, for a chat.

Hitt Contracting Inc.

2704 Dorr Ave.

Fairfax, Va. 22031

703-846-9000

www.hitt-gc.com

Founded: 1937

Chairman: Russell A. Hitt

President: Brett R. Hitt and

James E. Millar

Employees (local): 725 (615)

Hitt celebrated its 70th anniversary in 2007 and posted record revenue. In April, the Green Building Council recognized the new Sidwell Friends Middle School, built by Hitt, as one of the nation's most environmentally friendly schools. Hitt continued work on the South of Market project in Reston Town Center, including three office buildings and a 10-story parking garage topped by a nine-story office tower. Hitt is also transforming the downtown Hotel Washington into an upscale W Hotel.

EARLY BIRD: Co-founders Myrtle and Warren Hitt started the company in 1937 out of their home in Arlington. Myrtle came in at 5 a.m. every day and worked in the business until she was 89.

James G. Davis Construction Corp.

12530 Parklawn Dr.

Rockville, Md. 20852

301-881-2990

www.davisconstruction.com

Founded: 1966

President and CEO: James G. Davis

Senior EVP: Dennis J. Cotter

Employees (local): 529 (529)

James G. Davis Construction is one of the Washington area's largest general contractors. Its projects include corporate headquarters, law offices, government buildings, schools, telecommunications facilities, restaurants and stores. In September, the company began work on a $140 million office tower at 1100 First St. NE designed by a firm that has done work for Herman Miller stores. Last year, it completed Waterview, a 24-story complex in Rosslyn.

GENERATIONS: Jim Davis comes from a long line of builders. His great-grandfather, Edwin W. Davis, built the Corby Estate (now Strathmore Hall) and the original Brookings Institution.

Kettler

1751 Pinnacle Dr.

Suite 700

McLean, Va. 22102

703-641-9000

www.kettler.com

Founded: 1977

Chairman and CEO: Robert C. Kettler

President: Richard W. Hausler

Employees (local): 500 (500)

Kettler is a residential and commercial developer that operates in Maryland, the District and Virginia. One of the company's bigger projects is Harbor Station in Prince William County, which includes a town center, Jack Nicklaus signature golf course, 4,000 homes and a 450-slip marina. Because of uncertainty in the current market, sales for the project have been deferred until 2009. Kettler also plans to enter the Baltimore market in the next year with a multifamily project in the Greektown neighborhood.

SLAP SHOT: A major sponsor of the Washington Capitals, Kettler bought naming rights to the team's practice facility in Arlington in 2006.

Lincoln Holdings LLC

627 N. Glebe Rd.

Arlington, Va. 22203

202-266-2200

www.capitals.com

Founded: 1998

Managing General Partner: Ted Leonsis

Employees (local): 120 (100)

Lincoln Holdings is the partnership led by former AOL executive Ted Leonsis that includes the NHL Capitals, WNBA Mystics and a stake in Verizon Center. In January, the Capitals signed Alex Ovechkin, arguably the most exciting player in hockey, to a 13-year, $124 million contract, the richest in NHL history. The Capitals fired coach Glen Hanlon last Thanksgiving Day, replacing him with Bruce Boudreau. Off the ice, the Capitals will probably break even financially with the help of league revenue sharing.

JUST REWARD: The NHL Lester Patrick Trophy, named for the grandfather of Capitals President Dick Patrick, is presented annually to the person who has performed outstanding service to hockey in the United States.

Long & Foster Cos.

11351 Random Hills Rd.

Fairfax, Va. 22030

703-359-1500

www.longandfoster.com

Founded: 1968

Chairman and CEO: P. Wesley Foster Jr.

President and COO: Brenda B. Shipplett

Employees (local): 2,004 (1,150)

Marking its 40th anniversary this year, Long & Foster is the Washington region's largest residential real estate brokerage, with 9,474 agents. As the nation suffers through a housing slump, the company reported that its revenue fell 6 percent last year. Long & Foster completed the acquisition of the residential real estate arm of W.C. & A.N. Miller and plans to move into a new headquarters building in Chantilly in June.

CLOSE TO HOME: Founder P. Wesley Foster Jr. caused a stir last fall when he sent a memo to all the company's agents urging them to recommend that home buyers use the company's in-house lender instead of seeking mortgages elsewhere.

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The Washington Post

Financial
Berkshire Hathaway to Formalize Director Nomination Procedure

Josh P. Hamilton
Bloomberg News
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12 January 2008
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Warren E. Buffett's Berkshire Hathaway will establish a formal procedure for shareholders to nominate board candidates after the Securities and Exchange Commission faulted how the company selects directors.

Berkshire didn't interpret the rules as requiring a formal policy, Chief Financial Officer Marc Hamburg said in a letter to the SEC dated Sept. 18 and released Thursday. The company previously considered shareholder recommendations mailed to the corporation's secretary, Hamburg wrote. A formal procedure should be adopted before it files the 2008 proxy, he said.

Buffett has built Berkshire into a $200 billion investment and holding company over four decades. He owns about 32 percent of the Class A shares and takes $100,000 a year in pay.

"Every bit of infrastructure they build in now will lessen the blow in the marketplace when he finally steps down," said Patrick McGurn, executive vice president of Institutional Shareholder Services, a proxy adviser.

The SEC began an effort in 2007 to review the annual proxy filings of companies from "a wide cross-section of industries," said John Nester, an SEC spokesman. Board selection and executive pay are addressed in those documents.

"The nominating committee does not have a formal policy by which shareholders may recommend director candidates," the SEC wrote in a letter to Hamburg dated Aug. 21. "Please state why it has no such policy, as required."

Hamburg responded that company policy "will provide that Board of Director candidates recommended by shareholders will be evaluated using the same criteria as are applied to all other candidates." Hamburg didn't return a call seeking comment.

A subsequent SEC letter to Hamburg, dated Nov. 27, said its review of Berkshire was complete, with no further comments.

Buffett, who serves as chief executive and chairman, increased Berkshire's board from seven members to 11 in 2003, with new regulations on director independence looming. Previously, the board included Buffett, his wife, a son and people with close business ties to Berkshire. Of the four new members, at least three had longtime personal or business relationships with Buffett.

Buffett serves on The Washington Post Co.'s board of directors.

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The Washington Post

Financial

Struggling Bond Insurers Get New Rival: Warren Buffett

Tomoeh Murakami Tse
Washington Post Staff Writer
689 words
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WP
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English

Warren E. Buffett's Berkshire Hathaway is entering the bond insurance business in a move that could lower borrowing costs for local governments having a hard time raising money during the credit crunch.

The new insurer, to be called Berkshire Hathaway Assurance, is expected to receive a license to operate in New York by Monday, the state's insurance department said Friday.

Buffett, the billionaire investor, is launching the business as many of the established firms face uncertainty because of their exposure to complicated debt instruments that have been roiling financial markets.

Shares of some of the biggest bond insurers have been pummeled in recent months as rating agencies scrutinize the insurers' ability to cover potential defaults on the mortgage-related bonds they insure, particularly those backed by loans to home buyers with poor credit.

Last week, Standard & Poor's downgraded ACA Financial Guaranty because of its cash shortfall, and Fitch Ratings warned that MBIA and Ambac Financial Group, the two largest bond insurers, could also be downgraded.

A good credit rating is essential for bond insurers, which play a critical role in the capital markets by helping companies and local governments with imperfect credit borrow money at low interest rates to finance things like ballparks, buildings and roads. Bond insurers can do that because they essentially transfer their top credit ratings to the bonds of companies, states and municipalities by issuing insurance. Without the backing of top-rated bond insurers, companies and local governments would have to pay more for projects.

While Buffett's new business is not yet rated, analysts said it is almost certain to receive the top rating, AAA. Berkshire Hathaway, with its strong balance sheet, is a AAA-rated entity.

Buffett's entry into this business was reported by the Wall Street Journal on Friday. He told the paper that the company would seek permission to operate in California, Puerto Rico, Texas, Illinois and Florida, which have high volumes of municipal-debt issuance. He said the company would stay away from insuring complicated structured products such as bonds backed by mortgages and credit card receipts.

Such an approach, some analysts said, would make his company appealing to investors and debt issuers.

"Buffett's entry into the bond insurance market may be encouraging for cities and counties issuing bonds because there is now a triple-A competitor that is starting on solid footing and does not have exposure to mortgage problems," said Randy Smolik, chief municipal bond market analyst for Thomson Financial.

Berkshire Hathaway Assurance would provide added competition in a marketplace that has a limited number of insurers free of mortgage problems, Smolik said.

Buffett, a director of The Washington Post Co., did not return a phone call seeking comment Friday.

Under the license to be issued by the New York State Insurance Department, Buffett's new company would be authorized to write insurance policies for municipal bonds.

"Having new entrants in the market to provide municipalities with options to enhance the credit of new bonds or to potentially provide enhanced credit for outstanding downgraded bonds is a very positive development," Eric R. Dinallo, the state's superintendent of insurance, said in a written statement. He added: "We welcome Mr. Buffett and his organization to this marketplace."

The license was processed and approved in a month, the fastest approval of its type, and reflects the department's response to concerns in the market, department spokesman Andrew Mais said.

"We stand ready to expedite the approval process for new entrants as well as any regulatory approvals current guarantors may need in order to secure additional capital," he said.

Analysts said Buffett's new company was likely to take market share from competitors, and shares of major bond insurers fell Friday. Ambac shares lost nearly 14 percent to close at $25.12. MBIA shed almost 16 percent, to $18.74.

Also Friday, Berkshire Hathaway agreed to buy NRG, the reinsurance unit of ING Group, the biggest Dutch financial services company, for about $436 million.

WP20071229INSURER29

Document WP00000020071229e3ct0001s

The Washington Post

Financial
LEGAL Berkshire Must Provide ...

824 words
28 December 2007
The Washington Post
WP
FINAL
D02
English

LEGAL

Berkshire Must Provide Records

Berkshire Hathaway and its General Reinsurance unit must comply with subpoenas from the subsidiary's former chief executive, whose fraud trial is set for Jan. 7 in federal court, a judge ruled.

Ronald Ferguson and three other former General Re officers are accused of helping American International Group create sham reinsurance contracts to inflate reserves by $500 million in 2000 and 2001, deceiving investors about the insurer's ability to absorb losses.

U.S. District Judge Christopher Droney in Hartford, Conn., ordered that records from interviews with former and current employees during the companies' internal investigations be given to the court.

AIRLINES

British Airways Orders 24 Boeings

Boeing said British Airways ordered 24 Dreamliner jets, bringing total orders for the plane to 790.

The Chicago-based aerospace company expects to fly the first 787 in the first quarter of 2008 and begin deliveries in November or December. It expects to deliver 109 of the planes in 2009.

MEDIA

Amazon Expands MP3 Offerings

Amazon.com, the world's largest Internet retailer, said it agreed to sell music downloads from Warner Music Group's catalogue on its MP3 service, the companies said.

Amazon's service, introduced in September, competes with Apple's iTunes.

MANUFACTURING

Dana Bankruptcy Plan Approved

Dana, a maker of automotive frames and axles, said its Chapter 11 reorganization plan was approved by a bankruptcy judge, allowing it to exit court protection next month.

Judge Burton R. Lifland in New York signed a final order approving the plan, the Toledo, Ohio, company said. The action is contingent on the closing of $2 billion in exit financing.

Dana will be controlled by private-equity firm Centerbridge Capital Partners, which is leading a $790 million investment in new preferred stock. Dana entered Chapter 11 in March 2006 with $7.9 billion in assets and $6.8 billion in debt, as commodity prices spiked and U.S. automakers cut production.

ENERGY

Coal Production Down in 2007

The latest federal figures show coal production fell slightly this year.

The 1.4 percent nationwide decline hit Virginia (down 10.2 percent) and Kentucky (5.2 percent) the hardest, while production in the West is essentially flat, according to the Energy Information Administration. West Virginia's production is up 0.9 percent.

INVESTING

Citigroup May Cut Dividend 40%

Citigroup, the biggest U.S. bank, may cut its dividend 40 percent to preserve capital and write down more fixed-income securities than it has told investors to expect, according to Goldman Sachs Group.

J.P. Morgan Chase, the third-largest U.S. bank by assets, may write off $3.4 billion in fixed-income securities in response to the collapse of the subprime mortgage market, double Goldman's previous estimate, analysts said.

Citigroup is trying to preserve capital and may be forced to write off $18.7 billion in collateralized debt obligations, up from its Nov. 4 estimate of as much as $11 billion, Goldman Sachs said. The bank, which paid out 54 cents each quarter this year, will have to raise $6.2 billion in extra capital to reach its target, analysts said. J.P. Morgan would have about $5 billion in collateralized-debt-obligations exposure after its write-down.

CONSUMER SAFETY

HSN Settles Cooker Complaint

HSN, formerly known as the Home Shopping Network, agreed to pay $875,000 to settle allegations that it failed to report a hazardous product in a timely manner, the Consumer Product Safety Commission said.

HSN received at least 25 reports from September 2001 through October 2004 that the lids of Welbilt Electronic Pressure Cookers opened prematurely, spilling hot contents and burning people who were using them. HSN didn't report the defects to the safety agency until February 2005.

ENERGY

Oil Rises on Inventory Declines

Oil futures rose to $96.62 a barrel in New York after the government reported larger-than-expected declines in crude and heating oil inventories.

The Energy Department's Energy Information Administration said oil inventories fell 3.3 million barrels last week, more than double what analysts expected. Inventories of distillates, which include heating oil and diesel fuel, fell 2.8 million barrels, more than three times what was expected.

FINANCE

Commercial Paper Market Down

The U.S. asset-backed commercial paper market shrank for the 20th consecutive week. Debt maturing in 270 days or less and backed by mortgages, credit card loans and other holdings declined $15.9 billion, to a seasonally adjusted $747.6 billion, for the week ended Dec. 26, the Federal Reserve said.

The broader commercial paper market rose $1.2 billion in the most recent week, to $1.8 trillion, according to the Fed data. Companies typically sell commercial paper, which usually matures in three months or less, to help pay day-to-day expenses.

Compiled from reports by Washington Post staff writers, the Associated Press and Bloomberg News.

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Document WP00000020071228e3cs0000c

The Washington Post

Financial

Berkshire to Acquire Manufacturing Firm

From Wire Services
285 words
26 December 2007
The Washington Post
WP
FINAL
D10
English

Warren E. Buffett's investment company, Berkshire Hathaway, said Tuesday that it will pay $4.5 billion for 60 percent of Marmon Holdings, a private company that includes more than 125 manufacturing and service businesses.

Berkshire Hathaway, of Omaha, plans to acquire the remaining 40 percent of Marmon over the next five to six years, depending on future earnings of Marmon, according to a statement released by both companies.

Marmon is owned by trusts for the benefits of the Pritzker family of Chicago, the family that developed the Hyatt hotel chain.

The deal is expected to close in the first quarter of 2008. Marmon said it will make a "substantial distribution of cash and certain assets to the selling shareholders" before closing.

Brothers Jay and Robert Pritzker acquired Marmon in 1953 when it was a small manufacturing operation in Ohio. In 2002, Jay's son Tom Pritzker took over as chairman.

The Pritzker family has discussed breaking up its holdings since Jay Pritzker died in 1999.

"Our transaction was done just the way Jay would have liked it to be done -- no consultants or studies," Buffett said in the statement. "I am pleased that over the next five to six years, we will be . . . continuing to build Marmon."

Marmon employs 21,000 people, mostly in North America, Britain, Europe and China, according to the company's Web site. Its businesses include a dozen companies that manufacture wire and cable products for energy-related and construction uses.

Buffett is chief executive and chairman of Berkshire Hathaway, which has more than 60 subsidiaries. Buffett also is a director of The Washington Post Co.

WP20071226BUFFETT26

Document WP00000020071226e3cq0000h

The Washington Post

A Section
Buffett Looking for Big Purchase for Berkshire; Firm Would Sell Stock to Free Up Cash

Bloomberg News
508 words
7 May 2007
The Washington Post
WP
English

Berkshire Hathaway's Warren Buffett usually laments that his company has more cash than investment opportunities. Now he's envisioning an acquisition so big that he'd have to sell some stocks to free up funds.

"I would hope something would come along where I would have to sell something that I like to buy something huge I like even better," Buffett, Berkshire's billionaire chairman, said at a news conference in Omaha yesterday.

Buffett says Berkshire, which has about $46 billion in cash, is as prepared as it's "ever been" to buy a "big business outright," he told shareholders at the company's annual meeting Saturday.

"He's shouting from the rooftops: 'Bring me enormous deals. There's no deal that's too large for us to look at,' " said Whitney Tilson, a managing partner at New York-based T2 Partners, which owns $30 million in Berkshire shares and options. "Let's say a $40 billion acquisition came along. He might need to raise $10 billion of additional cash."

"We've got plenty of things to sell if we needed to," Buffett said, having asked overseas investors for recommendations following a shareholder meeting that drew about 27,000 people to Omaha's Qwest Center Saturday. "So far the cash is coming in faster than the ideas."

Regarding others' acquisition targets, Buffett, a member of The Washington Post Co.'s board of directors, said News Corp. Chairman Rupert Murdoch is attracted to Dow Jones partly because of the prestige of the company, which publishes the Wall Street Journal.

"Rupert would even acknowledge that some part of his interest in the Wall Street Journal goes beyond economics," Buffett said.

Dow Jones said May 1 that Bancroft family members who control more than 50 percent of the company's voting shares will reject a $5 billion takeover bid by News Corp. Buffett's annual meetings are as much a chance for admirers to hear the world's third-richest man opine about the economy and markets as to be updated about Berkshire.

Berkshire businesses related to residential construction have been hurt by a housing slump in the U.S. economy that is likely to continue for "quite a while," Buffett said. Mortgage lenders seeking more business loosened underwriting standards last year, triggering default rates that pushed at least 50 companies to file for bankruptcy, shut down operations or seek buyers in the past 16 months, according to Bloomberg data.

The subprime mortgage crisis won't be "any huge anchor" to the economy, he predicted, although lenders and borrowers will have "plenty of misery."

Buffett warned about the dangers of derivatives -- financial instruments derived from stocks, bonds, loans, currencies and commodities, or linked to specific events like changes in the weather or interest rates. The Federal Reserve's efforts to regulate the use of credit to purchase securities have been made irrelevant by derivatives, he said.

WP20070507BUFFETT7

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The Washington Post

A Section

Buffett in Spotlight At Berkshire Meeting; He Plays Ukulele, Discusses Successors

From News Services
423 words
6 May 2007
The Washington Post
WP
English

At Berkshire Hathaway's annual meeting in Omaha yesterday, Warren Buffett discussed future profit, the housing business and potential successors.

Before the meeting, Buffett grabbed his ukulele and joined the Quebe Sisters Band. When Buffett sat down on a stool between three fiddle players, he joked: "I may well be looking for another job soon. This is my first audition."

Then Buffett and the band launched into "Red River Valley."

Buffett has said he has arranged for one of Berkshire's managers to succeed him, and he is in the midst of sorting through 600 to 700 applications for a new chief investment officer to manage the company's investments after he goes.

Buffett said he expects to hire three or four people as candidates for chief investment officer. He said each of the investment managers he hires will be given $2 billion to $5 billion to manage.

Buffett told shareholders not to expect a repeat of the big earnings gains Berkshire's insurance units had last year and in the first quarter.

He also said the company's residential construction businesses have been hurt by the U.S. housing slump. He expects that to continue for "quite a while."

But the subprime mortgage crisis won't be "any huge anchor" to the economy, though lenders and borrowers will have "plenty of misery," Buffett said.

"It will be a very big problem for those involved, but I think it is unlikely that factor alone triggers anything in the larger economy," he said. The prediction assumes that neither unemployment nor interest rates go up dramatically, he said.

At the meeting, the holders of more than 98 percent of Berkshire Hathaway shares voted against an investor proposal calling on the firm to divest a $3.3 billion stake in PetroChina because its parent, China National Petroleum, holds oil reserves and pipelines in Sudan.

He also said well-funded buyout firms are making it harder for Berkshire to make acquisitions.

"There's nothing worse in life than a competitor who's willing to pay too much," Buffett told Bloomberg News before the meeting. "People can get very high fees for managing funds, and as fast as they can get one fund invested, then get another fund."

Buffett, who is on the board of directors of The Washington Post Co., said about 27,000 people filled the Qwest Center arena for the start of the meeting.

WP20070506BUFFETT6

Document WP00000020070506e3560003b

The Washington Post

A Section

Midwest Has 'Coal Rush,' Seeing No Alternative; Energy Demand Causes Boom in Plant Construction

Steven Mufson
Washington Post Staff Writer
1,593 words
10 March 2007
The Washington Post
WP
English

-- From the top of a new coal-fired power plant with its 550-foot exhaust stack poking up from the flat western Iowa landscape, MidAmerican Energy Holdings chief executive David L. Sokol peered down at a train looping around a sizable mound of coal.

At this bend in the Missouri River, with Omaha visible in the distance, the new MidAmerican plant is the leading edge of what many people are calling the "coal rush." Due to start up this spring, it will probably be the next coal-fired generating station to come online in the United States. A dozen more are under construction, and about 40 others are likely to start up within five years -- the biggest wave of coal plant construction since the 1970s.

The coal rush in America's heartland is on a collision course with Congress. While lawmakers are drawing up ways to cap and reduce emissions of greenhouse gases, the Energy Department says as many as 150 new coal-fired plants could be built by 2030, adding volumes to the nation's emissions of carbon dioxide, the most prevalent of half a dozen greenhouse gases scientists blame for global warming.

Even after a pledge last month by a consortium of private equity firms to shelve eight of 11 planned coal plants as part of their proposed $45 billion buyout of TXU, the largest utility in Texas, many daunting projects remain on drawing boards. Any one of the three biggest projects could churn out more carbon dioxide than the savings that a group of Northeast states hope to achieve by 2018.

Utility executives say that the coal expansion is needed to meet rising electricity demand as the U.S. population and economy grow. Coal-fired plants provide half the electricity supply in the country.

"A lot of congressmen ask me, 'Dave, why are you building that coal plant?' " says MidAmerican's Sokol. "And I say, 'What are my options?' "

Sokol says he wants to help customers improve efficiency by 10 percent. His holding company, which is more than 80 percent owned by Berkshire Hathaway, includes the utility PacifiCorp in the Northwest and Rocky Mountains as well as MidAmerican; together they generate 16.7 percent of their power from renewable resources. The Iowa subsidiary alone gets 10 percent from renewables. Between 2000 and 2005, the company cut the amount of carbon emitted for every unit of energy generated by 9 percent.

But half of that reduction in the rate of emissions was offset by higher overall output. Electricity demand in Iowa is growing at a rate of 1.25 percent a year, and Sokol says that until new technologies become commercial or nuclear power becomes more accepted, coal is the way to meet that demand.

It remains unclear how Congress will cope with this problem. Although climate-change experts hope that new technology will deliver a way to capture and store carbon dioxide produced by coal plants, that technology remains in the pilot stage; it could take another decade before it is proven.

Companies say the new coal plants are better than old ones, though both use the same approach: pulverizing coal, then burning it in huge boilers to power giant turbines. The new $1.1 billion MidAmerican facility will be one of the nation's biggest, with 790 megawatts of capacity. Its boilers and pulverizers will devour 400 tons of coal every hour, 3.5 million tons a year, Sokol says. Combined with an existing plant next door, it will require a fresh train of coal every 16 to 17 hours; each train will be nearly 1.5 miles long and lug 135 cars about 650 miles from Wyoming's Powder River Basin.

While newly constructed plants cough up a tiny fraction of the pollutants environmental regulators have focused on in the past -- sulfur dioxide, mercury and nitrogen oxides -- they emit only 15 percent less carbon dioxide. They do that simply by being more efficient. Scrubbers like those used to extract other pollutants from a plant's exhaust don't exist for carbon dioxide.

Environmentalists worry that the new pulverized-coal plants, built to last 40 to 50 years, will saddle the country with high greenhouse-gas emissions for decades. Peabody Energy, for instance, has proposed two giant 1,500 megawatt plants, one for western Kentucky and one for southern Illinois.

"Each of these coal plants is making bad global-warming policy, project by project," says Bruce Nilles, a Madison, Wis.-based Sierra Club lawyer who is fighting the Midwest plants. "It's a high priority to convert these investments in coal plants into something cleaner and smarter."

If coal plants must be built, environmentalists prefer integrated gasification combined cycle (IGCC) plants that they say will make it easier later to capture carbon dioxide and store it underground. Only a handful of those are being planned.

"We're making investment decisions today that will make it impossible in 2020 to get the next increment of [greenhouse gas] reduction," Nilles says.

But the IGCC plants can add as much as $200 million to construction costs; only two are operating today. Companies that make the plants, such as Siemens and General Electric, aren't willing to guarantee certain levels of performance, utility executives say. Referring to GE's chief executive Jeffrey R. Immelt and GE's "ecomagination" ad campaign, one utility executive who spoke on condition of anonymity because his company might still do business with GE said, "I think Immelt's ecomagination got away from him."

State regulators, who give thumbs up or down to coal plant proposals, worry mostly about reliability and costs to consumers. In the 1990s, many utilities built natural-gas-fired plants, but in the past two years gas prices have soared. Now, coal backers say that coal is cheaper than other fuels such as natural gas.

One wrinkle: The cost of building coal plants is climbing as demand for engineers and equipment rises. In December, Westar Energy, the largest electric utility in Kansas, shelved its plan to add a 600- to 800-megawatt coal-fired plant. Greg A. Greenwood, vice president of generation construction at Westar, said that in the previous 18 months the estimated construction cost had soared $400 million.

Environmentalists and many economists argue that the price of coal plants is higher when environmental costs are included.

One of the Sierra Club's targets has been a $2.2 billion project belonging to We Energies, part of Wisconsin Energy. In the town of Oak Creek, just south of Milwaukee, the company has carved 6 million cubic yards of earth from a bluff along Lake Michigan to create a bowl for two 615-megawatt coal-fired power plants, the first due to open in 2009. Trucks and workers are crawling over the site; five enormous boilers stand side by side, waiting for duty. Cranes lean in over the steel scaffolding, and a completed exhaust stack points into the winter sky.

The plan for the plants was hatched after a hot 1997 summer, when the utility came close to ordering rolling blackouts to deal with heavy electricity demand. The state had not built a new power plant since 1984, and the crisis helped ensure a unanimous vote by the Wisconsin Public Service Commission for more coal plants.

But the Oak Creek project sparked a range of protests that landed it before the state Supreme Court, which ruled 4 to 3 in favor of the plant. Construction began the next day.

We Energies chief executive Gale E. Klappa says the trimming of greenhouse gas emissions is a worldwide problem and asks why We Energies should voluntarily shoulder the burden. "You could black out the state of Wisconsin . . . and it would not make a difference in the CO2 levels of the world," he says.

Klappa says new coal plants have benefits. He spreads a piece of paper on his conference table. It shows the amount of carbon dioxide emitted for each megawatt-hour of energy dropping by 12.5 percent from 1990 through 2011 after the new coal plants come online. Another sheet of paper, however, shows that with higher electricity output, We Energies' total emissions of carbon dioxide will grow 76.6 percent.

"With significant investment and technology, we can bend the line down, but getting the level down to 1990 levels is a huge challenge not only for us, but for society as a whole," Klappa says.

Nilles says that We Energies has made only a feeble attempt to slow the 2 percent a year growth in energy demand. Klappa says that he aims to reduce demand by 55 megawatts, just 1 percent.

Nilles says that the model for electricity expansion is the municipal utility in Springfield, Ill., which negotiated a plan with the Sierra Club after the group had stopped three coal plants in the state. Under the plan, the utility will increase the money spent on energy efficiency tenfold, shut down two old coal plants, improve pollution controls at three others, buy enough wind-powered energy to meet 20 percent of its needs, and build a new cleaner coal plant. However, its capacity -- and thus its carbon dioxide emissions -- will increase.

While some of the Sierra Club members in Springfield weren't satisfied, Nilles says "for a state capital in the middle of coal country, the symbolism [of the agreement] is huge. How do you quantify that?"

WP20070310COALRUSH10

Document WP00000020070310e33a0000h

The Washington Post

A Section

U.S. Orders Modification of Klamath River Dams; Removal May Prove More Cost-Effective

Blaine Harden
Washington Post Staff Writer
798 words
31 January 2007
The Washington Post
WP
English

In a decision that could trigger the largest dam-removal project in world history, the federal government said today that four hydroelectric dams on the troubled Klamath River must undergo costly modifications to allow passage for salmon.

Since modifying the aging dams would cost an estimated $300 million, removing them has suddenly become a much more plausible -- and considerably cheaper -- option for their owner, PacifiCorp, a company owned by Warren E. Buffett's Berkshire Hathaway Inc.

Removing the dams would cost $101 million less than modifying them as ordered by federal agencies, according to a recent report written for the California Energy Commission.

Although a number of dams across the United States and around the world have been removed or scheduled for removal in recent years, federal officials say they know of no other river in the world for which the removal of four hydroelectric dams is under review.

If the dams were removed, the Klamath, which straddles the Oregon-California border, has extraordinary potential to rebound as a major salmon resource, according to fish biologists and regional officials. They say a revival could dramatically improve commercial and sport fisheries along the coasts of Oregon and Northern California.

The Klamath once supported the third-largest runs of salmon on the West Coast. But in the more than eight decades since it was dammed, it has become one of the most fought-over rivers in the West -- with massive fish kills, blooms of algae, angry irrigators, litigious environmentalists and Indian tribes whose diet and culture have been substantially damaged by the disappearance of salmon. Biologists blame the dams as a contributing factor to the near shutdown last summer of commercial salmon fishing along 700 miles of the Oregon-California coastline.

The four dams produce electricity for about 70,000 customers. The power is worth about $29 million a year, according to the California Energy Commission.

"The Klamath is a degraded system, but it is uniquely restorable," said David Diamond, an analyst with the Interior Department. "These dams are the only barriers to fish passage from the headwaters to the Pacific. The watershed is 80 percent under federal ownership and it doesn't have major cities or other development that prevents the return of healthy salmon runs."

For years, pressure to remove the four Klamath dams has come from Indian tribes, conservation groups and commercial fishermen. But in a move that surprised many environmentalists, the Bush administration -- through the National Oceanic and Atmospheric Administration's National Marine Fisheries Service -- concluded last year that dam removal would be best for salmon.

The issue has been forced on PacifiCorp because federal licenses for the dams, the oldest of which was completed in 1918, are up for renewal. The Portland, Ore., power company had proposed that it be allowed to trap and haul salmon around its dams as a way to revive the river's salmon fishery.

But the joint announcement by the Interior Department and NOAA rejects that proposal. As a necessary condition for obtaining a new federal license, they said that PacifiCorp must build costly fish ladders and other fish-passage devices at each of the dams on the Klamath.

"We are disappointed," said Dave Kvamme, a spokesman for PacifiCorp. "We are looking for an outcome that best serves our customers. We are going to have to look at costs and risks."

In three other license-renewal cases, PacifiCorp has agreed to remove dams from Western rivers. The company, too, has participated for more than two years in confidential negotiations with other Klamath River stakeholders in what to do about reviving the health of the river.

"We have never ruled out dam removal as one potential outcome," Kvamme said, while adding that his company urgently needs to create more electricity generation and regards the dams as "an extremely valuable resource."

Buffett, whose holdings include PacifiCorp, is a major shareholder in The Washington Post.

In the six Western states where PacifiCorp sells electricity, the company would need to secure the approval of public utility commissions to raise electricity rates to recover the cost of demolishing or modifying the Klamath dams.

Because removing the dams would be cheaper than modifying them, there will be strong pressure on PacifiCorp from the commissions to get rid of them, said Steve Rothert, director of the California field office of American Rivers, an environmental group involved in negotiations over the dams.

"It is in their ratepayers' interest to remove the dams and replace the power," Rothert said.

Kvamme said PacifiCorp has not yet determined whether modifying the dams would be less expensive in the long run than taking them out.

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Document WP00000020070131e31v0000w

The Washington Post

Financial
Beyond Computers Cascade Inv ...

94 words
4 November 2006
The Washington Post
WP
English

Beyond Computers

Cascade Investment LLC, the investment unit for Microsoft Corp. founder Bill Gates, owns shares in an eclectic group of companies:

Berkshire Hathaway Inc.

* Diversified company.

Canadian National Railway Co.

* Canada's largest rail operator.

Fisher Communications Inc.

* Seattle media company.

Four Seasons Hotel Inc.

Grupo Televisa

* Spanish-language television, radio and publishing.

Otter Tail Corp.

* Diversified company.

PNM Resources Inc.

* Energy holding company.

Republic Services Inc.

* Solid-waste collection.

Six Flags Inc.

* Amusement parks.

Western Asset Claymore

* Securities fund.

SOURCE: Thomson Financial

WP20061104GATESBOX

Document WP00000020061104e2b40001v

Financial
GERMANY Exchange Cuts Stock- ...

180 words
20 September 2006
The Washington Post
WP
FINAL
D10
English

GERMANY

Exchange Cuts Stock-Trading Fees

Deutsche Boerse of Frankfurt, Europe's biggest exchange operator by market value, agreed to cut fees for clearing stock trades for the first time, seeking support from clients for its $10.7 billion offer for Euronext of Paris. Euronext is recommending to shareholders a rival offer from NYSE Group. The London Investment Banking Association, whose members include such securities firms as Goldman Sachs Group and Deutsche Bank, this month called for lower clearing fees in Europe and said the issue should be addressed in any takeover in the region.

General Re Seeks to Buy Out Subsidiary

General Re, a reinsurer owned by Berkshire Hathaway, is seeking to squeeze out remaining investors in its Cologne Re unit. General Re, based in Stamford, Conn., owns 95.2 percent of Cologne Re and is calling for a shareholder meeting of the German subsidiary to allow for the purchase of the remaining shares in the unit, Cologne Re said in a statement.

Compiled from reports by Bloomberg News.

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The Washington Post

DEALS Allan Sloan
Financial
Buffett's Generosity Benefits Both Charity, Berkshire Investors

Allan Sloan
906 words
27 June 2006
The Washington Post
WP
FINAL
D01
English

We've known for decades that Warren Buffett is brilliant at investing money. And now we know that he's brilliant at giving it away, too.

Buffett, who runs the Berkshire Hathaway conglomerate (and sits on The Washington Post Co.'s board) has committed to donate Berkshire stock currently valued at about $30 billion to the Bill & Melinda Gates Foundation, and about $6 billion more to four Buffett family foundations. That's about 85 percent of his Berkshire stake, and is the biggest single gift ever announced by anyone.

I'm not dealing with the social aspects of Buffett's gift -- that's not my world. My world is finance, and any finance fan has to love the clever way that Buffett has set up his gift to take advantage of the Gates Foundation's expertise while simultaneously maximizing the gift's impact on the charitable world and minimizing the gift's downward pressure on Berkshire's stock price.

Stock price matters because Buffett has obligations to look after Berkshire shareholders' interests. In addition, Buffett's gift, which is being given away over a period of years, is 12.05 million Berkshire B shares rather than a fixed amount of money. The higher Berkshire's stock price is over time, the more his gift will be worth.

The way Buffett has joined up with the Gates Foundation is so . . . well, Buffettesque. The Gates Foundation, the world's biggest charity, has spent years establishing an infrastructure, which some call a bureaucracy, to be able to effectively give away huge amounts of money. Buffett will get what amounts to a free ride on that infrastructure.

Had Buffett started a foundation with $30 billion of Berkshire stock, it would be required by U.S. law to give away at least $1.5 billion a year. Giving that much money away isn't simple, as Bill and Melinda Gates have discovered over the years.

Buffett has committed to give 10 million shares of Berkshire B stock to the Gates Foundation, but not all at once. He's giving 5 percent of the gift each year.

This means that the Gates Foundation will get 500,000 Berkshire B shares this year, 475,000 next year (that's 5 percent of the 9.5 million shares left in the grant) and so on. In return, the Gates Foundation has promised to give away the value of Buffett's annual contribution in addition to distributing at least 5 percent of the value of its other assets.

The bottom line: Buffett is using the Gates Foundation to give away what a Warren Buffett Foundation would have to give away. But Buffett won't have to set up and monitor his own foundation.

To the stock price. Not to be morbid, but Buffett is 75 and not immortal. Some investors feared that when he died and gave most of his Berkshire shares to charity, the charities would have to sell large portions of the bequest quickly, which would clobber Berkshire's stock price.

The Gates foundation, however, won't have to run out and sell its 500,000 Berkshire shares the day it gets them. The foundation has $30 billion of other assets and can dispose of its Berkshire stock in small pieces (or even hold it for a year or two) and still make the required gifts. That minimizes downward pressure on the stock.

I can't speak about the four Buffett family foundations. But even if they sell every Berkshire share they get, we're looking at only 100,000 shares a year. The market should be able to absorb that.

Careful readers will note that I'm talking about Berkshire B shares, but Buffett doesn't own any of those. He owns 474,998 Berkshire A shares, each of which is convertible into 30 B shares.

Buffett will convert the appropriate number of A's into B's, then give the B's to the foundations. Among other things, that will keep Buffett firmly in control of Berkshire, because his voting stake (currently 38 percent) will drop much less rapidly than his ownership stake (32 percent). The reason: A Berkshire A share has 1 vote, while a B share has only 1/200th of a vote.

There's one final goody here: Standard & Poor's. Berkshire is the biggest publicly traded U.S. company not in the S&P 500 because there are so few shares outstanding (1.26 million A's and 8.4 million B's) and Buffett's stake is so large. With Buffett converting so many A shares to B shares, it's not hard to see S&P putting B shares on the 500 within a few years. That would require S&P 500 indexers, such as index mutual funds and many pension funds, to buy hefty amounts of B, helping support the stock price.

See? Buffett really knows does know how to profit while giving money away.

* Disclosures: I own a substantial stake in Berkshire through Newsweek's 401(k) plan, as do some of my colleagues. The Post Co. has a big stake in Berkshire, and Melinda Gates sits on The Post Co.'s board.

Sloan is Newsweek's Wall Street editor. His e-mail address is sloan@panix.com.

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CASH FLOW Albert B. Crenshaw
Financial
The Color of Your Collar, and Other Ways Geico Rates Your Risk

Albert B. Crenshaw
1,268 words
26 March 2006
The Washington Post
WP
FINAL
F03
English

Ever wonder how your auto insurer decides what to charge you for coverage, or even whether to offer you a policy at all?

Many people do, especially when they open up their annual or semiannual premium statement and see the amount they owe.

But insurers' risk assessments and pricing strategies are among the industry's most closely guarded secrets. While the companies are typically required to disclose their rates -- and the rating manuals used to set them -- to regulators, who sometimes make them public, the more workaday guidelines their agents and salespeople use are rarely visible to the public and sometimes not even to regulators.

Thus the recent discovery among regulatory filings in New Jersey of an internal guide used by Geico Corp. to help its salespeople decide whether to offer insurance to an applicant -- and if so which of the four Geico subsidiaries should provide the coverage -- provides an intriguing peek into one insurer's ways of sorting its customers.

Geico's subsidiaries all have similar names -- Government Employees Insurance Co., which is where Geico comes from; Geico General Insurance Co.; Geico Indemnity Co. and Geico Casualty Co. -- so customers are not always aware of which one is providing their policy.

But the company a customer is assigned to can mean hundreds, occasionally thousands, of dollars' difference in the premium that will be asked. This is because the first two on that list cover "preferred" risks -- motorists the company figures will be the safest drivers -- and charge lower premiums, while the other two handle drivers who look riskier and charge them more accordingly.

The guide emphasizes that it contains "criteria for placement among our four companies," and that these criteria "are just guides and not rules."

The guide looks at an applicant from three perspectives: driving record, personal characteristics and the vehicles to be insured. It appears to seek information beyond a basic application and does not address many standard questions such as miles driven, type of car and gender of driver.

Driving record is mostly what you might expect -- accidents, tickets and other violations, and license suspensions and revocations. But there are some nuances: Recent accidents are considered less favorable than those more than a year old; for families or other applicants with more than one driver, the guide says, "if there is more than one accident, view the risk more favorably if the accidents are spread among the drivers, rather than one driver having multiple accidents."

Interestingly, "multiple not at fault accidents are considered an unfavorable factor." On the other hand, "accidents caused by defective Bridgestone/Firestone tires that were involved in product recalls are not to be considered for underwriting or rating purposes."

Likewise, "multiple theft/vandalism incidents are considered unfavorable," and recent ones more so than old ones.

Also, "risks with more than one very serious conviction (drink/drugs, hit and run, racing, felony, vehicular manslaughter/assault) are not written."

Perhaps most interesting in the guide is the section on the applicant personally.

Age is very important. The company usually won't write a policy if the only or oldest driver is under 18. And "the most favorable risk is one where the oldest driver on the policy is less than 70 years old."

Marital status and family arrangements are also considered. "One driver that is single, two drivers that are married, and three drivers that include a married couple are most favorable. Other combinations are considered less favorable."

Geico also appears to frown on drivers who frequently shop for insurance. "Longer tenure with current insurer is more favorable that shorter tenure (less than five years)." But if you insist on shopping, it prefers drivers who do so "in advance of his or her insurance policy's expiration date. Also favorable are applicants that were previously covered under their parents' policy."

Other questions, which have stirred controversy, focus on social and economic status -- the higher the better.

The guide divides applicants into half a dozen or so "groups" based on occupation and education. "The most favorable occupations" are those in the top two groups plus military personnel above pay grade E-6 (Army staff sergeant) and graduate students.

Group 1, "occupations that have exhibited superior loss experience in the past," generally requires a bachelor's degree or higher, such as accountants, architects, lawyers, teachers, and "professional Federal employees in an administrative or technical position." Behind them in Group 2 are physicians, executive secretaries, some technical fields and others.

Group 3 covers white-collar jobs requiring at least a high school diploma and that "involve problem solving and/or decision making and the use of judgement." Below them in Group 4 are occupations that usually require a high school diploma, such as technicians, office machine operators, "high skilled artisans" ("married artisans residing with employed spouses" rate Group 3) and "blue collar, foremen, journeymen and nurses."

Group 5 includes "minimally skilled clerks, assistants and postal clerks" along with "unskilled and semiskilled blue and gray collar workers," gray collar generally referring to service workers, such as waiters and security guards.

In addition to these classes, indications that the applicant has lots of assets seem to be a plus. Applicants seeking bodily injury liability limits of $300,000 per person and per accident -- known as "300/300" -- or higher "are considered most favorable and applicants with lower limits (less than 50/100) are least favorable."

For vehicles, "in general more is better. Three or more vehicles is most preferred."

But having said that, the guide adds that it also wants the right combination of cars and drivers. The most favorable combination, the guide says, "is where the number of drivers is the same as the number of vehicles. Less favorable are policies with one driver and multiple vehicles and policies with more drivers than vehicles, except policies with only two drivers and one vehicle."

The guide, which includes many more provisions, indirectly highlights the value of shopping around, since other companies likely do their evaluations differently. For example, while Geico's guide suggests that it sees blue-collar workers as higher risks, Allstate says it gives discounts to carpenters, plumbers and various repair people.

Of course, you don't know for sure which carrier is cheaper without getting a quote, but in the days of the Internet, that's easy. And with what insurance costs today, it's clearly worth the effort.

Um, about that beach house: Insurance risk modeler Risk Management Solutions says it figures the chances of category 3 to 5 hurricanes making landfall in the United States each year has risen 30 percent for the next five years, largely driven by higher surface water temperatures at sea. That increases projected insurance losses by 40 percent on average across the Gulf Coast, Florida and the Southeast, and by 25 to 30 percent in the Mid-Atlantic and Northeast coastal regions, compared with projections based on long-term (1900-2005) historical average hurricane frequencies.

The IRS is looking for a few good taxpayers. The agency is inviting individuals to apply to be members of the Taxpayer Advocacy Panel, whose mission is to listen to taxpayers, identify issues and make recommendations for improving IRS service.

Applications are available online at www.improveirs.org or by calling 888-912-1227. You can apply online or download the form and mail it to:

Milwaukee TAP Office, Stop 1006MIL, 310 West Wisconsin Ave., Milwaukee, Wis. 53203-2221. The deadline for applying is April 28.

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The Washington Post

Financial

McLane To Grow In Prince William; $30 Million Center To Create 59 Jobs

Cecilia Kang
Washington Post Staff Writer
314 words
15 March 2006
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FINAL
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English

McLane Co. said Tuesday that it plans to expand its food-service distribution operations in Prince William County with a new $30 million center that will bring 59 new jobs to the county over the next four years.

Temple, Tex.-based McLane, owned by the Berkshire Hathaway Group, said it has purchased 25 acres of land in the Premier Business Park in Manassas, where it will build a 235,000 square-foot distribution center in 2007.

McLane already operates a food distribution center in Manassas and will move the 150 employees currently working at its leased Wellington Road facility to its new center on Balls Ford Road.

"Prince William County continues to be an ideal location for our business," said Ed Joy, general manager of McLane Foodservice's Manassas division. "The opportunity to own and operate a new facility near our current location will enable us to meet the growing demand for our services in the Mid-Atlantic region."

McLane supplies food services for restaurants like Pizza Hut and KFC in convenience stores. It also distributes prepared food for movie theatres.

The Manassas distribution center, which began in 1981, serves McLane's customers in Virginia, the District, Maryland, North Carolina, Pennsylvania and West Virginia.

County officials underscored the importance for Prince William to retain longtime businesses as it attracts new companies to the region.

"The vitality of our business community is measured not only by how many new companies decide to locate here, but also by how many existing businesses decide to remain and expand in the county," said Sean T. Connaughton, chairman of the Prince William Board of County Supervisors. "This announcement is a very good indication of the incredible business climate that exists in Prince William County."

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The Washington Post

A Section
Warren Buffett's Company Chooses His Successor

Terence O'Hara
Washington Post Staff Writer
800 words
5 March 2006
The Washington Post
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FINAL
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English

Warren E. Buffett, the folksy multibillionaire whose business holdings range from Geico insurance to Dairy Queen restaurants, announced yesterday that his successor has been chosen.

He just won't say who it is.

Buffett, 75, said in his annual letter to shareholders of Berkshire Hathaway Inc., his Omaha-based holding company, that he and his fellow directors had considered three Berkshire executives to take over if he "should die tonight." He said one of the three was chosen unanimously to succeed him as chief executive.

After 41 years as chief executive of Berkshire, Buffett gave no hint of plans to retire or scale back his duties as a manager or investor, two pursuits that have made him the world's second-richest person, after only his friend Bill Gates of Microsoft Corp. "I feel terrific," said Buffett, who is a major investor in The Washington Post Co. and sits on its board of directors.

Speculation on who would take on one of the most coveted jobs in America -- controlling 66 highly profitable businesses in a wide array of industries, as well as a $73 billion investment portfolio -- has become a parlor game for Berkshire shareholders and thousands of other Wall Street professionals and everyday investors. For shareholders, the question is whether someone else could match Buffett's knack for picking undervalued companies like those he has snapped up on the basis of a chance meeting or a phone call from an entrepreneur.

Buffett's advancing years and the age of his longtime partner Charles Munger, 82, led Buffett to address the succession issue for the first time in his annual shareholder letter. The letter is not only a long recitation of Berkshire's performance, but also a much-anticipated rumination by Buffett about emerging investment strategies, public policy and market risk.

"We have three managers at Berkshire who are reasonably young and fully capable of being CEO," Buffett said in the letter. "Berkshire's board has fully discussed each of the three CEO candidates and has unanimously agreed on the person who should succeed me if a replacement were needed today."

Speculation on who that person is has focused mostly on the companies and managers within Berkshire whom Buffett has most often singled out for praise. They include Tony Nicely, the chief executive of District-based auto insurance company Geico, one of Buffett's favorite companies for more than 50 years. Nicely, who is 62, has been chief executive for 12 years. In his letter yesterday, Buffett mentioned Nicely in the third paragraph, calling him "brilliant."

Four other Berkshire operating managers who could take the job have been identified by the financial magazine Barron's: Richard Santulli, chief executive of NetJets, which sells fractional ownership in corporate jets; Joseph P. Brandon, chief executive of General Reinsurance Corp., the largest insurance division within Berkshire; Ajit Jain, another insurance executive; and David L. Sokol, the chief executive of MidAmerican Energy Co., an Iowa-based utility and the largest non-insurance company within Berkshire.

Gregory J. Skoda, chairman of Skoda, Minotti & Co., who has advised dozens of companies on chief executive succession, said replacing Buffett is impossible.

"There isn't another Warren Buffett," he said. "The first hurdle [Berkshire's directors] have to overcome is they can't be expecting another of the same person."

And succeeding someone with Buffett's reputation and track record is no cakewalk, Skoda said, especially if Buffett decides to stay on the board or remain involved in some other way at Berkshire after he gives up the reins to a successor.

Berkshire yesterday said its net worth grew by $5.6 billion in 2005, a 6.4 percent increase in book value. That compares with a 4.9 percent growth in the Standard & Poor's 500-stock index. It was the first year since 2002 that Berkshire beat the S&P. Since 1965, however, Berkshire' average annual gain has been 21.5 percent, more than double that of the S&P.

Fourth-quarter profit rose 54 percent, to $5.13 billion ($3,330 a share), from the comparable period a year earlier.

Buffett controls about 40 percent of Berkshire, a stake worth more than $40 billion. He has said all of his Berkshire holdings will go to charity.

In the letter to shareholders, Buffett acknowledged with wry candor that death wasn't the only circumstance in which he would have to be replaced. He said he is relying on his board to show him the door if his abilities ebb as he ages, "particularly if this decay is accompanied by my delusionally thinking that I am reaching new peaks of managerial brilliance."

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The Washington Post

Financial

3 Anticipated AIG Fraud, Charges Say; Case Against Insurers Cites Tapes, E-Mails

Brooke A. Masters and Kathleen Day
Washington Post Staff Writers
1,005 words
3 February 2006
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D01
English

Three former top executives of General Re Corp. were indicted yesterday on charges they helped insurance giant American International Group Inc. cook its books by engineering a phony reinsurance deal.

Former General Re chief executive Ronald Ferguson, former finance chief Elizabeth Monrad and former general counsel Robert D. Graham each face a total of 12 criminal charges, including conspiracy, securities fraud, wire fraud, mail fraud and making false statements to the Securities and Exchange Commission.

The indictment quotes from e-mails and audiotapes in which Gen Re officials allegedly stressed the need for secrecy and made clear that they knew AIG was going to account for the deal improperly. "How AIG books it is between them, their accountants and God," Graham wrote in an e-mail quoted in the indictment, adding that Ferguson and other top executives "have been advised of and accepted the potential reputational risk that US regulators (insurance and securities) may attack the transaction and our part in it."

The federal grand jury in Norfolk also charged AIG former vice president of reinsurance Christian Milton with the same offenses. They each face a maximum of 95 years in prison and several millions of dollars in penalties if convicted. All four plan to plead not guilty to the charges and will be arraigned Feb. 16 in Alexandria.

The case stems from a deal allegedly struck in the fall of 2000 by Ferguson and former AIG chief executive Maurice R. "Hank" Greenberg, who was not charged yesterday but appears in the indictment as "AIG unindicted co-conspirator #1." He has denied wrongdoing.

Prosecutors allege that AIG, facing criticism from Wall Street analysts for reducing its loss reserves and fearing its stock price would fall, improperly used the transaction to boost its reported reserves by $500 million. There is no allegation that General Re, a Connecticut-based insurance company, booked the deal improperly.

But government officials said the case is emblematic of their efforts to go beyond companies that engage in accounting fraud to also punish people and firms that facilitate it.

Graham, 57, was also captured on audiotape saying, "our own skirts are clean, but they [AIG] have issues." His attorney, Alan Vinegrad, said that his client "has committed no crime."

"Executives should be wary of those who espouse the view that what happens on the accounting books of a counterparty is not your problem," said Assistant Attorney General Alice S. Fisher at the news conference announcing the indictments. "When you aid and abet someone else in securities fraud, that is criminal conduct."

The SEC and the Justice Department have already brought cases against accountants, investment bankers and outside vendors who were implicated in their clients' accounting problems. Yesterday, the SEC also brought civil fraud charges against the four indicted executives plus Christopher Garand, 58, Gen Re's former chief underwriter for U.S. reinsurance. General Re is a subsidiary of Berkshire Hathaway Inc., whose chief executive, Warren E. Buffett, is a major investor in The Washington Post Co. and also sits on its board of directors.

The transaction at the center of the investigation was designed to look like reinsurance, according to the indictment. Reinsurance deals, in which one insurance company pays another to assume a specific amount of risk, are not illegal, as long as risk is genuinely transferred from one company to another. That, the grand jury alleged, was the problem with the AIG-General Re deal.

The indictment alleges that General Re and AIG officials created a series of fake documents that made it appear that Gen Re was paying $10 million for AIG to take on the extra risk, when in fact AIG assumed no risk and paid the money back plus an additional $5 million.

"The defendants did not simply turn a blind eye to AIG's fraud," said SEC Regional Director Mark K. Schonfeld, whose office brought the civil case. "They went into this deal with their eyes wide open, understanding that they were helping AIG deceive the investing public."

Monrad, 51, allegedly referred to the reinsurance deals as "a little bit like morphine, it's hard to come off of them." Her attorney did not return phone calls yesterday.

Outside legal analysts said the indictments suggest that prosecutors are homing in on Greenberg, who was ousted as chief executive of AIG after his board learned of the transaction. Milton, 58, is the first AIG employee to face criminal charges. Two lower-level Gen Re employees pleaded guilty to fraud charges last year.

"There's no question that the prosecutors' sights are beyond these four. Whether they will be able to climb further is the open question," said Jacob Frenkel, a former SEC enforcement attorney now working as a defense lawyer. New York Attorney General Eliot L. Spitzer brought a civil fraud case against Greenberg last year but has ruled out criminal charges.

Unlike the executives named in the indictment, Greenberg did not use e-mail extensively, and he was not captured on audiotape discussing the deal. If there is evidence to be found that would implicate Greenberg, it is most likely to be found in the hands of Milton, who worked at AIG, or Ferguson, 63, who spoke directly with the former AIG chief about the deal on Oct. 31, 2000.

Ferguson's lawyer did not return phone calls, and Milton's lawyer, Frederick Hafetz, said his client "will vigorously contest the charges and is confident he will be exonerated at trial."

Greenberg's lawyers have pointed out that the $500 million deal amounted to less than 2 percent of AIG's $25 billion in reserves in 2000. They have also argued that the deal may have legitimately transferred risk. "We are confident, because Mr. Greenberg has done nothing to warrant an accusation of criminal conduct, that no charges will ever be filed," said attorney Robert G. Morvillo.

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The Washington Post

Financial
4 to Be Charged In Gen Re, AIG Deal; Transaction Led To Greenberg Ouster

Brooke A. Masters
Washington Post Staff Writer
631 words
2 February 2006
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English

The Justice Department plans to announce indictments today of the former chief executive and two other former top executives of the Berkshire Hathaway Inc. subsidiary General Re for their roles in a 2000 reinsurance deal with American International Group Inc., the same transaction that helped prompt the ouster last year of AIG's longtime chairman Maurice R. "Hank" Greenberg, according to sources familiar with the prosecution's plans.

Former Gen Re chief Ronald Ferguson, former finance chief Elizabeth Monrad and former general counsel Robert Graham will all face charges of conspiracy to commit fraud, as will the former head of AIG's reinsurance operations, Christian Milton, according to the sources, who spoke on condition of anonymity because the charges were to be unveiled today at a morning news conference. The Securities and Exchange Commission has also filed civil fraud charges against all four people, the sources said.

Graham's attorney, Alan Vinegrad, said he could not comment on the pending charges because he had not been informed of them by the Justice Department. But he said: "Rob Graham committed no crime. He is an attorney of the highest integrity who always acted in good faith and within the bounds of the law."

Monrad's attorney, Paul Schechtman, said he could not comment because he also had not been contacted by prosecutors. Ferguson's attorney, Douglas Koff, declined to comment and Milton's attorney could not be reached.

Federal prosecutors generally give defendants in white-collar crime cases some advance notice before announcing indictments, but lawyers for several of the defendants said they had not been notified this time. Sources familiar with the proceedings said the federal grand jury in the Eastern District of Virginia had handed up the indictment very late in the day. The pending charges were reported by the Wall Street Journal's Web site.

Prosecutors and the SEC have been investigating Gen Re's reinsurance deals for more than a year, and this particular transaction between Gen Re and AIG has already led to guilty pleas from two lower-level Gen Re employees, John Houldsworth and Richard Napier. AIG has also disavowed the deal as part of a major restatement last year.

According to court papers filed in the earlier cases as well as a civil fraud complaint filed by New York Attorney General Eliot L. Spitzer against AIG and Greenberg, Ferguson and Greenberg agreed in the fall of 2000 to a complicated transaction that boosted AIG's reported loss reserves by $500 million at a time when some Wall Street analysts were expressing concern about the size of AIG's reserves.

Such deals are known as finite insurance or reinsurance because one company pays another to take on a specific, or finite, amount of risk for the other. They are not improper, as long as they involve a legitimate transfer of risk.

But prosecutors alleged in the earlier court papers that the transaction was a "sham," and that Ferguson, Monrad and Graham all knew that AIG was going to account improperly for the transaction. Houldsworth admitted in court papers to creating false documents that made it appear that AIG was being paid $10 million to assume reinsurance risk. In fact AIG was paying a Gen Re subsidiary $5 million and no risk was transferred, the court papers said.

After the AIG board learned about the transaction and that Greenberg had initiated the deal by calling Ferguson, they forced him to resign as chief executive. Greenberg has not been charged criminally and has denied wrongdoing in Spitzer's civil fraud suit. His spokesman, Howard Opinsky, declined to comment on the latest developments.

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The Washington Post

Financial
Christopher C. Davis Elected to Post Co. Board

Steven Levingston
Washington Post Staff Writer
230 words
21 January 2006
The Washington Post
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FINAL
D03
English

The Washington Post Co. announced yesterday that Christopher C. Davis, chairman of the investment firm Davis Selected Advisers LP, was elected to the company's board of directors.

Davis leads Davis Funds' portfolio management team along with Kenneth C. Feinberg. The pair oversee the firm's flagship funds Davis New York Venture Fund and Selected American Shares. Davis and Feinberg this month were named domestic-stock-fund managers of the year for 2005 by Morningstar Inc., a provider of investment research.

Davis Selected Advisers, which has about $70 billion under management, follows a long-term, value-oriented approach to investing, a strategy similar to another Post Co. board member and famous investor, Warren E. Buffett, chairman of Berkshire Hathaway Inc.

Davis Selected Advisers was founded in 1969 by Christopher Davis's father, Shelby M.C. Davis. It traces its roots to Davis's grandfather, Shelby Cullom Davis, a renowned Wall Street investor and a U.S. ambassador to Switzerland.

Davis's election to The Post board increases its membership to 11.

Separately, the company said it would increase its annual dividend by about 5 percent, to $7.80 per share. The first-quarter dividend of $1.95 per share is payable Feb. 10 to shareholders of record as of Jan. 31.

Document WP00000020060121e21l0000b

Financial
Profit Predictions Called 'Fool's Game'; Chamber Chief Says It's Time to Stop

Ben White
Washington Post Staff Writer
615 words
1 December 2005
The Washington Post
WP
FINAL
D02
English

U.S. Chamber of Commerce president and chief executive Thomas J. Donohue on Wednesday called on all publicly traded companies to stop offering quarterly earnings guidance, saying such predictions create a damaging focus on "meaningless short-term performance" and undermine a company's ability to manage for the long term.

"Earnings projections are a fool's game for management," Donohue said at a conference organized by the Wall Street Analyst forum. "Companies want to project numbers that will please Wall Street, their shareholders, and all of the bloggers and talking heads on cable TV.

"All company executives, especially those of large public companies, should follow the lead of others who have stopped issuing earnings guidance. Short of that, companies should never offer a single figure instead of a wide range."

Some academics and prominent business executives, including Berkshire Hathaway Inc. chief executive Warren E. Buffett, have said Wall Street's relentless focus on whether companies hit or miss quarterly earnings targets encourages balance-sheet manipulation and discourages long-range planning. Buffett is a board member and major shareholder of The Washington Post Co., which does not offer quarterly guidance.

Donohue, whose organization says it represents 3 million domestic and foreign corporations, said he hoped to "start a stampede" of companies refusing to give quarterly guidance. He said many executives despise giving such guidance but are afraid to stop because they think they would be punished by Wall Street analysts and shareholders. Donohue said he hoped his comments would embolden more executives to take a stand.

"Warren Buffett and others have very publicly voiced concern about this focus on quarterly earnings and, in particular, guidance about future" earnings per share, he said. "But they speak for themselves and their companies. As the head of the nation's largest business organization, I can tell you that CEO frustration with earnings expectations is widespread and rapidly growing."

Donohue said the statements executives make about quarterly earnings are an increasing focus of class-action shareholder lawsuits. He said that if a large number of companies stop giving guidance, there would be "chaos for a couple of months or quarters" but that investors and analysts would "get used to finding another way to evaluate companies."

A study of 527 companies released in March by the National Investor Relations Institute found that the number of companies offering quarterly guidance had dropped slightly since 2003, to 71 percent from 77 percent. The survey also found that 36 percent of companies were considering dropping quarterly earnings guidance.

Donohue also criticized the 2003 global research settlement, in which 10 large Wall Street firms agreed to separate stock research from investment banking and to make other structural changes. Since the settlement, Donohue said, fewer companies are receiving coverage from Wall Street analysts.

"There is redundant research on Fortune 100 companies, even while small companies with great prospects go uncovered," he said. "Two-thirds of Nasdaq companies are covered by one or no analysts. Small companies then feel obligated to play the quarterly earnings game simply to get attention."

He also said the Securities and Exchange Commission should reconsider the rule, known as Reg FD, that requires that companies provide all significant financial information to the entire investing public at the same time.

"Reg FD, while a well-intentioned attempt to level the playing field of information, has ended up chilling corporate speech," he said. "Faced with the SEC's hyper-enforcement regimes, corporate lawyers advise their management to say as little as possible about what is happening at the company."

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The Washington Post

Financial
Choosing a Company: Check the History

173 words
21 August 2005
The Washington Post
WP
FINAL
F07
English

J. Robert Hunter, insurance director for the Consumer Federation of America, the Washington-based advocacy group, says that, for individuals, finding an insurance company that handles its claims well is tricky and mostly a matter of learning a company's reputation in the marketplace. Hunter recommends that insurance buyers first check Consumer Reports magazine, which periodically publishes policyholder surveys on claims-handling, and then find the number of complaints lodged against a particular carrier on the Web site of the National Association of Insurance Commissioners, naic.com.

Those with better reputations in consumer lines, he said, include United Services Automobile Association, a San Antonio company that serves mainly military personnel; Geico, or Government Employees Insurance Co., the Berkshire Hathaway Inc. unit based in Washington; Chubb Inc., a Warren, N.J., insurer that caters mostly to a higher-end clientele; and regional carriers, including NJM Insurance Group, based in West Trenton, N.J., and Erie Insurance Group, based in Erie, Pa.

-- Dean Starkman

Document WP00000020050821e18l0009a

The Washington Post

A Section

Berkshire Fires Insurance Executive in London

Dean Starkman
Washington Post Staff Writer
401 words
8 August 2005
The Washington Post
WP
FINAL
A07
English

Berkshire Hathaway Inc. said it fired a London-based insurance executive in connection with ongoing state and federal probes into the holding company's insurance operations.

In a quarterly filing Friday with the Securities and Exchange Commission, Berkshire also said authorities have been investigating certain deals involving Berkshire's General Re Corp. unit that were "accounted for incorrectly" by parties on the other side.

The Berkshire filing shows that state and federal investigators are stepping up their wide-ranging probes of the U.S. insurance industry and particularly its use of "finite reinsurance," an earnings-smoothing product intended to make the books of public companies look better.

Omaha-based Berkshire is headed by Warren E. Buffett, a major investor in The Washington Post Co., where he also serves on the board of directors.

Berkshire said it fired Milan Vukelic, chief executive of Faraday Group, a British unit of General Re, who had previously served as head of General Re's international finite business unit. Vukelic had been under investigation by British regulators for his role in reinsurance contracts dating to 1998. Vukelic had been on administrative leave since May.

In the quarterly filing, Berkshire also said authorities continue to investigate its role in reinsurance deals totaling $500 million in 2000 and 2001 involving General Re and the insurance company American International Group Inc.

In particular, Berkshire said it believes authorities are exploring whether General Re or its units "conspired with others to misstate counterparty financial statements or aided and abetted such misstatements by counterparties." New York-based AIG has already acknowledged that it improperly accounted for the deals.

General Re's role in those transactions have been under investigation since late last year. Two former General Re executives pleaded guilty in federal court, Richmond, Va., in June to a criminal charge of helping arrange the AIG deal. Both have agreed to cooperate with authorities in their probe.

Buffett was questioned about the deals in an interview with state and federal regulators in April, people familiar with the matter said.

In his interview with state and federal authorities, Maurice R. "Hank" Greenberg, AIG's longtime chairman and chief executive, invoked his Fifth Amendment rights against self-incrimination, according to people familiar with the matter. Greenberg was ousted by AIG's board in the spring.

Document WP00000020050808e1880001s

The Washington Post

Financial
Ex-General Re Official Expected to Enter Plea

Dean Starkman
Washington Post Staff Writer
626 words
10 June 2005
The Washington Post
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English

A former General Re Corp. executive is expected to plead guilty in federal court Friday to a criminal charge of helping other high-level executives arrange a transaction intended to mislead investors and regulators about the financial health of insurance giant American International Group Inc.

Richard Napier, a former General Re senior vice president, is expected to enter his plea in federal court in Alexandria, according to people familiar with the matter who spoke on condition of anonymity because of the continuing investigation. Napier would be the second former General Re executive in two days to enter a plea relating to a wide-ranging state and federal investigation into alleged misuse of a reinsurance product used by public companies to spread large losses over time.

The investigation has resulted in the founder of AIG, the nation's largest insurance company, being forced out. In addition, AIG was forced to restate several years worth of financial statements, reducing the company's net worth by $2.3 billion. The investigations are part of a broader probe of insurance industry accounting and business practices that may have hurt consumers and investors.

Napier was responsible for the company's relationship with AIG in 2000 and 2001, when the $500 million deal at the heart of several investigations was executed, according to court papers.

A lawyer for Napier could not be reached Thursday.

General Re is a unit of Warren E. Buffett's Berkshire Hathaway Inc. Buffett is an investor in and director of The Washington Post Co.

Napier's expected plea would follow Thursday's appearance in the same courthouse by John Houldsworth, the former head of General Re's Ireland-based unit, who pleaded guilty to a single count of conspiracy to commit securities fraud in a case stemming from the same deal. Houldsworth also agreed to cooperate with the Justice Department and the office of U.S. Attorney Paul J. McNulty of the Eastern District of Virginia.

Among other things, the 46-year-old Houldsworth is expected to tell prosecutors that the current General Re chief executive, Joseph Brandon, also knew details of the transaction, according to a person familiar with the matter who spoke only on the condition of anonymity because of the continuing investigation.

A call to Brandon on Thursday was referred to a General Re spokesman, who did not return several telephone calls.

In a 25-page document charging Houldsworth, prosecutors list a number of General Re and AIG executives who were also identified by the Securities and Exchange Commission in a civil fraud complaint filed against Houldsworth on Monday. The criminal charging document says AIG's chief executive, then Maurice R. "Hank" Greenberg, asked the General Re chief executive, then Ronald E. Ferguson, to arrange a deal purporting to transfer risk to AIG that actually carried no risk. That deal, in 2000 and 2001, allowed the insurer to improperly inflate its reserves, according to the complaint.

Assigned the task, prosecutors say, Houldsworth worked closely with General Re's finance chief, identified in the SEC complaint as Elizabeth Monrad, and Napier. Prosecutors also say AIG's former finance chief Howard I. Smith is mentioned in several e-mails as directing various aspects of the deal and as having attended a meeting in November 2000 in which General Re executives told him that General Re's accounting for the deal would differ from the accounting AIG intended to use.

Lawyers for Smith could not be reached. Lawyers for Monrad and Ferguson and a spokesman for Greenberg's lawyers declined to comment.

Houldsworth faces a maximum prison sentence of five years. He is scheduled for sentencing Dec. 9.

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The Washington Post

Financial

Ex-General Re Executive Agrees to a Plea Deal; Houldsworth Cooperating in Probes of AIG

Dean Starkman
Washington Post Staff Writer
1,030 words
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D03
English

An insurance executive who arranged a transaction that helped American International Group Inc. make its finances look better agreed Monday to plead guilty to conspiracy.

In a parallel settlement of civil charges against John Houldsworth, former chief executive of an Ireland subsidiary of General Re Corp., securities regulators cited e-mails and transcripts of taped phone conversations in which, as in other high-profile corporate investigations, executives appear to be winking at the rules.

"They'll find a way to cook the books won't they?!" Houldsworth, who arranged the transaction that prosecutors say falsely boosted AIG's reserves by $500 million, is quoted as saying in a transcript of a phone call to another General Re executive.

Houldsworth will admit to arranging the deal at the request of former AIG chief executive Maurice R. "Hank" Greenberg and a "then senior executive" at General Re, identified in other papers as former General Re chief executive Ronald E. Ferguson, according to his lawyers, citing a criminal information expected to be filed Thursday.

Houldsworth has agreed to cooperate with investigators from the Justice Department and the Securities and Exchange Commission, according to his lawyer, Larry Byrne of the New York firm White & Case LLP. "John wants to put these regrettable matters behind him," Byrne said.

The SEC's complaint filed in U.S. District Court in Manhattan cites tape-recorded conversations and e-mail exchanges in which Houldsworth and several named senior executives at General Re's Stamford, Conn., headquarters appear to be aware that AIG intended to improperly account for the transaction.

General Re is a unit of Warren E. Buffett's Berkshire Hathaway Inc. Buffett, who gave testimony earlier this year on the General Re-AIG deal to New York Attorney General Eliot L. Spitzer and other investigators, is an investor in and board member of The Washington Post Co. Prosecutors have said Buffett is not a target of the investigation.

Houldsworth is expected to appear in federal court in Alexandria to answer the criminal charge later this week. The plea agreement is part of a wide-ranging set of regulatory and criminal probes now shaking the U.S. insurance industry that involves the Justice Department's fraud unit, the office of U.S. Attorney Paul J. McNulty from the Eastern District of Virginia, the SEC and Spitzer. So far, 10 insurance executives, including four former AIG employees, have pleaded guilty in New York state court to criminal charges stemming from Spitzer's investigation into bid-rigging among insurance brokers and carriers.

Spitzer and McNulty also are probing sales of a product called finite reinsurance, typically sold to insurance and other companies that want to spread large losses over time, investigating whether it has been misused to make corporate balance sheets look better.

The Justice Department's probe arose from the 2003 collapse of a Richmond-based medical malpractice insurer, Reciprocal of America, which bought income-smoothing finite reinsurance from General Re. Two former Reciprocal executives have pleaded guilty to federal criminal charges. Insurance regulators in England, Ireland and Australia are also investigating General Re and other companies.

The 24-page SEC complaint filed Monday offers an intimate look at how senior executives at General Re and New York-based AIG put together the $500 million finite reinsurance deal in 2000 and 2001 that is at the heart of the current probes. According to the complaint, the deal purported to show that AIG had taken on some of General Re's risk, allowing it to book new premiums and additional reserves. But, in fact, the complaint says, the transaction involved no risk and the accounting was fraudulent.

The SEC complaint includes lengthy excerpts of taped phone conversations between Houldsworth and former General Re chief financial officer Elizabeth Monrad and a senior vice president, Richard Napier, who was in charge of General Re's relationship with AIG. The complaint includes repeated references to AIG's former vice president of reinsurance, Joseph Umansky, who has given Spitzer's office testimony compelled under state civil and criminal law, according to court documents.

The complaint includes direct references to "the AIG chairman," Greenberg, who "made clear" to "the Gen Re CEO," Ferguson, in a telephone conversations in 2000, that "the transaction he was contemplating was one that would not require AIG to take on any actual insurance risk." Ferguson, in turn, "understood" that what "the AIG chairman was describing was not a bona fide reinsurance transaction," the complaint says.

Lawyers for Ferguson, Napier and Monrad did not return a telephone call; nor did a General Re spokesman. Lawyers for Greenberg declined to comment. A lawyer for Umansky could not be located.

The complaint says the deal was called "the MRG Reserve Project," a reference to Greenberg's initials, and was begun in response to Wall Street analysts' worries over a drop in AIG's reserve levels in the fall of 2000. In taped conversations in November of that year, Monrad and Houldsworth discuss the problem of how AIG would account for a transaction that carried no risk, according to the complaint.

Houldsworth: "There is clearly no risk transfer. You know, there is no money changing hands."

Monrad: "(AIG) may have a tough time getting the accounting they want out of the deal that they want to do . . . They are not looking for real risk."

In a conference call the next day Houldsworth says, "I would be staggered if they get away with that."

Napier mentions that Greenberg was "calling daily on this. He's pretty excited about this," the complaint says.

According to people familiar with matter, Houldsworth had authority to trade derivatives for the General Re unit, subjecting him to the company's telephone taping system. Houldsworth was aware of the tapes but did not focus on them, one of the people said. Houldsworth, a licensed chartered accountant in England, agreed to SEC civil penalties, including a permanent bar on serving as director or officer of a U.S. public company or practicing as an accountant.

Document WP00000020050607e1670000y

The Washington Post

Financial
Ford to the Rescue Ford agr ...

449 words
29 May 2005
The Washington Post
WP
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F02
English

Ford to the Rescue

Ford agreed to a rescue package worth as much as $1.8 billion for Visteon, its financially troubled parts supplier. The automaker will take back 24 plants and 17,000 unionized workers, while helping Visteon to restructure itself into a smaller and leaner supplier that can compete for the business of other automakers. Ford said it would eventually save $600 million annually by bringing some Visteon operations back in house. But the move could result in the loss of 5,000 jobs and lower pay and benefits for workers who remain.

Buffett's Utility Players

A unit of Warren Buffett's Berkshire Hathaway agreed to buy PacifiCorp, a Northwest utility, for $5.1 billion in cash and assumption of debt. With the purchase, Berkshire would have utility companies serving 3 million electric and natural gas customers in 10 states. And Buffett, who is sitting on almost $40 billion in cash, said he plans other such acquisitions. Meanwhile, a Senate committee approved a bill that would repeal a Depression-era law blocking the formation of nationwide utilities.

Fannie Mae Restrictions

By a 65 to 5 vote, a House committee approved legislation that would create a powerful new regulator for Fannie Mae and Freddie Mac without requiring the two mortgage giants to necessarily sell off most of the $1.5 trillion in mortgages they hold. The restrictions had been sought by the White House and the Federal Reserve. Instead, the bill leaves questions of size and growth to the regulator, while setting aside 5 percent of Fannie and Freddie's after-tax profits to subsidize low-income housing.

Notes From the Jury Room

After a week of deliberations, the jury considering securities fraud charges against former HealthSouth chief executive Richard M. Scrushy told the judge it was deadlocked on the key conspiracy count. A handwritten note to the judge expressed both confusion and exasperation over the conspiracy charge, which involves answering several pages of questions. The judge told the jury it could consider the 48 counts against Scrushy in any order it chooses when it resumes deliberations Tuesday.

What's Good for the Goose

As the expression goes, turnabout is fair play -- even in the world of business regulation. The Securities and Exchange Commission, which has been criticized by business groups for requiring companies to seek out and report any "material weaknesses," turns out to have a few of its own. An audit by the Government Accountability Office found flaws in computer system security, accounting for penalties levied on companies and preparation of its financial statements. An SEC official called the GAO audit "a healthy process."

Document WP00000020050529e15t000ad

Financial
General Re's Ex-CEO Takes 5th

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The Washington Post
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E02
English

Berkshire Hathaway severed ties with a former chief executive of its General Re subsidiary after he invoked his Fifth Amendment rights against self-incrimination during questioning by officials from the Securities and Exchange Commission and the Justice Department. Ronald E. Ferguson had been a consultant for General Re and other Berkshire affiliates since stepping down as the reinsurance company's chief executive in 2001, Berkshire Hathaway said in a news release. The company said it terminated Ferguson's consulting services Friday after his questioning.

No Housing Bubble, Greenspan Says

Alan Greenspan said some local housing markets are showing signs of unsustainable speculation but that surging prices may "simmer down" as housing grows less affordable. Fed economists have determined that second-home purchases are partly responsible for driving up the ratio of sales to the existing housing stock, the Federal Reserve chairman said. There is not a national bubble because home purchases are too expensive and complicated, making it unlikely that continued housing speculation will trigger an economic collapse, he said.

MORE NEWS

A grand jury is considering bringing criminal charges in a probe of giant insurer American International Group, Bloombeg News said in a report attributed to anonymous sources. New York Attorney General Eliot L. Spitzer is presenting evidence, and Joseph Umansky, an AIG senior vice president, has testified in exchange for immunity from possible charges, the news service reported.

A federal bankruptcy judge said he would not rule until May 31 on United Airlines' request to reduce machinists' pay and benefits. Lawyers for the International Association of Machinists and Aerospace Workers, which had said it would strike if Judge Eugene R. Wedoff imposed United's contract terms, said they were pleased that the two sides could continue negotiations, hoping to settle on a new long-term contract before the judge imposes terms. But the union said it would still seek a restraining order to prevent United from barring a strike.

The jury in the trial of former HealthSouth chief executive Richard M. Scrushy listened to tapes made by former finance chief William T. Owens of meetings with Scrushy in March 2003. Jurors also asked U.S. District Judge Karon O. Bowdre how to proceed if they can't reach a unanimous verdict on a conspiracy charge, one of 36 counts in the indictment against Scrushy.

Exxon Mobil acted in bad faith by delaying paying $1 billion owed to gas station owners and could be liable for almost 24 percent interest on that amount if it continues to "misuse the judicial process," a judge ruled. To stall payment in a class-action lawsuit, the oil company "knowingly and recklessly" filed "frivolous and bad-faith" defenses to about 9,000 claims, the judge ruled. A 2001 jury award of $500 million in damages to the station owners has doubled with interest.

Adelphia Communications won the second of three required approvals of a $715 million settlement of a fraud lawsuit filed by the Securities and Exchange Commission. The cable television company faced $20 billion in fines in the SEC suit. U.S. Bankruptcy Judge Robert E. Gerber said that the settlement is in the best interest of Adelphia and its creditors. The company now needs the approval of U.S. District Judge P. Kevin Castel in New York, who oversees the SEC lawsuit.

Air France-KLM approved an order for five Boeing 777 cargo jets with options to buy three more. The orders would be worth about $1 billion at projected list prices, though airlines typically get steep discounts.

The judge in the Enron Broadband Services trial said she persuaded a Houston employer to provide financial relief to one of two jurors who asked to leave because serving was a hardship. U.S. District Judge Vanessa D. Gilmore said she is also working something out with the other juror's employer. The trial began five weeks ago.

INTERNATIONAL

Brazil is preparing domestic anti-dumping regulations against Chinese products, whose imports increased 58 percent in the first four months of the year. Government authorities said they would prepare one set of regulations to cover textile products and another set for other goods.

RECALL

Apple Computer is recalling rechargeable batteries in 128,000 of its laptop computers because they may overheat and ignite. The batteries were delivered in iBook G4 and PowerBook G4 computers. Customers should remove the batteries and contact Apple for a free replacement.

Compiled from reports by the Associated Press, Bloomberg News, Dow Jones News Service and Washington Post staff writers.

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The Washington Post

Financial
Berkshire Unit Focus of Probe

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14 May 2005
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E02
English

Berkshire Hathaway said a current and a former employee of its General Re unit were targets of reinsurance accounting investigations by U.S. federal prosecutors. In addition, the company said three current or former General Re employees might be sued by the U.S. Securities and Exchange Commission. Regulators and prosecutors are examining whether General Re executives aided clients such as American International Group, the world's largest insurer, in misstating financial reports.

Oracle Settles Suit for $8 Million

Oracle agreed to pay $8 million to settle a whistle-blower lawsuit claiming that the business software maker fraudulently billed federal agencies for training from 1997 through 2003. Robert J. Makheja of McLean, the former North American vice president for sales at Oracle's customer-training division, filed the complaint in U.S. District Court in Boston and will receive $1.58 million from the settlement. The agreement states that Oracle denies all the allegations.

MORE NEWS

Verizon Communications won Justice Department approval to establish a trust to hold and vote the 43.4 million MCI shares it is buying from Mexican billionaire Carlos Slim Helu. Verizon agreed in April to pay Slim about $1.1 billion for its 13 percent stake in MCI to fend off Qwest Communications International's competing bid. It will transfer the shares to a trust run by former attorney general Dick Thornburgh, who will vote the shares on Verizon's behalf.

A computer problem at an unidentified stock trader caused erroneous, exaggerated prices -- some as high as $950 per share -- to be posted to the Nasdaq Stock Market yesterday morning for 1,680 different stocks, a spokeswoman for the Nasdaq said. The Nasdaq said that trades using possibly incorrect prices occurred in 184 stocks between 9:19 a.m. and 9:40 a.m. and that the buyers will get their money back and the stocks will revert to the sellers.

United Airlines and Mesa Air Group said they agreed to a five-year contract under which Mesa will fly 30 jets in addition to the 30 jets and 10 turboprop planes it now flies for United. Mesa will begin the additional flights in the fall, mainly from Chicago and Dulles International Airport.

Major U.S. airlines raised domestic fares by $10 to $20 round trip. American and Delta did it first, followed by Northwest, United, US Airways, America West and Continental.

INTERNATIONAL

The European Union will redesign the euro coins to reflect the bloc's eastward expansion last year when it absorbed 10 nations that are not depicted on the map of Europe shown on the coins.

LOCAL BUSINESS

Xybernaut, the Fairfax company that sells wearable computers, said its stock was removed from the Nasdaq Stock Market. The company did not meet Nasdaq's $1 minimum share price and Nasdaq expressed concerns about the reliability of Xybernaut's financial data. Shares of Xybernaut, which are now traded over the counter, closed at 8.2 cents yesterday.

EARNINGS

Delphi lost $409 million in the first quarter, compared with a $53 million profit in the corresponding period of 2004, as higher commodity costs and lower production volumes reduced the automotive parts supplier's results. Revenue for the former General Motors subsidiary fell approximately 7 percent, to $6.9 billion from $7.4 billion.

Spherix, a Beltsville company that is involved in both biotechnology and online reservations for parks, reported a first-quarter loss of $1.1 million (9 cents a share), compared with a loss of $547,000 (4 cents) a year earlier. Revenue rose 7.6 percent, to $5.4 million.

Intelsat, a satellite communications company based in Bermuda and with many of its operations in Washington, lost $151.7 million in the first quarter, compared with a profit of $16.8 million a year earlier. Revenue rose 25.7 percent, to $293.2 million. The recent quarter included a non-cash charge of $69.2 million to reflect the failure of a satellite.

Compiled from reports by the Associated Press, Bloomberg News, Dow Jones News Service and Washington Post staff writers.

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The Washington Post

A Section

Reinsurance Abuses At End, Buffett Says; Probes, Enforcement Clean Up Sector

Ben White
Washington Post Staff Writer
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English

May 1 -- Berkshire Hathaway Inc. chief executive Warren E. Buffett and his investing partner, Berkshire Vice Chairman Charlie Munger, said they thought recent investigations and enforcement actions have cleaned up abuses in the reinsurance industry.

"I really think it's gone," Buffett said, adding, "there will always be outright crooks looking to steal money."

Berkshire subsidiary General Re has been involved in several reinsurance probes. Buffett said Sunday he did not understand the extent of management problems when Berkshire acquired General Re in 1998. "I would say that I misjudged the culture that existed at Gen Re going in."

Buffett also said he understood but disagreed with debt rating agency Fitch's recent move to downgrade Berkshire's outlook from "stable" to "negative." Fitch cited uncertainty over who would succeed Buffett, 74. Buffett described Berkshire as a simple company with enormous and stable earnings potential that should not be hard for someone else to run. Over the weekend, he told shareholders there are three executives at Berkshire who could take over when he departs.

An executive widely mentioned candidate in Omaha this weekend has been senior Berkshire executive Ajit Jain, who runs National Indemnity Co. and other insurance operations and is thought to be close to Buffett. Munger singled Jain out for special praise during the annual meeting Saturday. In response to a question Sunday about Jain's involvement in insurance deals being looked at by regulators, Buffett said, "There's nobody at Berkshire Hathaway that I would have more confidence in than Ajit."

Buffett also said the election of Microsoft Corp. founder Bill Gates to Berkshire's board should assuage fears about the company's future. "With Bill you've got one of the best minds in the world. You have someone who wants very much to be helpful throughout my life and beyond my life in making sure Berkshire achieves what we hope it achieves."

Buffett also offered a grim outlook for the newspaper industry during a three-hour news conference a day after Berkshire's annual meeting, saying he sees no clear way for papers to stem recent circulation declines or turn Internet operations into highly-profitable enterprises. "The economics for newspapers are worse now than they used to, and the prospects are worse," said Buffett, a long-time director and large shareholder of The Washington Post Co.

Buffett said declines in circulation result from readers turning to alternative sources , such as free Web sites and television. And he said owning the dominant news Web site in a region is not enough to guarantee sustained profitability for newspaper firms.

As an example, he cited Buffalo, where Berkshire owns the Buffalo News and Buffalo.com, which he described as the most popular news Web site in the city. "We've got the best position, but it isn't remotely like owning the paper 30 years ago."

Buffett said buying newspapers was once an excellent investment because the dominant paper in any city could count on steady advertising revenue and could raise ad rates, often as much as it wanted, every year. With circulation dropping, that is no longer the case, Buffett said.

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The Washington Post

A Section
At Annual Meeting, Buffett Steers Clear of AIG Details

Ben White
Washington Post Staff Writer
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Berkshire Hathaway Inc. chief executive Warren E. Buffett, the world's second-wealthiest man, sat down before 20,000 of his shareholders here Saturday for the company's annual meeting and told them he could not offer details about his involvement in a questionable reinsurance transaction at the center of state and federal regulatory probes.

"There's two and half things we can't talk about," said Buffett, flanked on stage as he always is at these annual rituals by his long-time investing partner Charlie Munger. He listed University of Nebraska football and companies Berkshire may be buying or selling as two of the off-limits topics.

Regarding the investigation of a transaction between a Berkshire Hathaway subsidiary and American International Group Inc., Buffett said: "I can't talk about what I or other people associated with Berkshire have disclosed to investigators, and there is a very simple reason for that. To protect the integrity of any investigation like this, investigators do not want one witness talking to other witnesses because people can tailor their stories. Talking in a public forum could be a way of signaling to people what you've said."

Beyond the AIG issue, Buffett and Munger sharply criticized attempts to partially privatize Social Security, blasted the New York Stock Exchange's plans to go public and said Berkshire lost money on foreign currency contracts in the first quarter of 2005 but would maintain its bet against the U.S. dollar.

On Social Security, Munger, a self-described conservative, said Republicans are "out of their cotton-picking minds" to make radical changes to a program he called "one of the most successful things the government has ever done." Buffett, a Democrat, said he would support raising the retirement age, boosting the cap that currently limits income subjected to Social Security taxes to $90,000 and paying more in benefits to poorer retirees. "I have great trouble with people who say this system can't be sustained," he said.

Buffett said Berkshire's currency bets cost the firm $310 million in the first quarter after providing $1.8 billion in pre-tax gains last year. He said the firm has about $21 billion in foreign currency contracts and he continues to believe the dollar will fall. He said he fears that the growing U.S. trade and budget deficits could cause foreign investors to abandon dollar-denominated assets.

Buffett said he believed investors would be better served if the New York Stock Exchange continued its role as a quasi-public trust. "The exchange has done a very good job over the centuries," he said. "It is one of the most important institutions in the world. And the enemy of investment performance is activity. And the creator of profit in a profit-minded NYSE is activity.

Buffett also repeatedly lamented that the company is having difficulty finding opportunities to deploy $43 billion in cash. He said private equity firms and hedge funds bidding for companies are driving acquisition prices too high. He said if Berkshire cannot find a way to use its money soon the firm might pay a cash dividend, something Berkshire almost never does. He also said he might soon announce an insurance company acquisition worth nearly $1 billion.

Buffett, a long-time member of the board of The Washington Post Co., declined to discuss details of his role in the insurance deals being examined by regulators, but he did address the issue more broadly.

Buffett testified in the investigation on April 11, telling investigators he was briefed on a transaction that took place in two parts in late 2000 and early 2001 between General Re, a Berkshire subsidiary, and AIG, the world's largest insurance company. He said he was not aware of details of the deal, which is at the heart of a probe into a number of complex insurance transactions.

Regulators are investigating whether AIG should have accounted for the transaction with General Re as a loan, rather than an insurance deal. Buffett is not a target of the inquiry, but regulators are still trying to determine the extent to which Berkshire knew, or should have known, that AIG was improperly accounting for the deal.

A Berkshire shareholder on Saturday asked what would happen if one side of a transaction accounted for a deal correctly but the other did not.

"That question may come up in a very real sense," Buffett responded. "Certainly if you know you are doing something that causes a company" to engage in fraud "you may have some serious obligation on that." But he added that Berkshire reinsures "hundreds of companies, and they all have legal departments and auditors."

Munger, a lawyer, said he believed the issue of whether one party to a transaction can be held responsible for another party's actions is "rife with ambiguity."

Buffett also offered kind words for ousted AIG chairman Hank Greenberg, who on April 12 invoked his Fifth amendment right against self-incrimination and declined to answer investigators' questions. "Hank Greenberg was the number one man in insurance," Buffett told shareholders. "He developed an extraordinary company in his lifetime."

During a lunch break, Ben Smeal, 27, a Berkshire investor from Salt Lake City, said he was pleased that Buffett addressed the AIG issue, even indirectly. "He said he wouldn't talk about it but then I think he went and said quite a bit," Smeal said.

Buffett's involvement in the investigation has been a hot topic in and around the Berkshire meeting. Berkshire's shareholders come year after year to listen to Buffett and Munger extol the virtues of value investing, buying strong companies and holding on to them.

The Berkshire annual meeting draws people of all ages from all corners of the world. Wil Harkey, 27, a former hedge fund investor, who has embraced value investing, said he felt the need to see Buffett before he retires. "I think it needs to be done at least once. Everyone is talking about how much longer he is going to be doing this."

The issue of who will succeed Buffett, 74, was a big topic in Omaha and all the chatter focused on one man: Microsoft Corp. founder Bill Gates, a friend of Buffett who was elected a Berkshire director Saturday. Buffett did not comment on the possibility of Gates taking over. He has said he will remain at the helm of Berkshire as long as his health allows.

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The Washington Post

Financial
Dirk V. Herrman

486 words
25 April 2005
The Washington Post
WP
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E08
English

Position: Senior vice president and chief marketing officer, AvalonBay Communties Inc., an Alexandria-based company that develops, redevelops, acquires and manages apartment communities. AvalonBay owns or holds interest in 148 properties, including 42,810 apartment homes in 10 states and the District.

Career highlights: Vice president and chief marketing officer, AvalonBay; vice president, brand marketing, Fruit of the Loom; director of brand marketing, tobacco division, RJR Nabisco; account director, Foote Cone & Belding Advertising; account supervisor, Tatham-Laird & Kudner Advertising; supervisor, media planning, J. Walter Thompson Advertising.

Age: 45

Education: BS, communication studies, Northwestern University, including year spent studying fine art at the School of the Art Institute in Chicago and Institudo de Allende in Mexico; certificate, Institute of Advanced Advertising Studies, Northwestern.

Personal: Lives in McLean with wife, Lucy, and their sons Jake, 18, and Nathaniel, 15.

How did you get to where you are?

For me, it goes back to the process. I started in advertising and spent 10 years really focused on what consumers are all about and what drives their purchase behavior. I then moved to the marketing side of the business, which is sort of taking it to the next level, developing products and services that meet customer needs.

In advertising, you don't make products. You make commercials. And in marketing, you have the opportunity to make physical products that someone wants to buy. What has been successful for me is taking that focus on customer response and leveraging that into new product ideas for consumers.

I think: How can I add value to the company, to the product, to the customer? What I often say to folks that work for me is if we're not having fun, something is wrong. We're not doctors. We're not doing brain surgery. We're marketing people. We need to be creative and constantly think of new ideas. That has led me to be more of an "intrapreneur," meaning you are an entrepreneur inside of an existing company. . . .

At RJR, for example, I sold a concept of creating a company inside a company. It was called Moonlight Tobacco, a micro-brewery of cigarettes. It was a company with unique art-driven concepts, art-driven packaging. Doing that inside a company is what is unique. I've done that several times and have succeeded.

This entrepreneurial spirit often leads me to get involved in things that are not necessarily pure marketing. At AvalonBay, for example, I drove a whole customer service initiative within the company. I also helped reshape the mission statement to make it more customer-focused. While I had not worked in a real estate category prior to joining AvalonBay, my background in more traditional consumer products like Head & Shoulders, Mister Clean, Coors beer, Fruit of the Loom, Salem and Camel, enabled me to bring a fresh perspective.

-- Judith Mbuya

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The Washington Post

Financial
Buffett Briefed on AIG Deal; He Says He Knew No Details; Greenberg To Use 5th Amendment

Ben White and Carrie Johnson
Washington Post Staff Writers
1,046 words
12 April 2005
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Billionaire investor Warren E. Buffett told state and federal investigators in an interview here Monday that he was briefed on a transaction between a unit of his Berkshire Hathaway Inc. holding company and insurance giant American International Group Inc., sources said.

But Buffett said he did not know much about the deal, which is being investigated, and did not press for details at the time it was executed, the sources said.

Buffett acknowledged during the interview that in the current climate of intense regulatory scrutiny of corporate accounting he probably should have pressed harder for a precise description of the transaction, the sources said. The sources spoke on condition of anonymity because the insurance probe is ongoing and has reached a sensitive point.

Meanwhile on Monday, former AIG chairman and chief executive Maurice R. "Hank" Greenberg said through his lawyer that he plans to invoke his Fifth Amendment right against self-incrimination when he testifies in the probe on Tuesday.

Buffett made his comments in a three-hour interview with investigators from the Securities and Exchange Commission, New York Attorney General Eliot L. Spitzer's office, the Justice Department and the New York State Insurance Department.

Buffett, a major shareholder and director of The Washington Post Co., arrived for his testimony at the Woolworth Building in Lower Manhattan about 9 a.m. He entered through a side door, avoiding about two dozen TV cameramen and photographers, several of whom arrived at the building as early as 6 a.m. By mid-morning, financial news network CNBC had camera crews staked out at all of the building's entrances.

Buffett emerged about 2 p.m. and made only brief remarks before getting in a car and driving away. "I told them everything I know," he said, according to the Associated Press.

Investigators are looking into a series of complex reinsurance transactions, including one between General Re Corp., a Connecticut-based Berkshire subsidiary, and AIG. AIG acknowledged in a March 30 statement that its accounting for the General Re deal was improper.

Under terms of the arrangement, a General Re unit sent AIG $500 million in potential insurance liabilities and $500 million in premium revenue. AIG used the money to increase the cash it holds in reserve to pay claims, an amount some investors had criticized as too low, and added $500 million in revenue to its balance sheet.

The transaction was described as a reinsurance deal, a common transaction in which an insurer buys insurance to guard against potentially huge losses, such as from a class-action lawsuit or major accident.

But for the deal to be legitimate, the provider of reinsurance, in this case AIG, must take on risk. Regulators say the $500 million premium transfer to AIG indicates that the deal may have involved little or no risk and therefore should not have been accounted for as an insurance deal.

Greenberg, forced out by his board as the reinsurance probe intensified, reportedly has said he believed AIG was taking on $600 million in potential liabilities, which would mean the deal involved at least $100 million of risk for AIG.

In return for the deal, sources say General Re received a $5 million fee. But sources say the fee was provided in a fashion that could have been intended to mislead regulators about the nature of the transaction.

In a television appearance Sunday on ABC, Spitzer said that he had amassed evidence of wrongdoing by Greenberg and that he hopes to reach a settlement with AIG over accounting manipulations that could reduce its net worth by more than $1.7 billion. The company's board has hired outside lawyers to investigate its books and provide regular updates to Spitzer and the SEC.

Spitzer once again reiterated during the Sunday interview that Buffett is a cooperating witness and not a subject of the insurance probe. But other regulatory sources have said discrepancies remain between Buffett's account of his knowledge of the AIG deal and the account given to investigators by former General Re chief executive Ronald E. Ferguson.

One regulatory source said Ferguson has testified that he gave Buffett detailed information on the AIG transaction. Ferguson, who remains a consultant to General Re, did not return a call for comment on Monday. Sources said Buffett was asked about Ferguson's testimony during the interview.

Greenberg, 79, has been unable to prepare for his testimony because he lacks access to key documents that cover insurance deals that run back two decades, defense attorney David Boies said in a prepared statement.

"I am willing to accept responsibility and to account for the performance of my duties, but I believe that good order and fairness require that I have an adequate opportunity to be advised of the issues to be investigated and to my alleged involvement therein," Greenberg said in the statement.

Spitzer had rejected a request from Greenberg's lawyers to postpone the questioning, which will take place in Spitzer's Manhattan office with Greenberg under oath.

Greenberg did not address his involvement in the specific transactions under government scrutiny in the written statement yesterday. But he did say in the statement that as the company's chief executive for nearly four decades, he was "generally in charge of the overall conduct of the business."

"I was familiar with many, but certainly not all, or even a significant percentage of, the literally millions of transactions each year in approximately 130 countries," Greenberg said. "I made many decisions and approved many decisions by many colleagues. In many cases, I made general decisions which were then implemented by others without my involvement. Many other decisions and actions were taken by others in the company without my participation."

Christopher Winans, a spokesman for AIG, declined to comment on Greenberg's decision to invoke the Fifth Amendment. "We're all about cooperating, and we're continuing on that path," he said.

Sources said the tone of the interview with Buffett was generally cordial and that Buffett was charming and forthcoming in his answers.

White reported from New York. Johnson reported from Washington.

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The Washington Post

Financial
Buffett Testimony To Clarify Gen Re Deal

Ben White
Washington Post Staff Writer
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Around 10 o'clock Monday morning, legendary investor Warren E. Buffett will find himself in an unusual position, sitting down for an interview at the Securities and Exchange Commission's New York offices to answer questions from the SEC, federal prosecutors from the Eastern District of Virginia and investigators from New York state Attorney General Eliot L. Spitzer's office.

The regulators and prosecutors are all probing a number of highly complex insurance transactions, including a deal between General Re Corp., a unit of Buffett's Berkshire Hathaway Inc. holding company, and New York-based insurance giant American International Group Inc.

Sources familiar with the investigation say Buffett is not a target or subject but rather a cooperating witness who, along with other Berkshire executives, has played a key role in helping investigators understand the AIG deal as well as other complex reinsurance deals that regulators think some companies, including AIG, used to inflate their bottom line.

General Re's involvement in the investigation dates to October 2003, when the U.S. Attorney for the Eastern District of Virginia first subpoenaed the company seeking information about transactions it executed with Reciprocal of America, a Virginia professional liability insurer that collapsed that year during allegations of major accounting fraud.

Sources say that in complying with the request, General Re provided prosecutors with documents on a number of potentially questionable transactions. One that especially caught the eye of both General Re and investigators involved AIG, the world's largest business insurer and a firm whose complicated finances have long drawn regulatory interest. The Wall Street Journal yesterday reported on General Re turning information about the AIG transaction over to prosecutors.

The AIG deal took place in two parts, in December 2000 and March 2001. Under terms of the agreement, described in a March 30 AIG press release, a unit of General Re sent $500 million in potential liabilities to AIG in addition to $500 million in premiums. AIG used the money to increase the cash it holds in reserve to pay claims, an amount some investors had criticized as too low, and added $500 million in revenue to its balance sheet.

The transaction was intended to be a reinsurance deal, a common transaction in which an insurer buys insurance to guard against potentially huge losses, such as from a class-action lawsuit or major accident. But in order to be legitimate, the provider of reinsurance, in this case AIG, must take on risk.

But regulators say the $500 million premium transfer to AIG indicates the deal may have involved little or no risk for AIG, and therefore the $500 million was really a loan and should not have been counted as revenue. In the March 30 statement, AIG said it had "concluded that the Gen Re transaction documentation was improper and, in light of the lack of evidence of risk transfer, these transactions should not have been recorded as insurance." AIG has said it may have inflated its net worth by as much as $1.7 billion through the General Re deal and other transactions.

While Buffett is by all accounts a cooperating witness and not a target, regulatory sources say they still have some serious questions for the Berkshire chief, who has earned a reputation as a plain-spoken advocate of straightforward accounting, reasonable executive compensation and overall good corporate governance. Buffett is a major shareholder and longtime director of The Washington Post Co.

Sources say investigators want to know precisely how much Buffett knew about the AIG transaction. They will ask exactly what former General Re chief executive Ronald E. Ferguson told Buffett about the structure of the deal, and they will compare what Buffett says with what Ferguson has already told them. Ferguson no longer has an executive role at General Re, but he maintains an office at the Stamford, Conn., firm. A message left at his office last evening was not returned.

If Buffett had detailed knowledge about how AIG planned to account for the transaction, it could be a problem, according to former prosecutor David Gourevitch. The AIG transaction is one of 14 involving General Re in which the investigators are interested.

"You cannot knowingly assist in a transaction where the purpose is for the counter-party to engage in improper accounting on their books, even if it's properly accounted for on your books," he said.

But Jacob S. Frenkel, an attorney at Shulman & Rogers in Rockville and a former SEC enforcement lawyer, said it is possible for one side of a transaction to account for a deal properly without knowing whether the other side is doing so.

And he said he thought Buffett's testimony would serve twin purposes for regulators: to provide more information about the transactions and to raise the overall profile of what is at bottom a highly complex, even arcane, probe.

"We've seen from all the cases brought by the New York attorney general, the Department of Justice and the SEC that no one is too big to escape scrutiny," Frenkel said. "Still, you can easily have some of the highest-profile names in society paraded before the government for testimony, but that does not mean they are directly or indirectly implicated in any wrongful conduct."

Buffett did not return repeated calls for comment. Calls to Berkshire were not returned. On March 29, Berkshire released a statement saying Buffett "was not briefed on how the transactions were to be structured or on any improper use or purpose of the transactions."

Gourevitch said Buffett's testimony may be a delicate affair, requiring him to walk a fine line by acknowledging he was briefed on the transaction but did not know enough to think it might be questionable.

"He's going to have some explaining to do about what he did and didn't know and what he understood the transaction to mean. He's going to have to say he saw a legitimate purpose for the deal and that it wasn't through-and-through fraud that was obvious on its face." Legal experts say Buffett could be helped by his reputation as a hands-off manager who lets executives at the many companies Berkshire owns operate with autonomy.

Staff writer Carrie Johnson and staff researcher Richard Drezen contributed to this report.

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Financial
AIG in Damage Control; Cooperation Counts in Investigations

Carrie Johnson and Ben White
Washington Post Staff Writers
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American International Group Inc. has warned investors about a $1.7 billion reduction in capital, pushed out its chairman of the past four decades and disclosed that deals under federal investigation were "improper."

And that's only the past four days.

AIG, one of the world's largest insurance companies, is struggling to respond to inquiries from New York's attorney general, the Securities and Exchange Commission and the Justice Department. The investigations span the world and involve some of Wall Street's most prominent figures, including former AIG chairman Maurice R. "Hank" Greenberg and Berkshire Hathaway Inc. leader Warren E. Buffett. Both men will sit down for interviews with investigators this month to talk about a Berkshire Hathaway subsidiary's dealings with AIG.

The investigations also raise questions that have become familiar in the fallout from corporate scandals at Enron Corp., WorldCom Inc. and other companies: Did the company use accounting tricks to hit the numbers investors were looking for? What did top management know?

Investigators are examining Greenberg's involvement in several insurance deals that may have been used to make the company's earnings look better or boost its reserve accounts. AIG said Wednesday that it continues to review transactions that could reduce its net worth by $1.7 billion. Regulators are scrutinizing those and other deals between AIG and several U.S. and offshore insurance companies. An attorney for Greenberg, who is scheduled to be interviewed by regulators April 12, did not return calls.

One transaction under scrutiny is a deal between AIG and General Re Corp., a reinsurance company that is part of Berkshire Hathaway. Regulators have said Buffett is cooperating and is not a subject or target of the investigation.

AIG's managers and board are pursuing a strategy that emphasizes cooperation with government investigators, even at the expense of such figures as Greenberg, who stepped down under pressure from the board Monday after nearly 40 years in charge. Convincing regulators that AIG is a changed company could help reduce any penalties the company is forced to pay.

AIG has fired three employees in the past month, including chief financial officer Howard I. Smith, for refusing to cooperate with investigators and invoking their right against self-incrimination. AIG's board also has hired two law firms to investigate the company's accounting and to represent outside board members. One of the firms, Paul Weiss Rifkind Wharton and Garrison LLP, employed New York Attorney General Eliot L. Spitzer when he was in private practice.

Christopher D. Winans, an AIG spokesman, said: "We require that employees cooperate with authorities with regard to matters involving the company. If somebody's going to refuse to cooperate, then they're not on the team anymore."

Greenberg was replaced as chairman by former securities industry regulator Frank G. Zarb, an independent director. Of the board's 16 members, 10 are independent. Among them are former defense secretary William S. Cohen, a director since February of last year, and former U.S. ambassador to the United Nations Richard C. Holbrooke, who joined the board in 2001.

Some shareholder advocates and pension fund officials described AIG's recent actions as too little too late from a board that has long been rated one of the least effective in corporate America. The moves have been largely intended to limit board members' personal liability, according to critics of the board, who noted that AIG's accounting revelations came after former directors at Enron and WorldCom agreed to pay millions of dollars of their own money to settle shareholder lawsuits.

"AIG's board has been consistently worst in class," said Nell Minow, a co-founder of the Corporate Library, a research group that rates companies on governance. Minow and others have consistently described AIG's board as dominated by Greenberg and loaded with less-than-vigilant outside directors.

The company's board, advised by the law firm Simpson Thacher & Bartlett LLP, is straining to avoid criminal and civil charges against the company.

In the past few years, after an indictment that essentially put accounting firm Arthur Andersen LLP out of business in 2002, the Justice Department frequently has employed deferred prosecution agreements with companies implicated in wrongdoing. Under the terms of those deals, firms must agree to stay clean for a specified period and hire outside monitors or accounting experts to review their books.

Cooperation generally consists of "doing an internal investigation, getting rid of bad apples and, if appropriate, waiving privilege," said former SEC enforcement official Thomas C. Newkirk. "Most defense counsel believe the wise course is to provide meaningful cooperation and convince regulators you're doing that."

Securities regulators cite the case of Royal Ahold NV, the Dutch company that owns Giant Food LLC, as perhaps the best recent example of cooperation by a company under siege. Ahold fired several top officials, investigated 17 operating units around the globe for accounting problems and made international witnesses available to U.S. prosecutors and investigators. Ahold paid no civil fines in a settlement with the SEC last year, despite maneuvers that led to $830 million in inflated profit.

The investigation is also looking into whether companies that entered into transactions with AIG knew that it was using them to make its earnings look better. Several companies have been penalized for helping others manipulate their books. For example, Time Warner Inc. and its America Online Inc. subsidiary paid $300 million last week to settle SEC charges, including allegations that the company helped Homestore Inc. and PurchasePro.com Inc. exaggerate their revenue using fraudulent online advertising deals.

Holding top executives criminally responsible for helping others manipulate their balance sheets remains a challenge for investigators. But prosecutors have built a few such cases successfully in the past few years.

Former Merrill Lynch & Co. investment banking chairman Daniel H. Bayly will be sentenced this month for colluding with Enron officials to help Enron meet earnings targets in late 1999. Testimony in Bayly's trial indicated that he participated in a conference call with Enron chief financial officer Andrew S. Fastow, in which Fastow essentially guaranteed that Merrill Lynch would not lose money on an energy deal. The fact that no money was at risk invalidated the business purpose of the deal, making it illegal, prosecutors argued.

That kind of concrete knowledge is necessary to bring criminal indictments and prove to a jury that executives intended to deceive investors, legal experts said.

Investigators are reading e-mails and other documents and interviewing witnesses about Greenberg's role in a 2000 deal the firm struck with General Re. The deal allowed AIG to boost its reserves and keep its stock price high at a time investors were raising questions.

The SEC, the Justice Department, and Spitzer are scheduled to interview Buffett on April 11. Buffett is represented by a Berkshire Hathaway lawyer and has not been notified that his interests diverge with his company's. Buffett's spokeswoman did not return calls, but the company issued a statement this week saying he was not briefed on the "structure" of the deals or their purpose. Buffett is a longtime Washington Post Co. board member.

Former General Re chief executive Ronald E. Ferguson and other Berkshire figures already have been interviewed by regulators and have helped them understand the terms of the complex deals. Darren Dopp, a spokesman for Spitzer, said that for now, investigators are approaching Greenberg and Buffett differently, in part because they have no evidence that Buffett intended to help AIG manipulate its books.

"You've got to show that Warren Buffett or anyone else at Berkshire was aware of the purpose of the transactions, that they didn't have any other independent business reality other than the inflation of numbers at AIG," said John C. Coffee Jr., a corporate law professor at Columbia University.

Martin J. Sullivan, a longtime AIG executive who assumed the chief executive role last month, is not a target of the investigations, an AIG spokesman said. "He's clearly in it for the long haul and that's why the company picked him," Winans said.

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AIG to Miss Deadline for Annual Report, Aim for April 30

Carrie Johnson
Washington Post Staff Writer
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American International Group Inc. said yesterday that it could not file its annual report by today's deadline and for the first time described as "improper" a transaction with a subsidiary of Berkshire Hathaway Inc. that captured the interest of federal investigators.

The troubled New York insurance giant, which already had received a two-week extension of the deadline for filing the report, said board members and new managers continue to examine AIG's books in hope of filing by April 30. AIG said it has not yet determined whether accounting errors will result in an earnings restatement. The company said in a news release that the maximum effect of any accounting changes on its capital would be about $1.7 billion, or 2 percent.

The Securities and Exchange Commission, the New York attorney general and the Justice Department are investigating deals that may have been used to burnish the company's finances and mislead investors about AIG's financial health.

The investigation, which began in February when AIG received subpoenas from the SEC and the office of Attorney General Eliot L. Spitzer, led to the resignation of the company's longtime chairman and chief executive, Maurice R. "Hank" Greenberg. It also has pushed investor Warren E. Buffett, the chairman of Omaha-based Berkshire Hathaway, into the spotlight.

Regulators are particularly interested in the origins of a deal that Berkshire's General Re Corp. subsidiary struck with AIG in late 2000. The deal allowed AIG to boost its reserves for potentially burdensome insurance claims by $500 million at a time when investors were asking questions about the company's reserves. AIG said in yesterday's news release that "in light of the lack of evidence of risk transfer, these transactions should not have been recorded as insurance."

The wide-ranging investigation covers AIG's relationship not just with General Re, but also several offshore insurance companies that may have taken part in similar deals. Securities regulators for months have been investigating a type of insurance policy in which companies are paid premiums but do not take on real risk. Such policies can be used to obscure corporate financial statements. SEC spokesman John Nester declined to comment on the investigation.

Spitzer spokesman Darren Dopp said Buffett is cooperating with investigators and that they are treating him as a witness, not a subject or target of the investigation. Buffett, a longtime Washington Post Co. board member, will be interviewed by regulators next month. Other Berkshire and General Re executives, including former General Re chief executive Ronald E. Ferguson, have consented to interviews and turned over documents. Three AIG executives were fired for violating the company's cooperation policy by invoking their Fifth Amendment right not to incriminate themselves.

A source familiar with the investigation, who spoke on condition of anonymity because it is far from complete, said regulators consider Buffett to be a source of information about the 2000 deal but that they do not think he knew it was used to manipulate AIG's books.

A spokeswoman for Buffett declined to comment and referred a reporter to a statement issued Tuesday, in which Berkshire Hathaway said Buffett "was not briefed on how the transactions were to be structured or on any improper use or purpose of the transactions."

AIG said yesterday that investigators employed by the company continue to investigate several other deals "which appear to have been structured for the sole or primary purpose of accomplishing a desired accounting result."

"Without commenting on the specific transactions identified in today's announcement, the board's decision to provide this information represents a welcome step toward transparency and accountability as our investigation proceeds," a spokesman for Spitzer said.

AIG's share price, which had fallen more than 20 percent since mid-February, closed at $57.16 yesterday, down $1.04. Standard and Poor's yesterday lowered the company's credit rating to AA+, from AAA, citing the investigations.

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The Washington Post

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Buffett to Talk To Regulators About AIG, Gen Re Deals

Carrie Johnson
Washington Post Staff Writer
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Warren E. Buffett has agreed to meet with investigators probing deals between a Berkshire Hathaway Inc. subsidiary and troubled insurance giant American International Group Inc., but a spokesman for New York Attorney General Eliot L. Spitzer said Buffett is not a target of the investigation.

Omaha-based Berkshire Hathaway and its General Re Corp. insurance unit are cooperating with regulators. The Securities and Exchange Commission, the New York attorney general's office and the Justice Department are probing whether AIG improperly used certain reinsurance deals to make its financial statements look better. Gen Re has turned over documents and e-mails in response to investigators' subpoenas.

In recent weeks, several Berkshire and Gen Re officials have voluntarily met with regulators. Buffett has agreed to answer questions about his knowledge of the deals, which date to late 2000, next month. The April 11 meeting was reported in Tuesday's editions of the Wall Street Journal.

"Buffett is a witness," Darren Dopp, a spokesman for Spitzer, said in a telephone interview. "He is not a target, and his cooperation has been appreciated."

Buffett, a longtime board member of The Washington Post Co., rarely speaks publicly about his businesses or his investment decisions. Instead, he typically communicates by way of an annual letter to shareholders. Yesterday, however, his company issued a statement saying assorted recent news reports describing Buffett's role at the company and his conduct related to the AIG deals had been "inaccurately reported."

"Mr. Buffett was not briefed on how the transactions were to be structured or on any improper use or purpose of the transactions," the release said of transactions in 2000 and 2001.

A spokeswoman for Berkshire Hathaway did not return phone calls.

For months, investigators have examined the use of policies known as "finite risk" insurance. The deals, which help insulate insurers from potentially burdensome claims by spreading risk, are not by themselves improper. But securities regulators say the transactions can be used to hide losses, inflate earnings or otherwise manipulate corporate financial statements by companies that use them for no real business purpose and with no real money at risk. In those instances, accounting experts say, the policies really serve as disguised loans.

Regulators have focused much of their attention on a particular deal between AIG and Gen Re in late 2000. Under the terms of the deal, Gen Re paid AIG $500 million, which AIG added to its reserves in two installments, in 2000 and early 2001.

The deal allowed AIG to boost insurance reserves at a time when shareholders and analysts were questioning whether reserves were adequate, according to sources familiar with the investigation who declined to be identified because it is months from completion. The transaction allegedly helped keep AIG's stock price high, they said.

The probe already has cost longtime AIG chief executive Maurice R. "Hank" Greenberg his job. This week, Greenberg, 79, said he would resign as non-executive chairman of the company. Under pressure from AIG's board, two weeks ago he stepped aside as chief executive, a post he had held for more than 35 years. Greenberg is scheduled to meet with regulators next month, one day after Buffett's interview.

Greenberg will probably face questions about his role in initiating the 2000 Gen Re deal. Greenberg's lawyers did not return calls yesterday. But AIG's stock rebounded, closing at $58.20 yesterday, up 2 percent, after word came that Greenberg had severed ties with the company.

AIG told investors earlier this month that it hoped to file its 2004 annual report by March 31. Internal investigators hired by the company's board notified regulators Monday that they had turned up dozens of questionable transactions that could lead the company to restate previous financial reports by $1 billion or more.

Investigators continue to probe current and former AIG officials, as well as offshore reinsurance entities that may have entered into other questionable deals with AIG.

Berkshire Hathaway class A stock closed at $87,000 yesterday, up less than 1 percent. Berkshire said it does not expect to restate its financial reports based on the ongoing insurance probe.

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The Washington Post

A Section
Berkshire Hathaway's 4th-Quarter Profit Jumps 40%

From News Services
564 words
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-- Billionaire Warren Buffett has been betting against the dollar, and the strategy has paid off for his investment and insurance company.

Berkshire Hathaway Inc. said Saturday its fourth-quarter profit rose 40 percent to $3.34 billion on a $1.63 billion gain from contracts to buy foreign currencies at a future date. Buffett, 74, wrote in his annual letter to shareholders that the nation's trade policies "will put unremitting pressure on the dollar for many years to come."

"In no way does our thinking about currencies rest on doubts about America," Buffett wrote. But he added, "Without policy changes currency markets could even become disorderly and generate spillover effects, both political and financial."

The U.S. trade deficit hit $617.7 billion last year, shattering the previous high, set in 2003, by 24 percent. Economists and business leaders differ widely about how great a problem the deficit poses. Buffett's essay -- and his investments in foreign currencies -- place him on the side of those concerned about a potential crisis in global financial markets.

Buffett, who noted that his company has been trading in foreign currencies since 2002, wrote, "Presently, most foreign investors are sanguine: They may view us as spending junkies, but they know we are rich junkies as well. Our spendthrift behavior won't however, be tolerated indefinitely."

The dollars that Americans pay for imports are invested by foreigners in U.S. securities such as Treasury bonds. Some analysts warn that as those foreign holdings rise in value to trillions of dollars, so do the chances that market players could be stampeded into a panic sell-off that would send the dollar plunging and interest rates soaring.

Buffett's essay is the centerpiece of his company's annual report to shareholders, and it's far more widely read than the financial tables and lists of accomplishments in most such corporate reports.

Reviewing the performance of Berkshire Hathaway, Buffett wrote that he "struck out" for shareholders by failing to find acquisitions last year. "I found very few attractive securities to buy," Buffett wrote. Berkshire's cash holdings stood at $43.4 billion at year's end.

Buffett's holdings include Geico and Fruit of the Loom. He is a major investor in The Washington Post Co., where he also serves on the board of directors.

While Berkshire's profit for 2004 fell 10 percent from the previous year to $7.31 billion, its fourth-quarter results were strong. Profit for the quarter ended Dec. 31 climbed to $3.34 billion ($2,172 a share) from $2.39 billion ($1,553) for the same period a year earlier.

Berkshire's book value, or assets minus liabilities, rose 10.5 percent in 2004 after taxes, compared with a 10.9 percent gain in the Standard & Poor's 500-stock index, before taxes. It's one of Buffett's favorite measures of success. On that basis, Buffett wrote in his letter, 2004 was one of only six years since 1965 when Berkshire's growth in net worth underperformed the S&P.

A $10,000 investment in Omaha-based Berkshire the day Buffett took control in 1965 would be valued at about $50 million today. Buffett's stake in Berkshire Hathaway is worth about $42.5 billion.

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The Washington Post

DEALS Allan Sloan
Financial

Morsels Learned in 2004: Talk Turkey, but With a Side of Humble Pie

Allan Sloan
910 words
28 December 2004
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One of the ways I try to keep myself intellectually honest is to sit down at the end of the year and review my own work, especially my mistakes. It's a humbling experience, particularly this year. I'm not talking about factual mistakes, which I correct as soon as possible. I'm talking about having the facts right but drawing the wrong conclusions from them.

My biggest mistake in judgment, as any number of my e-mail correspondents have pointed out with glee, is Google. I considered it overpriced when it came out at $85 and thought it would fall. Instead, it's doubled. I swung at Google three times, and I'm 0-for-3. What can I say, other than that the Red Sox were 0-for-85 before they won the World Series this year? I still wouldn't touch the stock, but if you ignored me, congrats. You're way ahead. Just don't forget to sell sometime.

I wrote a lighthearted column about what would happen when Warren Buffett's Berkshire Hathaway hit $100,000 a share. (I have a Berkshire stake in my 401(k) plan, as I disclosed at the time.) It didn't happen. I thought the stock would hit six digits because it was in the mid-$90,000s as Berkshire Hathaway's annual shareholder meeting approached, and the stock typically runs up after the meeting. This time, it didn't.

Both these mistakes come from ignoring one of my cardinal rules of business writing -- stay away from stock-picking. If we biz journalists were good stock pickers, we'd be rich enough to buy newspapers and magazines instead of working for them.

When I followed my own advice and stuck to generic issues, such as can't-miss topics like pricing of closed-end mutual funds and avoiding stocks of companies in Chapter 11 bankruptcy, I did okay. As I predicted, the fad of selling closed-end mutual funds to raise money for Wall Street private-equity houses faded rapidly, as investors caught on that it's ridiculous to pay a premium price for assets that will trade at a discount. In my tale about the bankruptcy of RCN Corp., a once-high-flying telecom company, I warned that stocks of bankrupts typically head for zero. That happened here, too -- when last I looked, RCN was around 2 cents. In both cases, fish in a barrel. The only kind of stock calls I should make.

I expected long-term interest rates to rise sharply this year, which they haven't. But wait, they will. As I've warned, the foreign lenders bankrolling our federal deficit have finally gotten reluctant to get low rates on Treasury securities whose value, in terms of the euro and the yen, is declining. I'm in the market for bonds -- I just turned 60 -- but I'm waiting for rates to rise.

I'd like to explain why I've written so much about topics I'd usually avoid: the national economy, the federal budget and our nation hocking itself to the eyeballs to foreign creditors to finance tax cuts and current consumption. I think that these things matter, for one thing. For another, it's important to cast a numerate eye on political topics, and the people who do that are in short supply.

I've been an economic patriot for most of my life, trying to buy American-made cars, buying U.S. stocks, refraining from speculating against the dollar. This year, I gave up, and for the first time put serious money (by my standards) into foreign stock funds. It's a bet against the dollar and, sorry to say, I've won it.

The big coming issue this year, of course, is Social Security. I won't use the word "reform," because reform means making things better, which is by no means assured in this case. For many people, Social Security is an abstraction. For me, it's far more. I consider Social Security a morality story with numbers, not a political story. We're messing with a program that's the main support of huge numbers of old and disabled people, and we ought to be damn careful with it.

You'd think the fact that stocks are lower than they were five years ago would make it clear that stocks are risky, but apparently that hasn't penetrated. Let's hope the debate focuses on the right thing -- making sure that people who've worked all their lives but couldn't save much can live out their final years with dignity -- rather than on whose plan will supposedly make you richer. The way to deal with Social Security's problems is with shared sacrifice, not trusting everyone's fate to the market by adopting investment plans. These plans, by the way, will work out better for higher-income people with investing experience than for lower-income people without such experience. And trust me: We higher-income types don't need any more gifts from the government.

But let's set our differences aside for now. A happy and healthy new year to you, your families and your investment accounts.

Sloan is Newsweek's Wall Street editor. His e-mail address is sloan@panix.com.

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Revolving Door

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WP
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English

IN

Timothy J. McBride, DaimlerChrysler lobbyist and former aide to former President George H.W. Bush, as top lobbyist for Freddie Mac.

Rep. W.J. "Billy" Tauzin (R-La.), retiring chairman of the House Commerce Committee, as president of the Pharmaceutical Research and Manufacturers Association.

Bill Gates, Microsoft founder, as a director of Berkshire Hathaway.

OUT

Paul Tellier as chief executive of Bombardier.

Eric F. Brown as president and chief financial officer of MicroStrategy.

Charles K. Gifford, former chief executive of FleetBoston, as non-executive chairman of Bank of America.

Mark Schwartz as chief executive of Soros Fund Management.

Late fees at Blockbuster.

Document WP00000020041219e0cj0009q

The Washington Post

Financial
Geico Wants To Restrict Google Ads; Company Criticizes Link to Searches

David A. Vise
Washington Post Staff Writer
802 words
14 December 2004
The Washington Post
WP
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E01
English

Geico Corp. yesterday urged a federal judge in Alexandria to issue an injunction prohibiting Internet giant Google Inc. from selling ads based on searches using the Washington insurance giant's name, arguing the practice infringes on its trademark.

The case represents the first major U.S. legal test of Google's primary business model for making money off its free search service. Geico is seeking millions of dollars in damages, and Google has said previously that its profit could be materially hurt should legal challenges such as Geico's succeed.

Google derives a large portion of its revenue by selling ad space to businesses large and small that bid on search terms people might use when they hunt the Internet for information about products, services and other items online.

The search engine serves up a list of Web sites that contain the user's query, along with advertising related to the original request. That practice, Geico complains, allows someone searching for "Geico," or "Geico Direct," to not only be directed to Geico's Web site but be exposed to advertising and Internet links from Geico's competitors, who successfully bid to have their ads displayed alongside search results involving the insurance company's name.

Google claims it is doing nothing more than acting as a publisher and allowing companies to offer comparative advertising. But Geico said the Internet search engine is diluting the value of Geico's trademark and should be prohibited from doing so.

"Computer users are looking for Geico and an insurance quote and instead they end up with a company that is not affiliated with Geico," said Charles D. Ossola, an attorney with Arnold & Porter representing Geico. "Geico wants a ruling that Google's sale of its trademark creates a likelihood of confusion."

Google faces a number of similar lawsuits from an array of corporations in the United States and in Europe. If the high-flying search engine giant ultimately loses these cases, the company could be forced to abandon the practice or be required to pay royalties to Geico and the other trademark holders.

Google already has suffered setbacks in Europe, where laws and policies governing advertising are more restrictive than those in the United States. For example, Google has altered its practices in France after being sued over trademark issues by Louis Vuitton and has received unfavorable rulings on the same issue in Germany.

Before the start of the trial yesterday, Geico reached an out-of-court settlement with the Yahoo search engine for undisclosed terms. Yahoo Inc. does not allow companies to bid on search terms involving the trademark names of their rivals.

Michael Page, an attorney representing Google, said there is a long history of allowing comparative advertising in the United States so that consumers will have more information to make informed choices when buying products. He cited Coca-Cola and Pepsi and other products as examples of corporations using each other's names in ads and said that Geico's claims were unfounded.

"Geico wants you to decide the Internet is different," Page told U.S. District Judge Leonie M. Brinkema, who is presiding over the case. "That is based on an incorrect assumption that when people type 'Geico' into Google's search engine, the only thing they want is Geico's Web site. That is wrong."

Page also said consumers are not confused because the ads served up with the search results are set apart and appear to the right of the listings.

"Google is the publisher," Page said. "The advertiser writes the text. Geico's argument might support a claim against an advertiser, but not against Google."

Geico officials testifying at the trial said the company has spent more than $1 billion in the past five years promoting its brand name and is now being forced to either bid for a name it already owns, or run the risk of having computer users type in "Geico" and then buy car insurance from a competitor. Geico marketing vice president John W. McCutcheon said most people get a quote for car insurance from a single company and then buy insurance from that company. As a result, he said, other firms that compete with Geico are improperly winning business at Geico's expense.

Legal experts say that with the Internet emerging as a new medium for advertising, there is little case law to serve as precedent for the Geico case and others like it. The trial is expected to last several days, and then Brinkema is expected to take a period of weeks before issuing a ruling. Whatever the outcome, the losing party would have the right to appeal her decision.

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The Washington Post

Financial
Financial insurance

126 words
14 November 2004
The Washington Post
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F03
English

* In insurance, a type of policy designed to limit a company's exposure to a risk or liability whose size and timing are uncertain. See also retroactive or finite-risk insurance.

* A highly profitable product sold primarily by reinsurance companies, beginning in the 1980s but becoming particularly popular in the late 1990s.

* According to insurance executives and their clients, a useful way to limit the financial risk from uncertain events, such as large and adverse legal judgments.

* According to state and federal regulators, an instrument that can be structured to disguise a loan or allow companies to smooth reported earnings.

* A focus of recent investigations of General Reinsurance Corp. and AIG and news articles involving Berkshire Hathaway.

-- S.P.

Document WP00000020041114e0be000ae

The Washington Post

Financial
UAL Requests Extension

1,233 words
10 August 2004
The Washington Post
WP
FINAL
E02
English

UAL asked U.S. Bankruptcy Judge Eugene R. Wedoff to extend from Aug. 30 to the end of the year its deadline to file its recovery plan. The parent company of United Airlines said it needed the extra time to obtain exit financing after the U.S. Air Transportation Stabilization Board denied its application for $1.1 billion in loan guarantees in June. The issue will be heard in court on Aug. 20.

Susan Buffett Left Shares to Charity

Berkshire Hathaway said Susan Buffett, the wife of Chairman Warren Buffett who died last month, left more than 95 percent of her 31,530-share company stake, worth about $2.7 billion, to family charities, mostly the Buffett Foundation. Warren Buffett, who sits on the board of The Washington Post Co., expects to sell 1,200 to 1,500 Berkshire A shares in the next two years to pay taxes, expenses and cash bequests, the company said. Susan Buffett also owned about $500,000 in B shares.

MORE NEWS

Conseco and its successor in the variable annuities business, Inviva, agreed to pay $20 million in a settlement that ends an investigation into charges by New York Attorney General Eliot L. Spitzer and the Securities and Exchange Commission that the companies allowed some favored investors to engage in rapid trading of mutual funds linked to variable annuity products, Spitzer said. The SEC called the settlement the first enforcement action charging insurance companies with securities fraud for allowing market timing of mutual funds.

U.S. Restaurant Properties will merge with a restaurant real estate investment trust, CNL Restaurant Properties, and 18 CNL Income Funds in a deal valued at $1.3 billion in cash and stock. U.S. Restaurant said the transaction would create the leading restaurant real estate and financial services company in the country, with $2.5 billion in total assets and 1,900 properties. The transactions are subject to approval from shareholders and are conditioned on securing financing and regulatory approvals.

Delta Air Lines said it burned through $744 million in cash in the first six months of 2004 and again warned that it could be forced into bankruptcy without $1 billion in concessions from its pilots. The carrier said in a filing with the Securities and Exchange Commission that high fuel prices and lower-than-expected passenger revenue had made it dip into cash reserves, but warned that such spending was "unsustainable."

The New York Stock Exchange asked a federal judge to dismiss lawsuits filed by former NYSE chairman Dick Grasso against the exchange and its current chairman, John S. Reed, that sought $50 million in back pay and unspecified damages for defamation of character. The NYSE argued that Grasso's suits deal with state law but were filed in federal court. At Grasso's request, a lawsuit from New York Attorney General Eliot L. Spitzer demanding more than $100 million from Grasso was moved to federal court, but Spitzer and the exchange have asked for it to be moved back to state court. Legal experts say the case against Grasso will probably wind up back in state court.

T-bill rates were mixed. The discount rate on three-month Treasury bills auctioned yesterday rose to 1.470 percent from 1.465 percent last week. Rates on six-month bills fell to 1.665 percent from 1.735 percent. The actual return to investors is 1.497 percent for three-month bills, with a $10,000 bill selling for $9,962.40, and 1.703 percent for a six-month bill selling for $9,915.80. Separately, the Federal Reserve said the average yield for one-year Treasury bills, a popular index for making changes in adjustable-rate mortgages, fell to 2.07 percent last week from 2.16 percent the previous week.

Trump Hotels & Casino Resorts said it will seek Chapter 11 protection from its creditors so that it can reduce debt and reorganize with $400 million in investment each from Credit Suisse First Boston and founder Donald Trump. The agreement would cut the company's average interest rate by more than 4 percent and allow growth in new markets, Vice President Scott Butera said.

Inventories at U.S. wholesalers rose 1.1 percent in June, greater than forecast, as sales failed to increase for the first time in more than a year, a government report showed. The June increase, which brought the value of goods at distributors, warehouses and terminals to $309.5 billion, followed a gain of 1.4 percent the month before, the Commerce Department said.

FedEx agreed to buy Parcel Direct, which sorts goods ordered from catalogs and over the Internet, for $120 million in cash to cut the cost of delivering packages to homes. FedEx said it expects to complete the purchase of the Quad/Graphics unit before November.

Citigroup agreed to buy Knight Trading Group's derivatives unit for $225 million. Knight is the main market maker at the Chicago Board Options Exchange for options on 180 companies. Citigroup is trying to increase electronic trading revenue.

Nicor said four employees were fired recently because they were suspected of committing fraud, though it did not name them. The natural gas utility has been the subject of investigations by the Securities and Exchange Commission, the U.S. attorney's office and the Illinois Commerce Commission.

Cephalon was cleared by U.S. antitrust enforcers to complete its $515 million purchase of Cima Labs. Cephalon agreed to license a version of Actiq to Barr Pharmaceuticals, the Federal Trade Commission said, helping ensure the combination of Cephalon and Cima won't reduce competition for painkillers used by cancer patients.

StarTek will hire 500 people and invest $5 million to open a technical support and customer service center in Henry County, Gov. Mark R. Warner (D) said. StarTek's clients are mainly telecommunications and computer software firms.

INTERNATIONAL

Sumitomo Mitsui Financial Group of Japan announced a formal bid for a "merger of equals" with rival bank UFJ Holdings, intensifying a takeover battle to create the world's biggest bank. Sumitomo Mitsui said it would give troubled UFJ at least $4.54 billion in financial aid, countering a bid for UFJ by rival Mitsubishi Tokyo Financial Group.

Parmalat said it had filed suit against Deutsche Bank for 17 million euros, nearly $21 million, plus interest. The Italian company seeks to recover the debt its previous management repaid Deutsche Bank shortly before it was forced to declare insolvency.

EARNINGS

Charter Communications said its second-quarter loss widened to $415 million from $37 million in the same quarter a year earlier as the company lost cable TV customers and marketing and programming costs rose.

Cablevision Systems posted a second-quarter net loss of $187.1 million, compared with a profit of $158.3 million in the same period a year ago, hurt by its satellite TV business.

Wheeling-Pittsburgh Steel posted a profit of $27.1 million, its first in several years, on strong sales and record-high steel prices. It lost $21.5 million in the same quarter a year earlier.

Liberty Media narrowed its loss to $314 million from $464 million in 2003's second quarter with the help of a bigger interest in QVC.

Compiled from reports by the Associated Press, Bloomberg News, Dow Jones News Service and Washington Post staff writers.

Document WP00000020040810e08a0002w

The Washington Post

Financial
Revolving Door

151 words
1 August 2004
The Washington Post
WP
FINAL
F03
English

IN

Thomas C. Siekman, as chairman of Martha Stewart Living Omnimedia Inc., part of a broad housekeeping to move the company from the crisis stage to a recovery mode.

Bob Edwards, as host of his own morning show on a public radio channel to be launched by XM Satellite Radio.

Eckhard Cordes, as head of DaimlerChrysler AG's Mercedes-Benz unit.

OUT

Richard J. Miller, as Cardinal Health Inc.'s chief financial officer, after regulators stepped up a probe of the company's accounting.

Mario Monti, as Europe's competition commissioner, when Italy recalls him from his post at the European Commission this fall.

Steven Hankins, as chief financial officer of Tyson Foods Inc.

R.I.P.

Susan T. Buffett, 72, wife of Warren E. Buffett and a Berkshire Hathaway Inc. director.

Francis H.C. Crick, 88, co-discoverer of the structure of DNA.

Document WP00000020040801e0810009s

The Washington Post

A Section

Mayor of Louisiana Town Seeks Employers in China; Officials Want to Fill Closed Factory With Well-Paying Jobs

Alan Sayre
Associated Press
1,070 words
16 May 2004
The Washington Post
WP
FINAL
A10
English

About 35 years ago, Harold J. Resweber, at the time the mayor of St. Martinville, went to Fruit of the Loom in search of manufacturing jobs for his Cajun community. He found thousands of them as the textile giant built one of its largest plants just outside of town.

Today, with the company's abandoned plant a reminder of the lost manufacturing jobs across Louisiana and the rest of the country, Mayor Eric Martin is on the same quest, but in a far different location: China.

"Like Toyota and Nissan, there are Chinese companies that want a presence in the United States," Martin said. "Capitalism is exploding in China."

After several trips with other officials to China, Martin hopes to nab a Chinese auto parts manufacturer within the coming months. He also hopes the company, which he would not identify, will be just the first Chinese company to take up shop in the former Fruit of the Loom plant.

If all goes well, Martin expects as many as 500 jobs to be created, with thousands possible in the future.

Martin, like many other St. Martinville residents, blames the North American Free Trade Agreement for sweeping away 2,200 jobs at Martin Mills two years ago. But the mayor said he and other officials decided to look at NAFTA in a different way while seeking a recovery.

"Let's turn this NAFTA thing around and see if there are foreign countries who want a presence in the United States," he said.

Robert Kapp, president of the Washington-based U.S.-China Business Council, did not know of any proposals for Chinese firms to set up operations elsewhere in the United States, but he said it is only a matter of time before Chinese investors spread out across the country.

"You'd have to have a paper bag on your head not to realize that China is branching out and will have capital to invest, not only in this country but all around the world," Kapp said.

Fruit of the Loom's closure of Martin Mills, which employed 3,500 at its height in 1997, was one in a series of employment blows the company dealt the state as it sought to lower labor costs by moving manufacturing jobs overseas.

For years, the Martin Mills plant was the area's largest employer outside the oil, farming and fishing sectors. Former employees talk about the wage-and-benefits package the company offered -- along with the family picnics staged for employees -- although the hours could be extremely long and physically difficult.

"It was like family," said Nanette Theriot, who reached the management ranks during her 16 years with the company. "It was like losing part of me."

Theriot, who underwent state-financed retraining to become an office technician, said reviving the town's manufacturing through foreign investments is still needed, although many former Fruit of the Loom employees have found work elsewhere.

"It's fantastic," she said. "Those jobs are needed. There are still some unemployed, especially those who aren't able to drive somewhere else."

Not everyone shares the enthusiasm, including Harold Resweber's son Don, who owns a convenience store and cafe on the highway leading to the plant. In 1969, his father led a delegation to Fruit of the Loom in Bowling Green, Ky., and persuaded the company to build Martin Mills.

Although the plant's closure was a major blow, Don Resweber said officials need to be careful to make sure that replacement companies are committed to the long term and to boosting the standard of living.

"If they're going to come in, they need to promise first-class wages and first-class benefits," Resweber said. "I'd support them if they'd promise that. I don't want them to come in and take advantage of our local people."

Resweber also said local leaders should concentrate on attracting a U.S. firm to the plant.

"I'm looking for the very best," he said. "I want more than a warm body in there."

But Martin said the competition is steep -- perhaps too much so -- for the town to be able to attract a U.S. manufacturer. "There are empty textile plants all over the southeastern United States," he said.

Martin said the Chinese, who have grabbed U.S. manufacturing jobs with cheaper labor costs for years, are interested in Louisiana as a cost-effective base for assembling and marketing their products in the United States, and for shipping them to Central and South America. Louisiana has several major ports through which goods could be shipped.

Martin and other officials plan to visit China for a third time later this year to negotiate. In the meantime, Sen. Mary Landrieu (D-La.) has pledged support for expanding the foreign trade zone at the Port of Baton Rouge into St. Martin Parish.

In a foreign trade zone, companies can bring in goods free of U.S. tariffs and assemble them into finished products, which Martin said is what the auto parts company wants to do at Martin Mills.

"So much depends upon this foreign trade zone," Martin said.

During early talks with the Chinese, St. Martinville officials were looking for manufacturing companies that want to use the "Made in the USA" label on their products. But Martin said the auto parts plan would probably restrict the label to "Assembled in the USA" -- at least for that product.

The Federal Trade Commission requires that a product advertised as "Made in the USA" be made "all or virtually all" in the United States.

The Martin Mills plant is now owned by a St. Louis company and, under the current scenario, would be purchased by Chinese investors. The facility is large enough that as many as a dozen other manufacturers could also be housed there.

Martin said the potential of Chinese investment in the United States could be as potent as the investments from Japan during the 1970s and 1980s.

"When we started, we thought it was big, but we know it could be huge," Martin said. "The Chinese are visionary and see these emerging markets growing very rapidly. In a few years, you're going to see these kinds of investments all over the country."

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The Washington Post

STEVEN PEARLSTEIN
Financial

The Power Behind a Washington Presence

Steven Pearlstein
2,300 words
26 April 2004
The Washington Post
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E03
English

There's a fabulously successful, $5 billion, Fortune 500 manufacturing company with 30,000 employees, headquartered four blocks from the White House. The company dominates virtually every business segment it's in, with factories in the United States, Europe, India and China. And if you were smart or lucky enough to have been an investor in this company over the past decade, you would have earned a better return than if you'd put your money in Microsoft Corp., General Electric Co., Southwest Airlines Co. or Berkshire Hathaway Inc.

Indeed, this company has been so successful that its two founders are now each worth an estimated $1.6 billion, according to Forbes magazine -- ranking higher than anyone in the Washington area other than heirs to the Mars candy fortune. And its 42-year-old chief executive last year may have been the highest paid in the region, with a package of more than $50 million in salary, bonus, stock and stock options.

And here's the thing: You've probably never even heard of the Danaher Corp., No. 11 on this year's Post 200.

That may have something to do with the fact that Danaher's Washington presence consists of several dozen top executives who work on a single floor at 2099 Pennsylvania Ave. NW, indicated by a single line in the lobby directory.

Or the fact that much of what it makes are small motors, bar code readers, or gizmos to measure air and water quality and the oxygen levels in your blood -- the innards of other products -- as well as hand tools that are marketed under the Sears and Craftsman names.

Or that Danaher aggressively avoids publicity, reflecting the strong inclinations of its very private founders, brothers Steven and Mitchell Rales.

Looking down The Post 200, however, it quickly becomes clear that Danaher is hardly an anomaly. In fact, the region is rich with major companies that have their headquarters here but little else. Like Stamford, Conn., Washington seems to have developed into a center for plotting corporate strategy, arranging financing, scouting for acquisitions and bringing sophisticated management techniques to under-performing industries, leaving the real work of producing goods and services to be done somewhere else.

In some cases, as with Danaher, the choice of Washington as a headquarters was no more complicated than that it was where the founders were living when they started the company. Think of Richard D. Fairbank and Nigel W. Morris, the Signet Bank consultants who got the idea of mining demographic and credit files to customize the marketing of credit cards, turning Capital One Financial Corp. (No. 5) into one of the world's biggest issuers.

In other cases, Washington just happens to be where the chief executive prefers to live. That's the only explanation for locating the Mars Inc. headquarters (No. 1 private company) in McLean.

Being near customers at the Pentagon explains why General Dynamics Corp. (No. 3) and United Defense Industries Inc. (No. 21) keep their corporate headquarters in Virginia, even though virtually all the ships, combat vehicles and military electronics are made elsewhere. Fairchild Corp. (No. 95) was once a pillar of the local business community before it shed its space and defense assets but not its Dulles address. And while Allegis Group Inc. (No. 3 privately held company) has grown well beyond its original business of supplying engineers to aerospace companies to become the third-largest personnel firm in the United States, there's been no compelling reason to move -- particularly now that founder Steve Bisciotti has become sole owner of the Baltimore Ravens.

In other cases, it was government that attracted company founders to Washington, but an entrepreneurial instinct that kept them here. AES Corp. (No. 7) came into being after Nixon-era energy officials Roger Sant and Dennis Bakke saw the future for independent power production. And many of the major private equity firms -- the Carlyle Group, Perseus, Thayer Capital -- were started by refugees from Washington's political and legal community.

Sidney Harman had already founded one of the world's leading producers of high-end stereo and home entertainment systems when he moved from California to Washington to become deputy secretary of commerce. Now, he keeps an eye on Harman International Industries' (No. 19) worldwide operations, as non-executive chairman of the board, from a small headquarters office on Pennsylvania Avenue.

Being near the seat of government also explains why the French owners of LaFarge North America Inc. (No. 16) decided to put its headquarters near Dulles airport -- not because LaFarge sells so much cement to federal contractors, but because the French still have this quaint notion that private industry needs to take its cues from the palace.

And it was an obscure government lending program that eventually led to Washington's becoming capital of mezzanine lending, with companies such as Allied Capital Corp. (No. 56), CapitalSource Inc. (No. 63), MCG Capital Corp. (No. 94) and American Capital Strategies Ltd. (No. 66) providing financing for mid-size companies across the country.

Then there's sheer happenstance.

Coventry Health Care Inc. (No. 12) moved its headquarters here from Nashville in the late 1990s when it acquired Beneficial Financial's struggling health insurance network in Bethesda. A spokesman explained that Coventry management felt this was a better place to fly in and out of, and an easier one to which to attract top talent. As it turns out, all its health plans are located somewhere else.

And the reason Paul W. Whetsell located his hotel management company (Interstate Hotels & Resorts Inc., No. 30) and hotel real estate investment trust (MeriStar Hospitality Corp., No. 35) in the Washington area is that the first management contract he won after going out on his own was for the Embassy Row Hilton.

Collectively, these 20 Washington-based firms had revenue of roughly $75 billion last year. But their combined local payroll comes to only about 13,000 -- and more than half of that can be accounted for by Veridian Corp., a local tech firm purchased by General Dynamics last year, and a few local hotels operated by Interstate. That may be a fairly elite and well-compensated set of corporate executives, but a tiny part of the local employment base. Their contribution to the local economy can be calculated primarily in terms of prestige and bragging rights, wealth and philanthropy, and a role in creating a critical mass of smart, ambitious corporate executives that makes it easier to attract even more to the region.

Pattern of Success

One of the interesting things about these Washington "headquarter companies" is how successful so many of them have been in recent years, in spite of adverse economic conditions. Each has its own story to tell. If there is a pattern, I suspect it has something to do with sophisticated management teams that, by operating in Washington, have been better able to resist the demands and gravitational pull of Wall Street and the group-think that infects more established corporate capitals.

Rejecting conventional wisdom -- zigging while others zag -- is surely part of the story at Danaher, which has to be one of the great Washington success stories.

The Danaher story begins in Bethesda, where Steve and Mitchell Rales grew up, played sports and inherited from their father, Norman, an instinct for deal-making and a not inconsiderable pool of family capital. Early in the 1980s, the sons renamed their operation Danaher after a river in western Montana where they had found some particularly good fishing, and hooked up with financier Michael Milken at Drexel Burnham Lambert. Immediately, they began investing in a U.S. manufacturing sector other investors had given up as a lost cause.

Using Milken's junk-bond financing, they launched a series of friendly and hostile takeovers. Some were successful (Eastco, maker of Sears' Craftsman brand of hand tools, and industrial toolmaker Chicago Pneumatic) while others were not (Scott & Fetzer, maker of Kirby vacuums and World Book Encyclopedia, and Interco, maker of London Fog raincoats and Converse sneakers). At various times, they could be found bidding against the likes of Warren Buffett and Tyco International Ltd., toying with investments in sports franchises, and tangling with the Federal Trade Commission. And whatever inclination the brothers might have had to talk publicly about their activities disappeared with a less-than-flattering Forbes magazine article that dismissed them as "raiders in short pants."

By the end of 1989, Steve, a lawyer who concerned himself primarily with finance and acquisitions, and Mitchell, who focused on operations, could have rightfully taken satisfaction in their accomplishments. Danaher, along with the family's private holding company, had gained control of dozens of companies, primarily in the tire, tool, machinery and auto parts segments. Danaher had sales of about $750 million and a market capitalization of about $350 million.

But at that point, the brothers made two decisions that would set the foundation for even greater success.

Responding to early signs of problems in the junk-bond market, they decided to reduce their debt, allowing Danaher to weather the market downturn and recession of the early 1990s.

Second, they took a step almost unheard of among executives who have enjoyed success early in their careers: They realized that they had taken Danaher about as far as they could and decided to kick themselves upstairs, turning the reins over to a more experienced chief executive.

That executive, George Sherman, had been trained at General Electric and honed his skills as a top executive at Black & Decker Corp. And with the brothers' blessing, he set about repositioning Danaher and turning it from a holding company into an integrated manufacturing firm.

Without a brand identity or sufficient scale to withstand the tremendous pricing pressures, Sherman began selling off companies making tires, tools and components for the auto industry -- at that point the majority of Danaher's business. Instead, Danaher began to organize the business around a handful of new "platforms" -- initially environmental controls, hand tools and precision motors, to which have since been added high-speed product marking, electronic testing, and medical and dental equipment.

These platforms are the essence of Danaher's corporate strategy. They provide the focus for new acquisitions that can be "bolted on" to existing operations and generate scale efficiencies not only in production and procurement, but in selling multiple products through the same distribution channels. And unlike the earlier years, Sherman said, he concentrated on making fewer but larger acquisitions, many of them family-owned firms with good products and respectable market shares that were under-performing financially.

At the same time, Sherman began to hard-wire into every aspect of the company the continuous quality improvement techniques that the Rales brothers had themselves begun to import from Toyota, fashioning them into what is now, somewhat grandly, called the Danaher Business System. While many companies may claim they also use kaizen, at Danaher it has achieved an almost religious quality, providing the means for reducing costs, improving quality, developing executive talent and delivering the new products that account for a significant portion of Danaher's long-term growth.

In effect, what Sherman was able to do was to bring scale economies, sophisticated management and global ambitions to industry segments that had been fragmented, under-managed and regional. And by concentrating on a limited number of platforms, Danaher could leverage its knowledge and influence in ways unavailable to private equity firms that scour the landscape looking to buy undervalued companies, fix them up and sell them at a profit. At Danaher, the aim is to buy and hold -- not in the way Buffett collects good companies run by good managers and lets them have their head, but more like the way General Electric decides to enter an industry and redefine the terms of competition, albeit on a smaller scale.

Sherman retired from Danaher in 2001, succeeded by H. Lawrence Culp Jr., a Rockville native and Harvard MBA who started out as a consultant at Accenture before being recruited by Sherman and moving up through the Danaher system, learning to embrace its unique brand of discipline.

Discipline in finding just the right companies to acquire in each category they chose to enter, even if they are not necessarily for sale -- and then not overpaying when they are. Since 2000, there have been 44 acquisitions at a cost of more than $4 billion.

Discipline in identifying talent early on and setting out career paths and goals that are re-evaluated annually by superiors and underlings.

Discipline in setting three- to five-year goals at every operating unit for costs, quality improvement, customer satisfaction and return on investor capital -- and then ruthlessly evaluating how things are going every quarter.

Discipline in that when a company has been acquired, it is Culp, the chief executive, who presides over the first orientation session on the Danaher Business System for the new management team.

Other companies say they do these things, of course. But at Danaher they actually do them, and do them relentlessly. The results can be seen not simply in the impressive performance of Danaher stock, which offered an average annual rate of return of nearly 28 percent since it went public nearly 20 years ago. It can also be seen in the relentless annual increase in operating cash flow -- 20 percent a year, on average, over the past five years.

That performance, it should be noted, was squeezed out of a manufacturing company during a nasty sectoral downturn, in boring businesses that most of us never gave a moment's thought to. And the key ingredient turns out to be the management provided by a small corporate office in Washington.

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The Washington Post

DEALS Allan Sloan
Financial
Buffett Approaches Milestone, Still Doing It His Way

Allan Sloan
931 words
20 April 2004
The Washington Post
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English

This is a great time for junkies who follow Warren Buffett, chief executive of Berkshire Hathaway, the most successful conglomerate of our time. Berkshire's annual shareholders meeting, a weekend of wall-to-wall Warren, is less than two weeks away. The Sage of Omaha's homespun approach -- tell your shareholders the truth in plain English -- looks better with each passing day as other companies pile on the legalisms. And although Buffett is under attack by the "corporate governance" crowd for supposedly being insufficiently independent as a Coke board member, Berkshire stock is up 10 percent this year in a flat market and seems poised to go where no New York Stock Exchange issue has gone before: six-digit land. Berkshire closed at $92,615 on Monday. Hitting $100,000 is a question of when, not if.

Before we proceed, disclosures. I have more than 20 percent of my 401(k) invested in Berkshire; Buffett is a director of Newsweek's parent, The Washington Post Co.; and Berkshire and The Post Co. own stakes in each other. Please note that I'm not recommending Berkshire. It fits nicely in my total portfolio but may not suit yours.

The fact that Berkshire is about to hit $100,000 is a classic example of how Buffett goes his own way -- and how he makes Wall Street dance to his tune. A handful of fluke stocks have hit $100,000 a share, but never has a mainstream company like Berkshire approached that level. With rare exceptions -- such as The Washington Post Co., whose stock is approaching $1,000 -- companies love to split their stock. That produces a two-digit stock and helps attract buyers, presumably producing a higher price. For example, Buffett's buddy and bridge partner Bill Gates has repeatedly split Microsoft stock. Each share in Microsoft's initial public offering in 1986 has become 288 shares. That's why Microsoft is an accessible $25 rather than the forbidding $7,200 it would fetch had Gates never gone to splitsville.

Keeping Berkshire's stock price at nosebleed levels is certainly part of Buffett's shtick. But it also serves a useful purpose: keeping trading costs down. Buffett, who declined to speak to me for this column, would be the first to admit he's a cheap guy. It costs less to buy or sell a single $92,000 share of Berkshire than it would to buy or sell 2,000 shares at $46. Berkshire has 1.3 million A shares outstanding, as well as 7.8 million B's, each worth one thirtieth of an A. So there's enough stock available for an investor to buy or sell a million bucks worth easily -- but not $100 million worth. That keeps hot-money types away, making it easier to manage for the long term, which Buffett continues doing at 73.

Another reason Berkshire's stock price is so high is that the company has paid only one cash dividend -- 10 cents a share in 1967 -- since Buffett took over. That lets Berkshire keep all its profits at work, compounding away at double-digit rates.

And now, for a surprise. Even though Berkshire stock has done great the past few years, the annual return that investors have earned during Buffett's tenure there has been dropping -- as Buffett has long said it would. Through last week, Berkshire stock had risen 24.5 percent a year, compounded, since Buffett took control on May 10, 1965, with the stock at $18. By contrast, the S&P 500 has risen only 10.4 percent a year (including reinvested dividends). These performance numbers are from Aronson+Johnson+Ortiz, a Philadelphia money management firm. We're using years that end April 30, which is as close as we could conveniently get to Buffett's May 10 anniversary at Berkshire.

The high point: 1998, with 28.4 percent a year, compounded. (The low was 1975, at 8.3 percent.) Berkshire is up $25,000 a share since 1998 -- but that's only about 5 percent a year; therefore, long-term performance has fallen.

Any year that Berkshire doesn't rise at least 24.5 percent -- likely to be most years for the immediate future -- its long-term return will drop. This doesn't mean you shouldn't buy Berkshire, just that you should have realistic expectations. The same holds for stocks as a whole. I don't think the market will match its historic 10 percent annual returns for a while, but I'll still buy stocks.

Okay. Even though you can't expect to make 24.5 percent annually for the next 39 years -- Buffett would have to be going full tilt at 112, and a Berkshire share would sell for $500 million -- you can anticipate 100K Day. The NYSE has done so: It got an SEC ruling last month to let Berkshire trade in dimes rather than pennies when it hits $100,000, to avoid having to add a digit to its computers. Associated Press market-tables editor Marty Rosen says newspapers are preparing to squeeze six-digit Berkshire prices into the same space in which teensy-weensy five-digit quotes now appear. Magnifying glasses, anyone?

So lay in balloons and cake, Buffetteers; savor the moment. Just don't bet the ranch on the party rocking on for 39 more years.

Sloan is Newsweek's Wall Street editor. His e-mail address is sloan@panix.com.

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The Washington Post

A Section
Buffett Admonishes Fund Directors

Helen Stock
Bloomberg News
520 words
7 March 2004
The Washington Post
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English

Billionaire investor Warren Buffett criticized directors of mutual funds for not firing management companies that have allegedly allowed trading abuses to boost managers' fees at the expense of shareholders.

"Can you imagine directors who had been personally defrauded taking such a boys-will-be-boys attitude?" Buffett wrote in his widely read annual letter to shareholders of Berkshire Hathaway Inc., his Omaha-based investment and insurance company.

The letter was released yesterday by Berkshire, whose investments include a major stake in The Washington Post Co. Buffett, the world's second-richest man after Microsoft Corp. Chairman Bill Gates, is on The Post Co.'s board of directors.

The mutual fund industry is the target of probes by New York state Attorney General Eliot L. Spitzer, the Securities and Exchange Commission and state regulators that have led to civil actions against at least nine fund companies and 26 people since September.

"Like directors throughout corporate America, these fiduciaries must now decide whether their job is to work for owners or for managers," Buffett wrote in the letter he uses each year to critique the state of U.S. business and industry.

The mutual fund probe has focused on companies that allowed favored investors to engage in market timing, rapid in-and-out trades that exploit changed prices in a fund's underlying investments. Regulators say the practice often violates policies of funds and can raise costs -- and thereby reduce returns -- for long-term investors.

The alleged wrongdoing has led to the dismissal of more than 80 fund executives.

"Hundreds of industry insiders had to know what was going on, yet none publicly said a word," Buffett wrote. "It took Eliot Spitzer and the whistleblowers who aided him to initiate a housecleaning. We urge fund directors to continue the job."

Buffett himself has been criticized by some corporate governance experts for last year naming four people he calls "friends" to Berkshire's board, to comply with rules developed by the New York Stock Exchange requiring that a majority of directors be independent from management. Buffett's son and wife already sat on the board. Buffett responded in his letter that "true independence" is determined by the size of the stakes that directors hold in the companies they serve. Each of Berkshire's 11 directors, with their families, own more than $4 million of Berkshire stock, he wrote.

Buffett also used the letter to parry criticisms last year from Pamela F. Olson, assistant Treasury secretary for tax policy at the time, who said that Buffett has "played the tax code like a fiddle." She made those remarks after Buffett wrote a Post opinion piece describing President Bush's tax cut as an incitement to "class welfare."

Berkshire will pay $3.3 billion in federal tax on its 2003 income, about 2.5 percent of the total paid by all U.S. corporations, he wrote.

"If only 540 taxpayers paid the amount Berkshire will pay," he wrote, "no other individual or corporation would have to pay anything to Uncle Sam."

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Financial
QUOTH THE MAVENS

429 words
14 December 2003
The Washington Post
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"It does strike us . . . that playing some more aggressive offense makes sense. Market pundits have observed that 'lower-quality stocks' have been the leaders. The bottom 25 percent market performers of the S&P 500 and Russell 2000 in 2002 are up 66 percent and 121 percent this year, respectively. We see what's really going on is that small- and mid-cap stocks are in a bull market, and the combination of fundamentals, attractive valuation and increased attention will continue to lead to out-performance. It's the perfect environment for hitching our wagons to the stars of tomorrow, today."

-- Michael T. Moe

ThinkThoughts

ThinkEquity Partners

San Francisco

"Our conclusion . . . is that at current prices our particular insurance investments [Berkshire Hathaway (BRK), Odyssey Re (ORH) and White Mountains Insurance Group (WTM)] offer better return prospects than the S&P 500 and are less risky. The main drawback we see is that since the best insurance companies are the ones that are most opportunistic both in the insurance markets and in the securities markets, returns will be lumpy in the short term (a couple of years). Higher lumpy returns are better than lower smooth ones any day."

-- Samuel A. Mitchell and partners

Letter to clients

Marshfield Associates

Washington

"Let me offer this bit of advice. When you see a 6 percent cash dividend yield for the Dow, get out your checkbook and bet the farm. You generally see such yields only once or twice in a lifetime. Count on it! And tell your children, to save them the great anguish of the current crop of baby boomers, who suddenly realize they now must work another 10 to 15 years beyond earlier retirement plans."

-- Charles Allmon

Growth Stock Outlook

Chevy Chase

"Prior to our April 8 buy signal, we had been in the bearish camp for well over a year. What kept us out of the market was the lack of follow-through on the part of the high-relative-strength stocks that we monitor on a daily basis. However, in early April, the complexion of the high-relative-strength stocks changed abruptly and, for the first time in many, many months, we began to see dozens of stronger-than-market stocks break through their overhead resistance. . . . The high-relative-strength stocks continue to surge, and that is what bull markets are all about. Without this distinct leadership that invariably comes to the fore during bullish phases, there can be no bull market."

-- Dan Sullivan

The Chartist

Seal Beach, Calif.

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Financial
Liberty Media Retracts Bid

1,292 words
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The Washington Post
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Liberty Media, the investment company controlled by John Malone, said it is withdrawing from the bidding for Vivendi Universal's U.S. entertainment unit. Liberty said the opportunities to cut costs and boost revenue at the Vivendi unit were "not sufficient to support the expected transaction value." Paris-based Vivendi is seeking $14 billion for its U.S. unit, people familiar with the situation have said. The Vivendi assets include the Universal film studio and theme parks and the USA and Sci Fi cable networks. Vivendi is seeking to raise cash to pay debt.

Calif. Court Rules on Trade Secrets

The California Supreme Court ruled that courts may block Internet users from posting codes to illegally copy DVD movies, in a case that pitted trade-secret rights against free speech. The justices did not resolve whether the code was in fact a trade secret, leaving that for a lower court to determine. They did rule, however, that they would not tolerate the posting of legitimate trade secrets online and reversed a lower court that said disseminating trade secrets was protected free speech.

MORE NEWS

A Coca-Cola executive accused in a whistleblower lawsuit of sham accounting and who oversaw the division accused of rigging a marketing test to fool Burger King stepped down. Tom A. Moore, president of foodservice and hospitality at the beverage maker, will remain at the company to train his successor, marketing executive Chris Lowe.

Pantry, a convenience-store operator, agreed to buy 138 Golden Gallon stores from Royal Ahold. Terms were not disclosed.

A federal judge has turned down efforts by lawyers who say they represent an estimated 15,000 investors to intervene in April's $1.4 billion landmark settlement with 10 Wall Street firms and state, federal and industry regulators. U.S. District Judge William H. Pauley III, who is overseeing the case, refused to grant the firm of Hooper & Weiss official status in the case, but he encouraged its lawyers -- and anyone else who has a plan for using the $400 million set aside for investor restitution -- to submit their comments to the court for official consideration.

Berkshire Hathaway, the investment company controlled by Warren Buffett, bought 10 million shares of HCA, the nation's largest hospital chain, for $317 million in June, state regulatory filings show. Berkshire Hathaway's Geico auto insurance unit bought the stake in Nashville-based HCA on June 26.

T-bill rates rose. The discount rate on three-month Treasury bills auctioned yesterday rose to 0.98 percent from 0.945 percent last week. Rates on six-month bills rose to 1.04 percent from 1.035 percent. The actual return to investors is 0.997 percent on three-month bills, with a $10,000 bill selling for $9,975, and 1.063 percent on a six-month bill selling for $9,947.40. Separately, the Federal Reserve said the average yield on one-year Treasury bills, a popular index for making changes in adjustable-rate mortgages, rose last week to 1.33 percent from 1.29 percent the previous week.

Amerco, the parent of truck rental company U-Haul, said it had net losses in fiscal 2002 and 2001 instead of previously reported profit based on a re-audit of financial statements by the company's accountants. The net losses were $47.4 million for the year ended March 31, 2002, and $42.1 million for the year ended March 31, 2001, the company said. Amerco had reported net income of $2.72 million and $1.01 million, respectively, for those years.

Sen. Charles E. Schumer (D-N.Y.), in a letter to Federal Communications Commission Chairman Michael K. Powell, said yesterday that U.S. mobile-telephone companies should upgrade networks to better handle emergency calls and power failures after this month's blackout. Schumer urged the agency to require all wireless carriers to put calls from public-safety personnel through ahead of other users. The FCC should also have carriers keep more generators and batteries so cellular transmitters and towers can run longer in a power failure, he wrote.

Bechtel Group, which won a $680 million contract to help rebuild Iraq's infrastructure, awarded a $25 million subcontract to Lucent Technologies to begin reconstructing the Iraqi communications network.

Tenet Healthcare plans to sell five hospitals to Health Management Associates for $550 million to repay debt. The Santa Barbara, Calif., company is negotiating a sale of seven other properties and intends to close hospitals in Philadelphia and Santa Ana, Calif.

Winnebago Industries doubled its annual cash dividend to 40 cents per share. The Forest City, Iowa, mobile home manufacturer also said it would pay dividends quarterly instead of twice a year.

About a third of large U.S. companies are providing better working conditions for their gay and lesbian employees, according to a report by the gay rights advocacy group Human Rights Campaign Foundation.

RECALL

Subaru of America said it's recalling about 7,800 Legacy and Outback 2004 models because of possible defect in a fuel hose. The vehicles manufactured between June 3 and Aug. 8 are subject to the recall, Subaru of America said. There have been no reports of accidents and injuries because of the problem, Subaru said. The company said it is concerned that the problem could cause a fuel leakage because of a loose or out-of-position clamp on the fuel hose.

INTERNATIONAL

Vivendi Universal said the Internal Revenue Service is taking it to court over the U.S. agency's contention that the French company owes additional taxes of about $1.5 billion plus interest on its sale of DuPont shares in 1995. Vivendi will contest the IRS's ruling in the U.S. tax court.

Kia Motors said it reached a preliminary agreement with union workers on wages and other conditions, ending a strike that cost South Korea's second-largest automaker $453 million in lost production. Union workers held sporadic walkouts for three days late last month and resumed partial strikes on Aug. 8. They've also refused to work overtime since Aug. 18.

Petrobras and other oil companies in Brazil may be required to use vegetable oil to make diesel fuel. The government is studying the proposal to create jobs and encourage farmers to plant more soybeans and other vegetable oil crops, said Mauricio Tolmasquim, the energy ministry's executive secretary.

Burlington Industries, a textile maker that sought bankruptcy protection in 2001, won a judge's permission to seek creditors' approval of a plan to sell its assets to WL Ross & Co. for $614 million.

Computer Associates International, the world's fifth-largest software company, said it plans to issue 5.7 million shares to settle class-action lawsuits about its accounting. Computer Associates expects to have costs of $144 million before taxes in the current quarter related to the settlement, the Islandia, N.Y.-based company said. The settlement, which covers lawsuits dating back as far as 1998, was submitted for court approval, spokesman Dan Kaferle said.

LOCAL BUSINESS

AOL Time Warner's America Online unit expanded an agreement with the National Football League to make sports videos and other content available to subscribers of the Internet service. America Online users will get access to game highlights and previews as part of their service, AOL Time Warner said. The agreement, which builds on an existing partnership that the companies signed in 2001 to promote the NFL's Web site, is the latest in the Dulles-based Internet unit's plan to offer exclusive content and features to lure subscribers.

Compiled from reports by the Associated Press, Bloomberg News, Dow Jones News Service and Washington Post staff writers

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The Washington Post

STEVEN PEARLSTEIN
Financial
Help From Buffett & Cos.

Steven Pearlstein
764 words
15 August 2003
The Washington Post
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No one knows what advice billionaire investor Warren Buffett will be offering his pal Arnold Schwarzenegger in the upcoming campaign. But, given the broad reach of his holdings, it might go something like this:

To: Arnold

From: Warren

Re: Economic Issues

Over rare T-bone and hash browns at Gorat's last night in Omaha, my partner Charlie Munger and I spent several hours sketching out a California economic strategy for you, along with ways in which our Berkshire Hathaway family of companies might be helpful.

Last year we hit a home run by floating bonds with negative yields -- in other words, investors actually paid us for the honor of lending us money. The trick was to give them an option to buy Berkshire stock in the future at today's price. We think something like this could be the centerpiece of a broader refinancing plan for the state. You'll need to package some of the state's assets (parks, bridges, office buildings) to anchor the options, which could get sticky. We've got Dick Kovacevich's crackerjack team at Wells Fargo working on the underwriting details.

It's also clear you're going to raise some taxes. Given the windfall Bush & Co. just handed the folks in my income bracket, estate taxes are a logical target. As you've heard me say before, inheritances are nothing more than welfare for the well-to-do. You'd be doing them a favor by raising the state's estate tax to make up for the drop in the federal rate.

You could also raise serious money by ending the tax break for companies that now pass out stock options as if they're See's Candies. The high-tech types will howl like coyotes at a full moon, but the press will make you a hero, as they did with me.

That brings us to the larger issue of the California economy. As we see it, it's crazy for the state to put all its chips on high tech. The sector's just too vulnerable to boom and bust cycles. And who can figure out which way the technology is moving, anyway?

Your long-term strategy, like ours, should be targeted at boring old businesses with solid franchises, weak competitors, high margins and predictable cash flow. And that means changing the perception of California as a flaky, high-cost high-tech mecca.

For starters, Charlie thinks we can cut the state's sky-high workers' comp premiums in half if we gin up a nationwide reinsurance pool. Joe Brandon at General Re is looking into it.

On energy costs, we think Dave Sokol at MidAmerican Energy might be able to leverage his inexpensive gas supply to renegotiate some of those expensive power contracts that Gov. Davis negotiated. California would get lower electric rates, and we might pick up an interest in a couple of utilities at a good price.

Kevin Clayton, my new partner at Clayton Homes, tells me that within six months he can have a million manufactured homes ready to ship to California to relieve shortages and drive down real estate prices. Prudential

California Realty is ready to cut its commissions in half to help move the inventory, while Lou Simpson at Geico is taking a sharp pencil to his California premiums.

The goal here is to make it as affordable and comfortable to live in California as anywhere else in America. More Omaha, less Brentwood. We could help reinforce the message by expanding the Nebraska Furniture Mart and Borsheim's jewelers into Silicon Valley or ratcheting up Dairy Queen's presence around L.A. (By the way, if you haven't tried our new Peanut Butter Oreo Blizzard, you're in for a treat.)

This rebranding will also require a major marketing campaign. Once you sell off the state's fleet of planes, Rick Santulli and the crew at NetJets can begin flying you around the country to meet with corporate execs -- and flying them in for site visits. Barry and Eliot of Jordan's Furniture could also do a west-coast version of their famous radio ads touting California's new "underpricing" strategy.

I realize, Arnold, that some of this can get pretty complicated, so you may want to avoid trying to explain it yourself. If you like, I could leak it to a fabulous columnist I know of at the Washington Post. He's about to go on vacation, so let me know.

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The Washington Post

Financial

One Woman's Junk Is Investors' Treasure; Pioneer High Yield's Margaret Patel Dismisses Concerns About Risk

Aaron Pressman
Bloomberg News
696 words
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Margaret Patel, whose $6.7 billion Pioneer High Yield Fund has beaten all rivals in the past five years, is betting on an economic recovery by investing in technology companies, chemical makers and packagers.

The Boston-based fund has returned an annual average of 12 percent over the past five years, three times the Credit Suisse First Boston high-yield index, which measures the performance of the broad junk-bond market.

"The outlook for the economy is pretty good," Patel said. "We'll begin to build on the strength of the economy over the last year, and growth will accelerate through the rest of this year and next."

While larger firms such as Fidelity Investments and Putnam Investments base their funds on indexes and make changes at the margins, Patel ignores benchmarks and sticks to picking only the junk bonds she likes. The additional yield on those bonds over government debt has shrunk to 5.95 percent, from 8.71 points at the start of the year, Merrill Lynch & Co. data show.

Not everyone is as optimistic about the outlook for high-yield debt, securities that are considered riskier because the companies selling them are perceived to be more prone to default than investment-grade companies.

Last month, Berkshire Hathaway Inc. chief executive Warren E. Buffett said such debt is less alluring because "the world hasn't changed so much, but prices have."

Vanguard Group Inc., the No. 2 U.S. fund company by assets under management, on June 12 closed its $9.2 billion high-yield fund to new investors for at least three months. Chief executive John J. Brennan said too many clients were disregarding the risks of owning junk securities.

Patel's performance has made Pioneer the best-selling fund of those investing in junk bonds this year, having attracted $1.7 billion through April, according to Financial Research Corp., a Boston-based financial services research firm.

The difference in gains and losses among fixed-income funds is narrower than that of stock funds, heightening the risk for funds that veer from a benchmark index. If they lag, bond investors tend to sell out more quickly than those investing in stocks.

Patel isn't concerned. "I'm not in any way an index fund," she said. "I'm not a closet index fund, or a closet benchmarker or quasi-benchmark fund."

Investors have poured more money into junk bonds than into any type of fund as companies cut losses and pay down debt, Financial Research said. The funds have lured $14.4 billion in the first four months of this year.

The size of the inflows has prompted companies including Xerox Corp. and Nextel Partners Inc. to issue more bonds with below-investment-grade ratings. Companies sold about $6 billion last week, the highest weekly total in more than two years.

"Positive performance tends to attract cash, and high yield has had a very strong run of late," said Christopher Garman, head of high-yield strategy at Merrill Lynch.

Patel began at Pioneer, which is owned by Italian bank Unicredito Italiano SpA, after the firm bought her fund from Third Avenue Management in 1999. Before working at Pioneer, she managed funds at ING Pilgrim Investments and Dreyfus Investments.

She started the fund in 1998. About 62 percent of its money is invested in convertibles, which can be exchanged into shares and may benefit more than bonds if prices extend gains.

Lower energy prices and taxes, a decline in the value of the dollar and interest-rate cuts by the Federal Reserve will help propel economic growth above 2 percent, she said. In the first three months of the year, the economy grew 1.9 percent.

Patel is still avoiding telecommunications debt, which burned junk-bond funds when issuers such as Covad Communications Group Inc. went bankrupt over the past few years.

"Even when the economy picks up, the amount of growth they can have is limited," she said. She's also avoiding securities sold by airlines.

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Financial
Hatch Calls for Compromise on Asbestos

Albert B. Crenshaw
Washington Post Staff Writer
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The chairman of the Senate Judiciary Committee appealed to participants in the asbestos liability battle yesterday to "work with us" to craft compromise legislation setting up a trust fund to resolve a crisis that has clogged the nation's court system.

Sen. Orrin G. Hatch (R-Utah) told the corporations, insurers, labor unions, victims, trial lawyers and others fighting over the billions of dollars at stake that he intends to mark up a bill within two weeks. "There's no way we can please everybody," he said at a hearing.

His measure would create a trust fund of as much as $108 billion to pay claims by workers and their families injured by workplace contact with asbestos. It is modeled on the trust set up 15 years ago to pay claims against Johns Manville Corp. and would be funded by contributions from corporations and insurers over the next 25 years. Claims would be removed from state courts and adjudicated by a special federal asbestos court.

The bill would provide eight levels of injury with awards specified for each. A victim of mesothelioma, a rare, usually fatal cancer linked to asbestos, would receive a maximum of $750,000 under the bill. Such a person could get $2 million to $3 million in a lawsuit, opponents of the bill say.

The Manville trust has already been hit with more than 600,000 claims -- six times as many as expected when it was set up -- and is already reduced to paying only about 5 cents on the dollar on current claims.

Estimates of total claims nationally range as high as $200 billion. The Supreme Court, in a case earlier this year, called asbestos litigation an "elephantine mass" lodged in the judicial system and suggested Congress pass a law to address the problem.

Critics say the proposed fund is too small. Hatch and other backers say it would cut costs, including lawyers' fees, which currently eat up, by some estimates, almost 60 percent of the amount paid out in asbestos cases.

Hatch said he would be receptive to suggestions from all sides in preparing a final version of the bill. But he cautioned that if a bill doesn't pass this month, it may well be shunted aside by other Senate business.

"I cannot support the bill as written," said Sen. Patrick J. Leahy (D-Vt.), the ranking minority member of the panel. "If we have consensus, we pass a piece of legislation," he added. "If we don't, we don't."

Asbestos was widely used in industrial products including fireproofing and automobile brake linings. The mineral's tiny fibers, when inhaled, however, cause serious, often fatal lung ailments -- though often not until many years later.

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The Washington Post

INVESTING James K. Glassman
Financial

Happy Stocks' Shared Trait

James K. Glassman
1,905 words
1 June 2003
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English

"All happy families resemble one another, but each unhappy family is unhappy in its own way," wrote Tolstoy in "Anna Karenina."

You could say the same for stocks.

All happy stocks are pretty much alike, while unhappy stocks lose their value for all sorts of reasons -- fraud in the case of Enron Corp., bad mergers in the case of AOL Time Warner (AOL), inadequate business plans in the case of FreeMarkets Inc. (FMKT), whose shares have plummeted from $350 to $7 in three years.

What do happy stocks have in common? Moats.

To understand what a moat is, consider these three companies: Whole Foods Market (WFMI), Forest Laboratories (FRX) and International Game Technology (IGT). Each has at least doubled in price over the past three years, a period during which the Dow Jones industrial average has dropped nearly 2,000 points.

But first some background: When you buy a stock, you become a partner in a business. It's the business that counts, not the numbers you see every day in the stock pages, not the lines on analysts' charts. Your task is to find good businesses at good prices, or let someone else find them for you, or own an index fund whose performance reflects the market (and the economy) as a whole.

A good business is one that makes good profits -- or, to be more precise, generates a consistent and substantial flow of cash over time. That cash can either be distributed to investors in the form of dividends (and we should see more of this behavior since the passage of the recent tax cuts) or kept and reinvested by the company, whose value (and stock price) will rise as a result.

Running a business is tough -- and the main reason is competition, which puts constant pressure on the prices a business can charge customers. So, if you can find a business that has some protection against competition -- that is, a moat -- you may have found a happy stock.

"You need a moat in business," Warren Buffett, the chairman of Berkshire Hathaway (BRK.A), once said, "to protect you from the guy who is going to come along and offer [your product] for a penny cheaper."

Warfare is the prevailing environment in all sectors of the economy. It is wonderful for consumers because it means lower prices and better quality, but it can be hell for competitors. Long before the terrorist attacks of Sept. 11, 2001, the war in the airline sector was so fierce, it killed off many of its most celebrated combatants, including Eastern, Pan Am and National. Even in a good year, a company like Delta Air Lines (DAL) earns only about $5 on each $100 in sales, and those profits are depleted quickly in the purchase of new planes -- all to keep up with the competition.

Airlines are commodity businesses; that is, they peddle a product, like bushels of wheat, with few distinguishing features. Consumers choose among air carriers mainly by looking at prices, so the few successful airlines -- Southwest (LUV), JetBlue (JBLU) -- are the ones that keep costs low. While cost cutting helps businesses thrive, it's not a moat. Eventually, competitors -- even those with tough unions -- cut costs too, and it's hard to boost profits. As much as I admire Southwest (I am a longtime owner of the stock), I recognize that the company is still exposed to severe competitive forces, which prevent it from raising prices and making the kind of profits that moat-protected companies make.

A moat keeps the enemy at bay. It can be a great brand name or a special way of doing business or a series of patents. In short, a moat is an attractive profit-making asset that other businesses can't easily copy. Coca-Cola (KO) is a good example -- not just because of a secret formula for syrup but because of a brand name (the most recognized word in the world after "okay"), built over a century of advertising and word of mouth.

Coca-Cola stock has been a dud lately, and it may suffer in the future as global tastes change. But over time it has performed magnificently because, in its own sector, it is difficult to assail. Coke earns about 30 percent annually on its invested capital. Its book value and earnings have quintupled in the past 15 years, and dividends per share have risen from 14 cents to 88 cents. It has a gorgeous balance sheet, generates gouts of cash and has minimal capital-spending requirements.

Let's look at some other moat-protected businesses, more obscure than Coke, that have boomed in tough times:

* Whole Foods. Selling groceries is a commodity business if there ever was one, but this chain has found a productive niche. Growing by acquiring local and regional natural-foods markets such as Fresh Fields and Bread & Circus, Whole Foods owns and operates the nation's largest chain of natural-foods supermarkets -- 143 stores in 25 states. Since it went public in 1992, Whole Foods has increased its cash flow, in a Beautiful Line, in every year but one. Earnings over the past decade have risen from 15 cents to $1.40 a share, and the stock has increased more than eightfold in price. Over the past 12 months it is up 7 percent, compared with a loss of 13 percent for the benchmark Standard & Poor's 500-stock index.

The moat, in this case, lies in the company's reputation for selling food, vitamins and personal-care products that customers see as more healthful than the stuff they get at Winn-Dixie or Wal-Mart. Certainly, the large chains can sell organic and natural foods too, but the consumers who buy such products are highly conscious of who is selling them. They will, it appears, pay more to shop at a place they trust. Whole Foods also competes with local natural-foods stores, but those tend to be small and not so well-stocked.

One way to tell whether a company has a moat is to look at its profit margins compared with those of its competitors. High margins mean a broad moat. In this case, Winn-Dixie (WIN), a well-run company with more than 1,000 stores, last year had a net profit margin (earnings divided by sales) of 1.3 percent. Whole Foods had a margin of 3.1 percent.

Whole Foods is still a small chain, with an average of just five or six stores per state. It could cut costs with a more efficient distribution network -- especially since two-thirds of the products it sells are perishable, a big proportion for a supermarket. Are there enough customers out there for healthy groceries? Probably. But understand that one deficiency of well-protected companies is that they stake out small markets and have a difficult time expanding because demand is lacking.

Price is a consideration in any investment, and Whole Foods, with a price-to-earnings (P/E) ratio of 34, is not cheap. The good news is that the price has fallen about 15 percent in the past month while sales growth, even in a sluggish economy, remains powerful. Value Line expects both sales and earnings to rise at an annual average of 16 percent or more for the next five years. You don't get that kind of growth in this kind of industry without a moat.

* Forest Laboratories. Drug companies are classic moat-protected businesses. They spend enormous sums (an average of $900 million) to bring a drug from the lab to the market -- and that investment alone provides a barrier to competitors. And once the drug is patented and approved, it has strong legal protections. Generic competitors are managing to breach patent fortifications, but, compared with most businesses, drug companies retain broad moats.

Sales of Forest's blockbuster drug, Celexa, continue to rise impressively -- up 43 percent to $1.1 billion last year alone. The company also makes Aerobid for asthma and Tiazac for hypertension, among others, and it has a new anti-depressive, Lexapro, that should attract business as Celexa's patent defenses begin to expire.

Smaller drug companies like Forest have their ups and downs since they often depend on just one or two hot products -- Celexa, for instance, represents nearly half of Forest's total revenue. Still, a well-managed pharmaceutical firm typically has several new medicines in the pipeline. Forest has some excellent prospects, including an Alzheimer's drug, and, even if the pipeline is dry for a spell, the company, with no debt and $1.3 billion in cash, will be able to endure.

Again, my point is not to encourage you to buy Forest but to understand how a stock can rise, as this one has, by 133 percent over three years at the same time the S&P falls 31 percent.

* International Game Technology. Gambling is a delightfully recession-proof industry. When times are good, people pour money into casinos. When times are bad, states adopt and expand lotteries. International Game Technology benefits both ways. It develops slot machines and other sophisticated gambling games, including the obnoxiously ubiquitous "Wheel of Fortune" machine, and it provides software and hardware for lotteries, now legal in 39 states and 100 countries.

IGT's moat comes from its technology. It is simply the best at what it does -- making innovative games, such as progressive slot-machine systems that produce multimillion-dollar jackpots. IGT also links its machines to popular brand names, including "Jeopardy" and Elvis. Other companies can make slot machines, but no one else can make Slotopoly or Party Time. Through strong research and development, smart marketing and acquisitions of such competitors as Anchor Gaming (which readers may remember as one of my old favorites), IGT has built a 70 percent market share. When you're that big, you have pricing power.

The company's growth has been phenomenal. Earnings have risen from 8 cents a share in 1993 to an expected $4 or more this year; total revenue, from $478 million to more than $2 billion, with a net profit margin of 16 percent. Cash flow is abundant and capital-spending requirements insignificant. IGT shares have more than tripled in the past three years. They fell sharply as a result of the Sept. 11 attacks but recovered quickly. In the last year alone, they're up 45 percent.

Again, IGT isn't cheap -- it closed Friday at $88.04 -- but why should it be? It trades at a P/E of 23, which sounds reasonable for a company that has increased its earnings at an annual rate of more than 20 percent for the past 10 years. Growth will slow in the future -- it has to -- but it appears that the company's moat is awfully secure.

Reputation, patents, technology -- those are just some of the moats that businesses build to protect them from marauders. No moat is permanent, and even the broadest moat can be breached by clever competitors. But, in general, a wide moat makes a happy stock -- and a happy investor.

Of the stocks mentioned in this article, James K. Glassman owns Berkshire Hathaway and Southwest Airlines. His e-mail address is jglassman@aei.org. He invites comments and queries but cannot answer everyone.

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The Washington Post

Editorial
Dividend Voodoo

Warren Buffett
981 words
20 May 2003
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The annual Forbes 400 lists prove that -- with occasional blips -- the rich do indeed get richer. Nonetheless, the Senate voted last week to supply major aid to the rich in their pursuit of even greater wealth.

The Senate decided that the dividends an individual receives should be 50 percent free of tax in 2003, 100 percent tax-free in 2004 through 2006 and then again fully taxable in 2007. The mental flexibility the Senate demonstrated in crafting these zigzags is breathtaking. What it has put in motion, though, is clear: If enacted, these changes would further tilt the tax scales toward the rich.

Let me, as a member of that non-endangered species, give you an example of how the scales are currently balanced. The taxes I pay to the federal government, including the payroll tax that is paid for me by my employer, Berkshire Hathaway, are roughly the same proportion of my income -- about 30 percent -- as that paid by the receptionist in our office. My case is not atypical -- my earnings, like those of many rich people, are a mix of capital gains and ordinary income -- nor is it affected by tax shelters (I've never used any). As it works out, I pay a somewhat higher rate for my combination of salary, investment and capital gain income than our receptionist does. But she pays a far higher portion of her income in payroll taxes than I do.

She's not complaining: Both of us know we were lucky to be born in America. But I was luckier in that I came wired at birth with a talent for capital allocation -- a valuable ability to have had in this country during the past half-century. Credit America for most of this value, not me. If the receptionist and I had both been born in, say, Bangladesh, the story would have been far different. There, the market value of our respective talents would not have varied greatly.

Now the Senate says that dividends should be tax-free to recipients. Suppose this measure goes through and the directors of Berkshire Hathaway (which does not now pay a dividend) therefore decide to pay $1 billion in dividends next year. Owning 31 percent of Berkshire, I would receive $310 million in additional income, owe not another dime in federal tax, and see my tax rate plunge to 3 percent.

And our receptionist? She'd still be paying about 30 percent, which means she would be contributing about 10 times the proportion of her income that I would to such government pursuits as fighting terrorism, waging wars and supporting the elderly. Let me repeat the point: Her overall federal tax rate would be 10 times what my rate would be.

When I was young, President Kennedy asked Americans to "pay any price, bear any burden" for our country. Against that challenge, the 3 percent overall federal tax rate I would pay -- if a Berkshire dividend were to be tax-free -- seems a bit light.

Administration officials say that the $310 million suddenly added to my wallet would stimulate the economy because I would invest it and thereby create jobs. But they conveniently forget that if Berkshire kept the money, it would invest that same amount, creating jobs as well.

The Senate's plan invites corporations -- indeed, virtually commands them -- to contort their behavior in a major way. Were the plan to be enacted, shareholders would logically respond by asking the corporations they own to pay no more dividends in 2003, when they would be partially taxed, but instead to pay the skipped amounts in 2004, when they'd be tax-free. Similarly, in 2006, the last year of the plan, companies should pay double their normal dividend and then avoid dividends altogether in 2007.

Overall, it's hard to conceive of anything sillier than the schedule the Senate has laid out. Indeed, the first President Bush had a name for such activities: "voodoo economics." The manipulation of enactment and sunset dates of tax changes is Enron-style accounting, and a Congress that has recently demanded honest corporate numbers should now look hard at its own practices.

Proponents of cutting tax rates on dividends argue that the move will stimulate the economy. A large amount of stimulus, of course, should already be on the way from the huge and growing deficit the government is now running. I have no strong views on whether more action on this front is warranted. But if it is, don't cut the taxes of people with huge portfolios of stocks held directly. (Small investors owning stock held through 401(k)s are already tax-favored.) Instead, give reductions to those who both need and will spend the money gained. Enact a Social Security tax "holiday" or give a flat-sum rebate to people with low incomes. Putting $1,000 in the pockets of 310,000 families with urgent needs is going to provide far more stimulus to the economy than putting the same $310 million in my pockets.

When you listen to tax-cut rhetoric, remember that giving one class of taxpayer a "break" requires -- now or down the line -- that an equivalent burden be imposed on other parties. In other words, if I get a break, someone else pays. Government can't deliver a free lunch to the country as a whole. It can, however, determine who pays for lunch. And last week the Senate handed the bill to the wrong party.

Supporters of making dividends tax-free like to paint critics as promoters of class warfare. The fact is, however, that their proposal promotes class welfare. For my class.

The writer is chief executive officer of Berkshire Hathaway Inc., a diversified holding company, and a director of The Washington Post Co., which has an investment in Berkshire Hathaway.

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The Washington Post

A Section
Auctioning Off Symbols of '90s Executive Excess; As a Perk, Corporate Art Loses Spotlight

Ben White
Washington Post Staff Writer
1,758 words
11 May 2003
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This week, auction house Phillips, de Pury & Luxembourg will sell Claes Oldenburg's vinyl "Soft Light Switches" sculpture owned by Enron Corp. Christie's will offer a Mark Rothko abstract owned by Vivendi Universal SA.

The sales represent the latest rejection of an era of corporate opulence, when chief executives used shareholders' money to purchase exquisite works of art. Now as companies struggle to regain public trust and shore up their bottom lines, they are putting a remarkable number of expensive works on the auction block here this spring, including Vivendi's Rothko and Enron's Oldenburg.

These sales, say corporate reform advocates, are a small but symbolic step in an effort to reshape the role of chief executives and public companies from the culture of the late 1990s, when chief executives were celebrated as heroes of the economic boom and boards of directors rarely seemed to rein them in.

When the stock market was sizzling, no expense seemed excessive. Enron could buy pop art for its energy trading floor without being questioned by shareholders. Vivendi chief executive Jean-Marie Messier could hang a Rothko abstract on his office wall without causing a stir.

As long as stock prices were rising and everyone was getting rich, the thinking went, why deny the nation's conquering corporations and imperial chief executives the use of company funds to surround themselves and their employees with all the trappings of power and sophistication?

But now the boom has ended. Chief executives are in disrepute. Investors who lost billions of dollars are angry that money was poured into such things as expensive art, corporate jets and over-the-top compensation to support lavish executive lifestyles.

Last week Securities and Exchange Commission Chairman William H. Donaldson weighed in, saying he too thought executive compensation had gotten out of hand and asking corporations to rethink how they evaluate themselves. Some in corporate America also say the role of the chief executive and the public company must evolve to adapt to this new environment.

Investing icon Warren Buffet, chairman of Berkshire Hathaway Inc., told shareholders at Berkshire's annual meeting this month that there had been more excessive compensation in the past five years than in the previous century. Buffet has repeatedly blamed the abuse of stock option grants and the failure of boards to limit executive pay for the multiple corporate scandals of the last two years.

Academic experts says the investing public is angry at the imperial chief executives and expects public companies to pay far more attention to shareholders. "I've got no problem with an executive making a lot of money," said Henry T.C. Hu, professor of corporate and securities law at the University of Texas at Austin. "But there has got to be a closer correlation between how executives are paid and how shareholders do. . . . If executives participate in the upside they have to suffer on the downside as well."

Investors say that means they will be far more critical of purchases of items like multimillion-dollar works of arts. "Buying art, like so many other perks we've seen these past few years, was something meant to satisfy the ego of the chief executive, not to serve shareholder interests," said Charles Elson, director of the Center for Corporate Governance at the University of Delaware. "Companies should be in the business of manufacturing products, not buying art. . . . These things look great on office walls, but they are lousy for shareholder value. They are not an effective deployment of assets."

Courts, creditors and investors are now telling financially ailing corporations that the masterpieces have to go.

Enron was directed by a bankruptcy judge to sell its collection, which is expected to bring around $4 million. The company owes creditors $50 billion.

Vivendi, mired in enormous debt from a wave of acquisitions, chose to sell the Seagram collection.

"In July of 2002 the new management did a complete asset review . . . and decided that [selling the art] was in the best interest of shareholders going forward," Vivendi spokeswoman Anita Larson said. The Rothko that hung briefly on Messier's office wall before his ouster last July now hangs at Christie's, awaiting auction on May 14.

Corporate art purchases are not new, of course. Executives and corporate art committees were a staple of the New York art market in the 1980s, but then as the economy slowed, so did the buying activities. But as the economy and stock market soared in the late 1990s, corporations again became avid art buyers, eager to give their companies a patina of urbane sophistication.

Many in the art world say this was a good thing. The Seagram collection, amassed over the past half century by Phyllis Lambert, daughter of Seagram's founder Samuel Bronfman, includes a beloved Picasso stage curtain, "Le Tricorne," that has been available for public view at the Seagram building on Park Avenue for more than 40 years.

New York arts activists say corporations have a civic duty to continue to support the public's exposure to fine art. "The public is exposed to little enough art as it is," said Frank E. Sanchis III , executive director of the Municipal Art Society of New York. "In a case like this, where the public has become familiar with a piece, it is incumbent" upon a company to keep the art where it is.

Lambert says the Seagram sale will likely generate the smallest of drops in Vivendi's $18 billion bucket of debt. "It's as if the Vandals came from the west and raided the territory, leaving nothing in their wake," she said in an interview. "Seagram's was a wonderful company and good corporate citizen. These works were for the education and pleasure of employees and the public. Now that's all being washed away. . . . Is there a public-spirited company left in North America?"

But outraged investors who lost money when stocks collapsed often did not view it as public-spirited that shareholders' money was spent on fine art rather than on growing the core business of a corporation.

New York gallery owners and dealers say executives and corporate committees these days get the message.

"It used to be much more loosey-goosey for executives and companies to buy art" with company money, said Martha Fleischmann, director of the Kennedy Galleries on the Upper East Side. "Some bought very well, some bought foolishly. But now with all the corporate hanky-panky there is much more scrutiny and much more reluctance."

Fleischmann said she recently sold a piece to a Chicago chief executive who wanted to spruce up his office. But the executive made it clear he would spend his own money for the work.

Even executives who spent their own money are under pressure to sell. Former ImClone Systems Inc. chief executive Samuel Waksal, indicted last year on charges of insider trading, is attempting to sell a Roy Lichtenstein ("Landscape with Seated Figure") and a William de Kooning ("Untitled V"). Waksal pleaded guilty in March to separate charges of evading $1.2 million in taxes on nine paintings

The federal government has also sued Waksal's dealer, Larry Gagosian, for $26.5 million in unpaid sales taxes. Gagosian, one of the biggest dealers in New York, was also named as an unindicted co-conspirator in the Waksal case for allegedly helping Waksal avoid taxes by preparing false invoices. Gagosian had other well-known executives as clients, including SunAmerica Inc. chief executive Eli Broad and Dreamworks SKG co-founder David Geffen. Neither executive was implicated in the tax evasion scandal. Former Tyco International chief executive L. Dennis Kozlowski was also indicted for failing to pay taxes on art purchases, including a Renoir, that he hung in his Manhattan penthouse, an apartment paid for by Tyco shareholders.

But it is the purchase of corporate art with shareholders' money that has raised the most questions, although few of those questions seemed to pop up when the purchases were made during the boom years. The art may have seemed a small price to pay when share prices were rising. Besides, it was an era when chief executives could often win the support of other executives by doling out generous stock options awards. Stock options give holders the right to buy stock at a predetermined price during a specified period. If the stock rises above the set price, the holder profits when the shares are sold.

Investor groups have taken aim at the stock option weapon used by chief executives. They are pushing hard for the new Federal Accounting Standards Board to force companies to count options as an expense, which could make them far less attractive as a means of executive compensation. Last week, option reform advocates got a strong vote of support from SEC Chairman Donaldson, who said it would be just a matter of time before the change became official.

The advocates also got a somewhat surprising endorsement from Donaldson on their key issue: overall executive pay. In remarks to the New York Economic Club, Donaldson said compensation had become untethered from true performance and that executives would have to get used to being paid less and having their compensation tied to long-term performance -- measured in new ways such as product and service quality, investment in research, employee and consumer satisfaction, and controlled, sustainable rates of expansion and investment.

Hu, of the University of Texas at Austin, said public embarrassment, in the form of the extensive disclosure of executive pay mandated by the SEC, has not been enough to eliminate enormous pay packages. He said in order to change the system, corporate boards have to completely change how they make these decisions. They must stop relying on compensation consultants, who often have a financial interest in keeping pay packages high, and must come up with better criteria for measuring executive performance.

But most of all, Donaldson said, companies need to rethink who they are and how they will operate in this new environment. "In my mind the most important thing that a board of directors should do is determine the elements that must be embedded in the company's moral DNA , as one might call it," Donaldson said in his speech last week. "It should be the foundation on which the board builds a corporate culture based on a philosophy of high ethical standards and accountability."

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The Washington Post

Financial

QUOTH THE MAVENS

450 words
4 May 2003
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English

Interesting excerpts from investing newsletters:

"As you hear the negative nabobs explain why nothing can improve and how much worse everything may become, assure yourself that this is normal and intensifies as bear markets end. No matter what markets are doing today, they have probably done it before. Whether tomorrow brings ennui or excitement, markets always go to excess, both high and low. Every stock, if held long enough, will enjoy periods when it is very expensive and endure periods when it is very inexpensive. Neither condition necessarily indicates problems with the company. Many mistakes are made by thinking short term. Most mistakes are made by selling."

-- Michael Farr

The Farr View

Farr, Miller & Washington LLC

Washington

"We believe the March 11 low probably marked the beginning of a new cyclical bull market. . . . We are increasing our equity allocations in all three portfolios by 10 percent. . . . This puts equity exposure in our three models at 80 percent [for "Wealth Builder"], 70 percent [for "Pre-Retirement"] and 45 percent [for "Retirement"]. Our ultimate goal is to return to our equity weightings of the 1990s. Back in the summer of 1999, Wealth Builder was 100 percent invested in equities; Pre-Retirement was 80 percent in equities; and Retirement was 65 percent in equities and 35 percent in bonds. After three down years, it's great to see some market strength that looks real."

-- Sheldon Jacobs

The No-Load Fund Investor

Ardsley, N.Y.

"I know of no investment strategy that can insulate its followers against occasional setbacks. Even the stock of Berkshire Hathaway (BRK/A), run by Warren Buffett, arguably the great investor of our time, lost nearly half of its value between June 1998 and March 2000. We have endured our bouts of sub-par performance as well, just as we have enjoyed times of spectacular returns, but through it all we have always sought to maintain proper perspective, especially as stocks have historically delivered stellar returns. It's a cliche, but true: There is no gain without pain."

-- John Buckingham

The Prudent Speculator

Laguna Beach, Calif.

"Popularity is not something you should automatically avoid. That is the most surprising conclusion to emerge from the Hulbert Financial Digest's analysis of newsletters' most-recommended stocks. . . . Several academic studies had found that, on average, stocks that were followed by no Wall Street analysts outperformed those that did have a following. I had no reason to expect that it would be any different in the case of newsletters. But, at least over the last 23 years, the stocks that investment newsletters like the most have outperformed the market."

-- Mark Hulbert

Hulbert Financial Digest

Annandale

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The Washington Post

A Section

Buffett Tells Investors to Be Realistic About Stock Returns

Terence Flanagan
Bloomberg News
498 words
4 May 2003
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English

OMAHA, May 3 -- Investors in U.S. stocks should expect a return of 6 percent to 7 percent a year, and people who are looking for double those gains as they did through much of the 1990s are "dreaming," Warren Buffett said today.

The Standard & Poor's 500-stock index rose 18 percent a year on average from 1982 to 1999, and that raised the expectations of investors, Buffett said at the annual shareholders meeting of his insurance and investment conglomerate, Berkshire Hathaway Inc. Polls in the late 1990s showed that some investors expected stocks to gain 14 percent to 15 percent a year, he said.

"Thinking that in a low-inflation environment is dreaming," he said.

Buffett met with shareholders at the Omaha Civic Center, where his fans and investors gather every year to hear his opinions on corporate governance, investing and the stock market.

Buffett, 72, made a fortune of more than $30 billion by buying stakes in companies such as Coca-Cola Co., American Express Co. and The Washington Post Co.

The economy, as measured by gross domestic product, can be expected to grow about 3 percent a year in the long term, and inflation of 2 percent would push nominal GDP growth to 5 percent, Buffett said. Stock prices would probably rise about the same and dividend payments will boost total returns to 6 percent to 7 percent a year, he said.

"That math isn't bad, but it is bad for people who expected long-term returns based on looking in the rear-view mirror," Buffett said.

Buffett said he plans to appoint new independent directors to the Berkshire board to comply with corporate governance rules.

"We will add outside directors and it will be done before the deadline," he said. "It's just a matter of finding ones that meet our requirements. There aren't that many out there, but we'll find them."

Berkshire's seven-member board includes Buffett's wife, son and three executives who have business ties to the company. Lawyers and corporate governance experts have said that Buffett probably would have to add at least two outside directors to comply with rules proposed by the New York Stock Exchange.

Buffett has railed for a decade against corporate greed and directors who put their interests ahead of those of investors. His reputation as an investor and his insistence on cleaning up boardrooms spurred Congress and the stock exchanges to adopt his principles and transform them into regulations policing corporate-board practices.

Berkshire Hathaway said it earned a record $1.7 billion from operations in the first quarter after its reinsurance business, General Re, reversed four years of losses and turned a profit. Berkshire also gained about $1.7 billion on its securities investments, Buffett said.

Bloomberg News staff writers Dan Lonkevich and David Plumb contributed to this report.

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The Washington Post

Financial

Mars Inc. {gt} Geico Corp. {gt} Mid-Atlantic Cars (Brown Automotive Group) {gt} Allegis Group {gt} Clark Enterprises Inc. {gt} Booz Allen Hamilton Inc. {gt} MedStar Health {gt} Goodwill Industries Inc. {gt} Discovery Communications {gt} Ritz Camera Centers Inc. {gt} Inova Health System {gt} B.F. Saul Real Estate Investment Trust {gt} Rosenthal Automotive {gt} Feld Entertainment {gt} Bureau of National Affairs Inc.

170 words
28 April 2003
The Washington Post
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T60
English

The list of Washington's largest private companies historically has been rather static, dominated as it is by some of the largest family fortunes in the country: Mars, Clark, Saul, Ritz and Feld. But last year two companies left this list. FHC Health Systems moved its headquarters to Virginia Beach, and DynCorp, the area's largest employee-owned company, was bought by Computer Sciences, which is already one of the area's largest employers. A newcomer to this year's list of largest private companies is Allegis Group, a Hanover, Md.-based contract employment company that has grown rapidly in recent years.

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The Washington Post

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Mars Inc. 6885 Elm St. McLea ...

4,450 words
28 April 2003
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Mars Inc.

6885 Elm St.

McLean, Va. 22101

703-821-4900

www.mars.com

Founded: 1911

Revenue: $17.50 billion

Chairman, president and CEO: John F. Mars

Employees: 30,000

Local employees: NA

DESCRIPTION: Mars is among the world's largest food-processing firms. Forbes Magazine calculates that Mars is the third-largest privately held global firm. Although the company is most associated with its chocolate products, such as M&M's, Snickers and Milky Way, some of its non-candy brands -- Uncle Ben's rice and Pedigree pet food -- are just as well known. Mars also sells drink vending equipment and electronic automated-payment systems.

DEVELOPMENTS: Except for a line of retail stores in Las Vegas that were hurt by a slump in tourism, Mars officials reported that sales in all divisions continued to grow in the past year, and, in most instances, at a faster rate than the year before. New products included Mint Skittles, Popables candies and new versions of the Dove ice cream bars. Taking a cue from the human market, Mars successfully introduced single-serving products in its pet-food division.

Mars reorganized and re-branded all of its U.S. operations last year under Masterfoods USA, which operates out of offices in New Jersey and Los Angeles. Paul S. Michaels was named to head all of the Mars operations in the Western hemisphere, while Robert Gamgort, formerly general manager of the U.S. chocolate business, was promoted to Masterfoods USA president.

During the year, Effem Mexico SA de CV, a Mars company, merged with Mexico's Grupo Matre, parent of Lucas World Inc., to form a partnership focused on producing candy for Hispanic markets.

After divesting itself of several lines of business, Mars won approval from the European Union for its Masterfoods Europe division to proceed with its acquisition of a controlling stake in Royal Canin SA, which produces a line of what might be called pet health foods. Royal Canin will continue as an independent business unit.

The company is wholly owned by three aging members of the Mars family whose combined wealth is estimated by the magazine at $30 billion. The revenue figure above is an estimate provided by Forbes Magazine's research of the country's largest private companies.

Geico Corp.

1 Geico Plaza

Washington, D.C. 20076

301-986-2500

www.geico.com

Founded: 1936

Revenue: $6.67 billion

President and CEO, insurance operations: Olza M. Nicely

President and CEO, capital operations: Louis A. Simpson

Employees: 20,000

Local employees: 1,650

DESCRIPTION: Geico, a wholly owned subsidiary of investor Warren Buffett's Berkshire Hathaway Inc., is the nation's sixth-largest direct writer of personal automobile insurance policies. Rather than employing agents, the company markets its policies over the phone and through the mail. Geico had 5.3 million policies in force at the end of 2002.

DEVELOPMENTS: Geico began as a provider of auto insurance to government employees (its name was derived from Government Employees Insurance Company). In 1958, Geico began branching out to cover other drivers. The company now sells policies to low-risk private citizens through its Geico General unit, to drivers with standard risks through Geico Indemnity and to drivers representing other risks through its Geico Casualty unit.

Geico helped boost Berkshire Hathaway's 2002 earnings as the company eliminated some unprofitable policies and continued to benefit from a post-9/11 increase in insurance rates. In his report to shareholders, Warren Buffett, a major investor in and director of The Washington Post Co., said that things "went so well" at Geico last year that "we should pinch ourselves." He said the company took in $6.9 billion in premiums last year and reported a pretax underwriting profit of $416 million, up from $221 million the previous year.

Mid-Atlantic Cars (Brown Automotive Group)

10287 Lee Hwy.

Fairfax, Va. 22030

703-352-5555

www.brownscar.com

Founded: 1973

Revenue: $3 billion

Chairman and CEO: Charles S. Stringfellow Jr.

President and COO: Daniel Legge

Employees: 3,500

Local employees: 3,000

DESCRIPTION: Mid-Atlantic, which operates under the name Brown Automotive Group, is one of the largest conglomerates of car dealerships on the East Coast. It owns about 21 showrooms in Baltimore, Charlottesville, Richmond and the D.C. area, and its 15 brands include Honda, Toyota, Nissan, Buick, Chrysler, Volkswagen, Jaguar and Subaru.

DEVELOPMENTS: Brown developed the Dulles Auto Park and plans to operate five dealerships there with more than 250,000 square feet of retail space and 600 employees. The company's overall investment in the park, which also features dealerships owned by other companies, will total about $100 million.

Brown said that it has several acquisitions underway and that it expects to add at least three or four dealerships this year. Within five years, the group's leaders plan to more than double the size of the company, eventually encompassing up to 50 dealerships in the mid-Atlantic region.

Allegis Group Inc.

7301 Parkway Drive

Hanover, Md. 21076

877-388-3823

www.allegisgroup.com

Founded: 1983

Revenue: $2.61 billion

Employees: 4,600

Local employees: NA

DESCRIPTION: Allegis is the world's largest privately held staffing company and the eighth-largest U.S. staffing company, according to the newsletter Staffing Industry Report. In addition to contract workers, which it provides through subsidiaries Aerotek and Onsite Companies Inc., Allegis provides businesses with information technology consulting and recruiting services. It also offers online recruiting and job-search services through Thingamajob.com.

DEVELOPMENTS: In August, Allegis Group merged its oldest operating company, Aerotek, which provides contract workers to scientific, engineering and automotive businesses, with Onsite, another operating company. Onsite supports energy, aviation, manufacturing and environmental companies. Allegis suggested that the two would operate more efficiently together because most major corporations were using both companies' services separately.

Allegis is also seeking to become more competitive by offering more specialized staffing services. The company launched that strategy last year by playing down Option One, an operating company that offers general recruiting and temporary help, and by creating three service lines to reach specific industries: Contacteam caters to call centers, Mentor 4 Accounting & Financial Search focuses on headhunting for management-level professionals, and M4 Accounting Support fills positions in corporate accounting departments. All of the divisions are united under the parent company Mentor 4 Inc.

Allegis's growth has been fueled by the rise of temporary work and the desire of many employers to save money by farming out some jobs and tasks.

The company was founded as Aerotek by Stephen J. Bisciotti to offer contract engineering. The firm's growth enabled Bisciotti to buy 49 percent of the Baltimore Ravens from Art Modell in 2000. The move, which cost $275 million, enabled Modell to build his 2001 Super Bowl team. Bisciotti has an option to buy the other 51 percent from Modell next year for $325 million.

His growing profile in the sports world, though, contrasts starkly with his work as a businessman. Company officials declined to discuss the companies' operation in any detail outside of the sparse material on its corporate Web site.

Clark Enterprises Inc.

7500 Old Georgetown Rd.

Bethesda, Md. 20814

301-657-7100

www.clarkus.com

Founded: 1906

Revenue: $2.60 billion

Chairman and CEO: A. James Clark

President and COO: Lawrence C. Nussdorf

Employees: 4,500

Local employees: 1,750

DESCRIPTION: Clark Enterprises is a holding company that owns Clark Construction Group, a nearly 100-year-old firm active in all phases of major construction projects.

DEVELOPMENTS: Last year, Clark ranked 64th among the largest privately held companies in the country, according to Forbes Magazine. Its projects include construction, renovation, management services, materials and equipment procurement and project development assistance.

Its familiar dark blue and white signs dot the Washington-Baltimore area but also are posted in many parts of the United States and in foreign countries.

The firm's projects include convention centers (including Washington's new center), sports facilities, hotels, large office buildings, airport terminals, correctional institutions, water treatment facilities, highway and bridge projects, factories and apartment buildings.

The Washington Convention Center, which Clark built with Smoot Construction, occupies six full blocks in Northwest Washington. It has 725,000 square feet of exhibit hall space, 150,000 square feet of meeting rooms and a 70,000 square foot ballroom. The building is among the six largest convention centers in the nation, and the largest structure in the District.

Other local area projects include the new international arrivals terminal at Baltimore-Washington International Airport. Portions of the "mixing bowl," the huge Springfield interchange where interstates 95, 395 and 495 meet, are being built by Shirley Contracting Corp, a Clark subsidiary.

Clark Construction, in conjunction with Peter Kiewit Sons Inc. and Tidewater Construction Corp., is continuing to work on the foundations and piers for the new Woodrow Wilson Bridge over the Potomac River. However, the joint venture's bid on the next phase, the bridge superstructure, was rejected because it was $373 million more than engineers had estimated. That contract was then broken into several smaller pieces, the first of which was let to another firm. Meanwhile, another joint venture between Clark and Kiewit has begun work on the extension of Metro's Blue Line beyond Addison Road in Prince George's Country.

Clark has also begun work on a new class A office building at 1700 K St. NW in downtown Washington.

Booz Allen Hamilton Inc.

8283 Greensboro Dr.

McLean, Va. 22102

703-902-5000

www.boozallen.com

Founded: 1914

Revenue: $2.20 billion

Chairman and CEO: Ralph W. Shrader

President, worldwide commercial business: Daniel C. Lewis

Employees: 12,250

Local employees: 7,800

DESCRIPTION: Booz Allen Hamilton is an international management and technology consulting firm serving major corporations and government clients. In the Washington area the firm focuses on information technology, defense, telecommunications, health care, transportation, the environment and other fields. It also serves large local corporate clients in such sectors as oil, aerospace and communications.

DEVELOPMENTS: Booz Allen Hamilton grew in head count and revenue over the past year, thanks in part to a significant expansion of its Japanese business, where it added four offices and about 50 staff members acquired from GCJ, formerly Gemeni Consulting Japan. The move essentially doubled Booz Allen's presence in Japan.

Among the firm's more high-profile activities was a "port security war game," staged over two days in October. The event, put on by Booz Allen's war-gaming center, drew about 85 people from such agencies such as the Coast Guard and U.S. Customs Service as well as port administrators, private shipping firms and railroad companies.

As usual, Booz Allen was awarded a passel of government contracts. Under a $50 million contract from the Census Bureau, the firm is to support preparation for the 2010 Census. A $39 million, multiyear contract with the Defense Advanced Research Project Agency recruits the firm to provide tools for counterterrorism intelligence analysis and warning. The Washington Metropolitan Area Transit Authority awarded the firm a $31 million contract in January to update and replace key systems.

MedStar Health

5565 Sterrett Pl., fifth floor

Columbia, Md. 21044

410-772-6500

www.medstarhealth.org

Founded: 1998

Revenue: $2.11 billion

CEO: John P. McDaniel

President and COO: Kenneth A. Samet

Employees: 22,000

Local employees: 12,500

DESCRIPTION: MedStar Health, the 21st-largest nonprofit health system in the United States, operates 25 integrated businesses, including seven hospitals in the Washington-Baltimore area with 2,650 licensed beds, 22,000 employees and 4,700 affiliated physicians. The MedStar system includes the Washington Hospital Center, Georgetown University Hospital and National Rehabilitation Hospital in the District and five hospitals in Baltimore.

DEVELOPMENTS: MedStar launched construction projects last year at two Baltimore facilities: a new cancer center at Franklin Square Hospital and a 24-bed critical-care unit at Union Memorial Hospital.

The company also upgraded some technology. CyberKnife, a nonsurgical technology for patients with lesions of the brain, neck and spine, was introduced at Georgetown University Hospital. Leksell Gamma Knife uses cobalt rays to perform delicate brain surgery on an outpatient basis at Washington Hospital Center.

MedStar also contracted with RelayHealth to develop a secure, online communications system. This January, a pilot project was launched with 25 physicians using the messaging system to communicate with patients online.

Goodwill Industries International Inc.

9200 Rockville Pike

Bethesda, Md. 20814

301-530-6500

www.goodwill.org

Founded: 1902

Revenue: $1.94 billion

President and CEO: George W.

Kessinger

VP, strategic planning: Samuel W. Cox

Employees: 144,496

Local employees: 823

DESCRIPTION: Goodwill Industries International is an umbrella organization of 207 Goodwill agencies in communities worldwide that train and find jobs for people with disabilities or other disadvantages. Goodwill's revenue comes from a network of 2,000 stores and an Internet auction site to sell donated clothing, computers and other household items. It provides workers to businesses and government agencies for janitorial services, laundry and cooking.

DEVELOPMENTS: To mark its 100th anniversary, Goodwill Industries launched an international workforce development initiative to get 20 million people around the world into the workplace and up the career ladder by 2020. The agency has expanded services to reach more people, focusing not only on helping individuals get jobs but retain jobs and advance their careers. At the same time, Goodwill is helping workers on family issues, such as transportation and child care, that could affect job retention.

Noting that the root causes of hunger stem from poverty and unemployment, Goodwill joined forces with America's Second Harvest, the nation's largest domestic hunger-relief organization, to link Second Harvest affiliates and local Goodwill agencies in food drives, job-training programs, cross-agency referrals children's services.

The nonprofit organization also began working with the Federal Deposit Insurance Corp. to provide financial education to low-wage workers, low-income families and those who do not have banking experience.

It used a $850,000 grant from the Commerce Department to launch a self-paced online learning program to help people coming off welfare find and keep jobs. The Labor Department awarded Goodwill $500,000 to train youths, adults and dislocated workers with disabilities for careers in technology.

Discovery

Communications Inc.

1 Discovery Pl.

Silver Spring, Md. 20910

240-662-0000

corporate.discovery.com

Founded: 1985

Revenue: $1.71 billion

Chairman and CEO: John S. Hendricks

President and COO: Judith A. McHale

Employees: 5,000

Local employees: 1,800

DESCRIPTION: Discovery Communications is an international media company that broadcasts several cable channels, including the Discovery Channel, TLC: The Learning Channel, Animal Planet and the Travel Channel. The company produces and airs popular shows such as "Trading Spaces" and "Monster Garage." Discovery's channels are translated into 33 languages and can be seen by 875 million subscribers in 155 countries. The company also owns 154 stores.

DEVELOPMENTS: Last year was a burst-out year for the company, which moved from its Bethesda headquarters to a $150 million-plus complex in Silver Spring, which Montgomery County officials are counting on to spur the revitalization of the downtown crossroads of Georgia Avenue and Colesville Road. All employees were scheduled to be moved in by the end of March.

The company announced several key hirings and new ventures last year. In May, the company tapped Billy Campbell, a former network and Miramax Television executive, as president of Discovery Networks, overseeing all programming. In October, Campbell brought longtime network ad man Joseph Abruzzese over from CBS to head Discovery's ad sales, as the cable network strove to achieve equal ad rates and industry cachet as network television.

Discovery, which is owned by founder John S. Hendricks, John C. Malone's Liberty Media Corp., Cox Communications Inc. and Advance/Newhouse Communications, also spent significantly to convert its network to high-definition digital broadcast capability and forged ahead with costly but potentially rewarding video-on-demand plans. It continued overseas expansion, particularly in Mexico, India and Eastern Europe.

In March, Liberty Media announced that Discovery's 2002 advertising revenue was up 9 percent from 2001. It rose 22 percent in the fourth quarter, compared with the same period of 2001.

Also in March, the company launched the Discovery Times Channel, a joint venture with the New York Times Co., which paid $100 million to help produce the documentary and news feature channel and will eventually share ad revenue with Discovery.

Discovery laid off workers from its Web site in 2001 but was able to avoid such cuts in 2002.

Ritz Camera Centers Inc.

6711 Ritz Way

Beltsville, Md. 20705

301-419-0000

www.ritzcamera.com

Founded: 1918

Revenue: $1.34 billion

CEO: David M. Ritz

President: Wade R. Mayberry

Employees: 12,000

Local employees: NA

DESCRIPTION: Ritz Camera is the nation's largest camera and photo-processing retailer, with more than 1,200 stores. It also owns more than 100 Boater's World Marine Centers, which sell boating equipment and water-sports supplies.

DEVELOPMENTS: The "home of the big print" has come a long way since it began life as a one-man portrait studio in Atlantic City.

In addition to its brick-and-mortar stores, Ritz has a strong presence on the Internet, which the company expanded last year, launching RitzElectronics.com in April. Augmenting its photo-equipment sales, which have moved strongly into the digital imaging format, RitzElectronics competes against such big-box retailers as Best Buy and Circuit City Stores, and it sells DVD players, phones and video games.

As a privately held company, Ritz does not disclose financial data. The revenue figure above is an estimate provided by Forbes Magazine's research of the country's largest private companies.

California-based Ritz Interactive Inc., a separate company formed in 1999 as a partnership between its president and the head of Ritz Camera Centers, David M. Ritz, fulfills its orders through Ritz Camera. Like

Ritz Camera, Ritz Interactive does not disclose financial information, but it did say sales were up 80 percent last year from 2001.

For Ritz, 2002 was a year of gobbling up its major competitors. Last May, Ritz Interactive announced the purchase of CameraWorld.com for an undisclosed amount. A month earlier, Ritz Interactive acquired another major e-rival, PhotoAlley.com.

Inova Health System

8110 Gatehouse Rd.

Falls Church, Va. 22042

703-289-2000

www.inova.org

Founded: 1956

Revenue: $1.25 billion

President and CEO: J. Knox Singleton

EVP and COO: Jolene Tornabeni

Employees: 13,000

Local employees: 13,000

DESCRIPTION: Inova is one of the largest nonprofit health care systems in the Washington area. It is composed of hospitals -- Inova Alexandria, Inova Fair Oaks, Inova Fairfax, Inova Fairfax for Children and Inova Mount Vernon -- and other health care facilities such as nursing homes, assisted-living facilities, and emergency- and urgent-care centers. Inova is also affiliated with Potomac Hospital in Woodbridge. Combined, the hospitals have 1,475 licensed beds.

DEVELOPMENTS: Inova continues to expand: It is still constructing the Inova Heart Institute next to its Fairfax center, which it says will be the region's only facility devoted to the causes and treatment of heart disease. The institute is scheduled to open next spring. The Fairfax site also is expanding its emergency room.

Inova Fair Oaks plans to open a five-story patient tower in the fall. It has also doubled the size of its sleep lab and added an open MRI unit.

Inova Alexandria renovated its mother-baby unit and now has 35 private rooms. It also began construction on a $58 million expansion that will add 10 treatment bays in the emergency room and more private rooms as well as revamp the cardiovascular and radiology departments.

The overall Inova system recently received a $5 million challenge grant from the Claude Moore Charitable Foundation to develop a health education center to help train doctors, nurses and other industry professionals.

B.F. Saul Real Estate Investment Trust

7501 Wisconsin Ave.

Bethesda, Md. 20814

301-986-6000

Founded: 1892

Revenue: $1.01 billion

Chairman and CEO: B.Francis Saul II

EVP and CFO: Stephen R. Halpin Jr.

Employees: none

Local employees: none

DESCRIPTION: B. F. Saul Real Estate Investment Trust was founded in 1892 and has remained in the Saul family ever since. Essentially a family holding company, the trust now invests in hotels, office buildings and raw land and holds an 80 percent interest in Chevy Chase Bank, the region's largest locally owned depository institution. It still holds a 21 percent stake in Saul Centers, a real estate property arm spun off in a 1993 public offering.

DEVELOPMENTS: In the fiscal year that ended in September, the trust's net income fell 20 percent as increasing banking profits were more than offset by declines in real estate income. Real estate operations were hurt by a decline in the occupancy rate and room rate at its Washington area hotels after the Sept. 11, 2001, terrorist attacks and a rising vacancy rate at its office properties, reflecting in particular the weak market in Northern Virginia.

Although the book value of the trust's assets is $12 billion, the market value is much larger because of the long-term nature of many of its holdings. In the Washington area, these include the Crowne Plaza and Holiday Inn near National Airport; the Corner Courtyard and Holiday Inn at Tysons Corner; the Hampton Inn, Holiday Inn, TownePlace Suites and

Hampton Inn at Dulles Airport; and more than a half-million square feet of office space at Tysons Corner and 350,000 square feet near Dulles.

The trust is owned and controlled by its chairman, B. F. Saul II, 69, a courtly and intensely private man who runs his operations conservatively, tightly controlling costs and minimizing risk. Forbes Magazine estimates the value of his holdings at $775 million. The revenue figure above is the total of Chevy Chase's interest and non-interest income in addition to income from the trust's real estate operations.

The company has no employees of its own, but it is managed by employees of operating companies.

Last year, as a result of an internal accounting review and a change in auditors, the trust restated its financial results for fiscal 2000 and 2001, reducing net income in both years by about 20 percent. The changes reflected different acounting treatment for receivables for interest-only strips related to securitized auto loans at Chevy Chase Bank.

Rosenthal Automotive

1100 S. Glebe Rd.

Arlington, Va. 22204

703-553-4300

www.rosenthalauto.com

Founded: 1954

Revenue: $867.95 million

CEO: Robert M. Rosenthal

Employees: 1,500

Local employees: 1,500

DESCRIPTION: Rosenthal Automotive operates 16 local dealerships representing 14 different carmakers including Honda, Acura, Jaguar, Chrysler, Volkswagen and Nissan.

DEVELOPMENTS: Rosenthal was doing decent business last year until September rolled around, when it was hit by a sales slump that lifted only this spring. Sales for last year were modest, about $868 million, or 37,848 its new and used vehicles.

The group opened a new Land Rover-Jaguar dealership last year in Vienna and plans to put another Land Rover-Jaguar outlet in the Dulles Auto Park in the coming year.

Rosenthal also has made a major push into online retail, heavily advertising its Internet site, rosenthalauto.com. Executives say a considerable number of customers start on the Web and wind up in Rosenthal showrooms.

Robert M. Rosenthal, along with Jack Pohanka and other area dealers, is a founder of the Capital Automotive REIT, which buys franchises and properties nationwide. The publicly traded trust completed $352 million worth of acquisitions last year and reported a 19 percent increase in per-share earnings.

Feld Entertainment Inc.

8607 Westwood Center Dr.

Vienna, Va. 22182

703-448-4000

www.feldentertainment.com

Founded: 1967

Revenue: $780 million

Chairman and CEO: Kenneth Feld

Employees: 1,550

Local employees: 250

DESCRIPTION: Feld Entertainment bills itself as the world's largest producer of live entertainment.

Each year, the company says, more than 25 million people see its productions, which include shows put on by Ringling Bros. and Barnum & Bailey Circus, Disney On Ice, and Siegfried & Roy.

DEVELOPMENTS: Feld, sometimes under attack from animal rights activists, said that three baby Asian elephants joined the Ringling Bros. herd in the past year.

Rudy, Asha and P.T. were born at the Ringling Bros. and Barnum & Bailey Center for Elephant Conservation in Florida.

Ringling Bros. cares for the largest herd of Asian elephants in the world outside of Asia, and the center shares knowledge it gains from that program with researchers, conservationists and veterinarians.

Ringling Bros.'s 131st and 132nd editions of its circus, which span the past year, have visited nearly 90 cities and been watched by nearly 10 million people in the United States.

The 23rd Feld-produced Disney On Ice had eight editions that appeared in 119 cities in North America and 57 cities in Europe, Asia, South America and Australia.

The company declined to reveal its 2002 revenue. The revenue figure above is an estimate provided by Forbes Magazine's research of the country's largest private companies.

Bureau of

National Affairs Inc.

1231 25th St. NW

Washington, D.C. 20037

202-452-4200

www.bna.com

Founded: 1946

Revenue: $309.79 million

President and CEO: Paul N. Wojcik

Publisher and editor-in-chief: Gregory C. McCaffery

Employees: 1,999

Local employees: 1,789

DESCRIPTION: The Bureau of National Affairs publishes specialized legal and regulatory information. It also provides a variety of niche business advisory services and sells tax and financial planning software.

BNA has been employee-owned since its incorporation in 1946; it says it is the oldest fully employee-owned company in the United States.

DEVELOPMENTS: BNA, as the company is widely known, had a tough year in 2002, owing mostly to the weak economy and cost-cutting by businesses, which by and large pay for subscriptions to BNA's specialized publications. BNA's publications focus on a host of Washington-centric issues, such as tax, legal, regulatory and environmental policy.

BNA said it dealt with the weak demand by trimming expenses, and its earnings were nearly as high as they were in 2000, when it was most profitable.

Revenue was nearly $310 million, up slightly from about $306 million in 2001.

However, the growth came from an acquisition in 2000, not from an increase in business.

All stock is owned by current and former employees and their heirs, and only active employees can buy any.

The price is set twice a year by the board of directors. It was last priced in December at $10.50 a share.

Document wp00000020030428dz4s0004g

The Washington Post

Financial

At Least He Didn't Say 'Let Them Eat Pretzels'

409 words
27 April 2003
The Washington Post
WP
FINAL
F02
English

The resignation of American Airlines chief Donald Carty was the most dramatic -- but hardly the only -- signal last week that the public is still seething at the excesses of corporate executives, whom they blame not only for the collapse of stock prices on Wall Street but also for the sour state of the economy.

Carty's sin was that while asking employee unions to accept layoffs, deep cuts in pay and major changes in work rules, he secretly pushed through a retention program for top executives that protected their pension from any bankruptcy filing and provided huge bonuses if they stayed with the troubled carrier through 2004. Repeated apologies and prompt repeal of the bonus plan wasn't enough to mollify American's unions or its board of directors.

It didn't help Carty that the contretemps played out at a time when news was coming out of the big raises earned by corporate executives last year despite continued shrinkage in the value of most investors' portfolios. Even Fortune magazine, which spent the 1990s lionizing the chief executive, was angry enough to put a pig on the cover of its most recent issue with a headline declaring that "CEO Pay Is Still Out of Control." In his widely read letter to Berkshire Hathaway shareholders, Chairman Warren Buffett declared that ridiculously lavish pay packages had undercut efforts to reform corporate governance and restore the faith of investors.

The anger also spilled over at annual meetings, such as those of Verizon and Delta Air Lines, where investors ignored management's recommendation and passed union-inspired resolutions demanding limits to lavish severance packages that guarantee executives millions of dollars, even if they are fired. Also last week, accounting regulators voted to require companies to treat stock options like any other compensation expense.

Government officials, meanwhile, continued to turn up the heat on corporate wrongdoers. Credit Suisse First Boston's Frank Quattrone, the hottest of tech investment bankers during the bubble, was put in handcuffs and charged with obstructing a federal probe of his firm's business practices. And key lawmakers vowed to push through legislation preventing big Wall Street firms from taking tax deductions for the millions in fines they've agreed to pay to settle securities-fraud allegations. Details of that settlement, including a fresh batch of embarrassing e-mails, are due to be released tomorrow.

Document wp00000020030427dz4r0009h

The Washington Post

START-UP A Weekly Look at the Region's Newest Companies

Financial

'HR' Technology in a Medium Size

Ellen McCarthy
Washington Post Staff Writer
358 words
21 April 2003
The Washington Post
WP
FINAL
E05
English

Brian J. McIntyre is always looking for new openings in the human resources management market. After working for large HR firms for more than a decade, McIntyre struck out on his own in 1994 to establish Working Concepts, a small services and consulting firm.

Working Concepts eventually grew to have a 55-person payroll and a roster of big-name clients, such as Staples Inc. and Geico Insurance Co. In December 2001 the company was sold to one of McIntyre's former employers, Towers Perrin, for an undisclosed amount.

Last month McIntyre began anew and founded WorkStrategy LLC, with the theory that medium-sized companies, those with 200 to 1,000 employees, had been passed over by most makers of human-resources software.

"Those companies that buy software applications don't necessarily want a HR management company to be there for a long time," said McIntyre of smaller firms' wariness of long contracts. As a result, he said, a lot of software makers "decided to not abandon, but hold off, and go for where the big dollars were."

Rather than spend months developing software to help potential clients automate payroll records and create Web portals that allow employees to access benefit information, McIntyre is trying to strike partnerships with existing providers and modify their products to suit the needs of smaller businesses. WorkStrategy will then handle integration and training for its customers.

The biggest barrier, according to McIntyre, is convincing companies that human resources technology is a smart investment in a tough economic climate. The company has plenty of competitors, including Hrtrack Software International Inc. and PeopleClick Inc., but McIntyre is hoping that by building a sales force of human resource professionals, WorkStrategy will be better able to address the legal and technical questions raised by leery managers.

"We bring comparisons from companies just down the road and have better communication with the manager and employee," McIntyre said. "We ask them what they need and what the challenges are today."

Document wp00000020030421dz4l0000l

The Washington Post

Real Estate

No. 1 In Deals Done; Long & Foster Tops Transactions List

262 words
12 April 2003
The Washington Post
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FINAL
G02
English

Locally based Long & Foster Real Estate Inc. has put a new notch in its belt.

The Fairfax firm, the biggest privately owned regional real estate brokerage, has now topped a national chart.

According to a report this week by research consultants Real Trends Inc., Long & Foster was No. 1 in America in 2002 for transactions closed by independent, privately owned firms. It outsold New Jersey-based Weichert Realtors for the first time since 1990, when Real Trends started keeping records.

Long & Foster completed 97,460 transaction sides (representing both the buyer and the seller in the same sale would count as two transactions), worth a total of $23 billion, a company statement said.

Weichert, however, remained in first place in sales volume by dollar amount for independent, privately owned firms, completing 89,000 transactions worth $24.5 billion.

In Real Trends' annual ranking of the nation's top 500 companies, Long & Foster and Weichert were outranked by either measure by No. 1 NRT of Parsippany, N.J., which is publicly owned, and No. 2 HomeServices of America Inc. of Edina, Minn., which is an affiliate of Berkshire Hathaway Inc., a public firm.

Long & Foster spokeswoman Juli Verrier said Weichert held its sales volume lead because of higher home prices in the New Jersey market.

Weichert and Long & Foster have been vying for the top spot among privately owned brokerages since Weichert entered the Washington market in 1990.

-- Sandra Fleishman

Document wp00000020030412dz4c0000h

FEDERAL DIARY Stephen Barr

Metro

Government Employees Counter Survey Results, Strike Back at Insults

Stephen Barr
711 words
7 April 2003
The Washington Post
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FINAL
B02
English

Yes, this is April, but sorting through the March mailbag continues. Two topics last month drew lots of comment:

* The March 26 column reported that 56 percent of federal employees, in a survey conducted by the Office of Personnel Management, believe their pay is "good" or "very good." Many of you expressed skepticism that the survey results reflected reality.

As federal employee Ross Leone wrote, "The pay survey overlooks the point that the best of those dissatisfied with pay have already left! The high attrition in many jobs and agencies carries heavy hidden costs in hiring and training employees, the loss of experience and the concomitant loss in efficiency and the stultifying effect of decreases in morale."

Several readers took umbrage at remarks reported in the March 28 column, which quoted a Defense Department employee's views on the pay survey. In his remarks, he said the government "hires industry's rejects."

In a response that reflected the views of several readers, David O'Connor, an 18-year accountant with a federal agency, wrote, "I am continually insulted by people who say the federal government cannot hire top talent."

O'Connor said he currently works with new hires "who are as sharp and intelligent and talented as any in private industry. Their choice of government work is not based upon their being 'rejects' but lifestyle and personal choices. . . . We give them a tremendous amount of information and knowledge in a very short period. We give them the responsibility to apply this information in a variety of situations. . . . I see the people I am currently working with handling the stress and responsibility that is equal or better than they would get in private industry. We are not 'rejects'!"

* The March 3 and March 25 columns on members of Congress who want to financially assist federal employees called to active military duty also drew comments. The lawmakers would give reservists and National Guard members the difference between their civil service salary and their active-duty military salary.

"If you are going to do something like this for some, what are you contemplating for the others?" Roy Gordon of Waukesha, Wis., asked. "How will you explain to the regulars that the 'part-timers' will be getting paid quite a bit more to do the same job? . . . To avoid some serious ill feelings among the dedicated, full-time military, and what could be a big morale problem, your idea had better be dumped in the trash can."

Award Winners

The Government Employees Insurance Co. has announced the winners of the 2002 GEICO Public Service Awards, which will be presented today. The awards honor federal employees and retirees for outstanding achievements in the fields of substance-abuse prevention and treatment, fire prevention and safety, physical rehabilitation and traffic safety and accident prevention.

The 2002 winners are Jerry Stanphill of the Defense Logistics Agency at Fort Belvoir; Kenneth Copeland of the National Highway Traffic Safety Administration in Fort Worth; Michael O'Hara of the National Security Agency at Fort Meade; Robin Gullie of Offutt Air Force Base in Omaha; and John Dal Santo, a Defense Department retiree in Wiesbaden, Germany.

At the Veterans Affairs Department, Vila L. Hunter, a management analyst in the office of human resources management, has been presented the department's Exceptional Service Award by VA Secretary Anthony J. Principi. Hunter, who has completed more than 60 years of federal service, started as a junior clerk typist with the War Production Board in August 1942. She joined the VA central office in 1948.

Retirements

Allen I. Polsby, associate general counsel at the Housing and Urban Development Department, retired April 2 after almost 40 years of federal service. He started his government career as a trial lawyer for the Civil Aeronautics Board.

Ed Sullivan, director of budget planning at the Health and Human Services Department, retired April 3 after 43 years of military and federal service.

James Larry Tidmore, director of the office of acquisitions, facilities and central services at the Food and Drug Administration, retired April 3 after 38 years of federal service.

Stephen Barr's e-mail address is

barrs@washpost.com.

Document wp00000020030407dz470002p

The Washington Post

DEALS Allan Sloan

Financial

A Borrowing Deal Worthy of a Billionaire

Allan Sloan
994 words
6 April 2003
The Washington Post
WP
FINAL
H01
English

So you think that five-year, no-interest car loans are the greatest deal ever? If so, you're one of the little people. If you were Warren Buffett, you'd sneer at "zero percent." Instead, you'd want investors to pay you for the right to lend you money. And for the Internal Revenue Service to come across with some juicy tax breaks.

That's the deal that Buffett got on a five-year, $400 million loan that Wall Street investors have made to his conglomerate, Berkshire Hathaway Inc. We mere mortals leap at the chance to borrow money for no interest. But Buffett got paid to borrow -- and I'm not even counting what he'll make by investing the borrowings.

In the spirit of Tax Day, which is almost upon us, let's examine Buffett's deal, which was widely publicized last May but whose tax aspects haven't been discussed. I found them by accident last week when, prompted by the arrival of Berkshire's annual report, I trolled through Berkshire's Securities and Exchange Commission filings.

Before we proceed, two things. First, this transaction seems to be not only perfectly legal, but also not immoral. Berkshire uses normal tax-efficiency techniques in an unusual combination, but he isn't being slimy like tax-dodging weasel corporations that move to Bermuda but claim to be American or people who buy sleazy tax shelters of dubious legality and nonexistent morality. Second, I have multiple conflicts. Buffett is on The Washington Post Co.'s board of directors, Berkshire owns 18 percent of Post Co. stock, I own Berkshire stock through the Post Co.'s 401(k) plan, and the Post Co. has a significant holding of Berkshire stock.

Now, back to the deal. My analysis is based entirely on my reading of Berkshire's documents, because Buffett wouldn't talk to me and neither would Goldman Sachs, which concocted this transaction.

And what a transaction it is. Buffett boasted about being involved with the first-ever "negative-coupon" security -- but didn't mention Berkshire's tax break.

What's even better than getting paid more by your lenders than they're charging you in interest? Watch. Investors lent Berkshire $400 million at 3 percent interest but are paying Berkshire 3.75 percent in annual "installment payments" on stock-purchase warrants that were part of the deal. Those warrants give holders the right to buy $400 million of Berkshire stock at a fixed price of about $89,600 a share, some 15 percent above what Berkshire shares fetched at the time.

The interest that Berkshire pays is tax-deductible, but the "installment payments" that it gets on the warrants aren't taxable. That's because those payments are considered part of the price of the warrants, and a company's dealings involving its own stock don't produce taxable income.

The math: Berkshire pays $60 million in tax-deductible interest over five years and receives $75 million in nontaxable "installment payments" over the same period. If you assume that Berkshire has a combined 40 percent federal and state income tax rate, Berkshire's after-tax proceeds are more than double its after-tax borrowing costs.

What's more, Buffett doesn't have to worry about getting the "installment payments" from Berkshire's warrant holders. That's because the holders, as part of the deal, were required to purchase $75 million (face value) of Treasury "strips." Strips are like old-fashioned U.S. savings bonds that pay no cash interest and are redeemed by the government at face value when they mature. The strips cover the payments the warrant holders have to make to Berkshire.

By my estimate, the investors had to pay about $65 million for the strips, which will pay Berkshire its $75 million over five years. That $10 million difference gives the investors taxable interest, but many of the buyers, judging from Berkshire filings, are tax-exempt, such as pension funds.

What I love is that Buffett, quite rightly, has been complaining that derivatives are putting the financial system at risk. But he's selling warrants -- which are derivatives. These are fairly safe for the holders because the worst that happens is that they expire worthless if Berkshire stock isn't worth $90,000 a share by 2007. By my estimate, the buyers paid an effective cost of about $75 million for the warrants.

But Buffett's not at risk at all. If the warrants are exercised, he can repay the $400 million loan with the proceeds. If they're not, he's had the use of $400 million for five years, and gotten paid handsomely to borrow it. This deal, fans, is an example of why Buffett is a multibillionaire. And why the rest of us have to settle for 60-month, interest-free car loans.

Follow-up: Last year's tax games, today's tax problems. The IRS is after Vivendi, the hard-pressed French conglomerate that has failed so miserably in its pursuit of media moguldom. Le taxman says that the 1995 deal in which Vivendi's predecessor, Seagram, got $8.4 billion for a big block of DuPont stock was a taxable sale rather than the tax-advantaged dividend that Seagram said it was. The IRS wants $2.7 billion of taxes and interest. Vivendi says "non."

Pas de probleme for Vivendi, says Lehman Brothers tax expert Robert Willens. "It's curious that the IRS would challenge this," he told me, "because Congress changed the law only after the transaction. I'm sure Vivendi will prevail."

So, in the spirits of Seagram and Berkshire, a merry Tax Day to all of you. Many happy returns. May you survive April 15 and come out smiling.

Sloan is Newsweek's Wall Street editor. His e-mail address is sloan@panix.com.

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Air Traffic Down Sharply

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U.S. airline passenger traffic fell 11.5 percent in the week ended Sunday, the first full week since war began in Iraq, the Air Transport Association said. Traffic fell 10 percent the previous week. The association's "most likely" Iraq war scenario last month predicted that air traffic would drop 8 percent.

Ullico Says Stock Trades Were Clean

Ullico, the Washington-based, labor-owned insurance company, disputed an outside investigator's conclusion that "a compelling argument" could be made that some of its directors violated civil laws. Ullico citied a memorandum supplied by James J. Hanks Jr., an expert in Maryland corporate law, who wrote that Ullico's officers "did not breach their duties to the company by failing to make certain disclosures even though they were involved with proposing, documenting and participating in the stock offers, the informal repurchase program and the formal repurchase program." The outside report, prepared by former Illinois governor James R. Thompson, raised questions about programs that allowed directors and senior officers to buy Ullico stock in the late 1990s and then sell it back to the company for large profits a short time later, just before the value of the shares plummeted.

MORE NEWS

Hewlett-Packard shareholders rejected a management recommendation and narrowly approved a measure requiring that their vote be taken before the company's board can adopt a plan to thwart a hostile takeover. Carly Fiorina, HP's chief executive, argued that such a requirement would limit management's flexibility.

Intel reduced chief executive Craig Barrett's pay 5.2 percent last year when the company's stock price fell by half, and said it may replace Ernst & Young as auditor. Barrett's salary, bonus and other compensation fell to $1.82 million, from $1.92 million in 2001, Intel said in its proxy statement. Intel also gave Barrett 584,000 stock options, up from 484,696 in 2001. He exercised $17.6 million worth of options last year.

Intel will seek bids from Ernst and its three top accounting rivals -- Deloitte & Touche, KPMG and PricewaterhouseCoopers.

First Data, the world's biggest credit card processor and the parent of the Western Union money-transfer service, agreed to buy Concord EFS for $6.75 billion to become the largest owner of automated-teller-machine networks. Concord, which owns the Star Systems ATM network and is the fourth-largest U.S. processor of credit- and debit-card purchases for retailers, put itself up for sale amid concern that it might lose contracts to rivals such as Visa International.

Clayton Homes' stock price rose almost 12 percent, to $12.43 a share, after Berkshire Hathaway, the investment company controlled by billionaire Warren Buffett, agreed to buy the mobile-home maker for about $1.7 billion in cash. Clayton Homes is "the lone tower of strength in an industry battered in recent years by the consequences of lax financing practices," Buffett said.

Tyco International filed a $400 million lawsuit against former chief financial officer Mark H. Swartz, alleging that he looted the conglomerate. Swartz already faces criminal theft and fraud charges that say he and former chief executive L. Dennis Kozlowski stole $600 million from Tyco. The suit accuses Swartz of accepting more than $134 million in pay from 1997 to 2002 for "services that were never rendered" and awarding himself tens of millions of dollars in unauthorized bonuses.

Vivendi Universal may have to pay $2.7 billion in U.S. taxes and interest on behalf of Seagram, which the French media company bought for $30 billion in 2000. The Internal Revenue Service challenged the way Seagram reported taxes after selling 156 million DuPont shares back to the chemical maker in 1995, Vivendi said in a filing with the Securities and Exchange Commission.

Two former mid-level Enron executives pleaded not guilty to charges related to an alleged scheme that generated $111 million in fake earnings from the bankrupt energy company's failed attempt to start an Internet movie-on-demand service. Kevin A. Howard, 40, and Michael W. Krautz, 34, are charged with securities fraud, wire fraud, conspiracy and lying to the FBI regarding reported profits from Enron's deal with the Blockbuster video-rental chain, which fell apart in 2001.

R.J. Reynolds and Lorillard sued to stop California from placing advertisements that the companies claim "vilify" the tobacco industry. The federal lawsuit says the ads are a misuse of public money and prejudice jurors who may hear cases against the tobacco industry.

King Pharmaceuticals said it was backing out of an $850 million deal to buy the primary care business and two brand-name drugs of Ireland-based Elan. King said Elan committed "various breaches and misrepresentations" involving the asset purchase agreement signed by the companies Jan. 30. Elan responded with a lawsuit in New York state to force King to complete the deal. The case is set for trial May 15.

RECALLS

General Motors said it will recall 341,000 model year 1997 Chevrolet Blazer, GMC Jimmy and Oldsmobile Bravada sport-utility vehicles to replace a driver's seat-belt buckle assembly. GM said the buckle used an energy-absorbing loop that could result in reduced driver restraint if it were fully deployed in a rollover. Beginning in July, GM will notify owners and instruct them to bring the vehicles to their dealers, where replacements will be installed.

LOCAL BUSINESS

U.S. Technologies chief executive C. Gregory Earls pleaded not guilty to charges that he cheated investors out of about $15 million. Prosecutors say Earls misappropriated $13.8 million from USV Partners, a company that was investing in District-based U.S. Technologies. They say he redirected some of it to an educational trust for his children and his ex-wife. He is also accused of keeping more than $1 million from investors who thought they were financing an Internet company.

AES, which generates power in 30 countries, said holders of $4.1 billion in debt agreed to drop rights to demand payment if units in Brazil and Britain file for bankruptcy. Arlington-based AES refinanced $2.1 billion in debt in December after falling prices and losses in South America brought the company to the brink of insolvency.

EARNINGS

Bed Bath & Beyond, the largest U.S. housewares retailer, said fourth-quarter earnings increased 27 percent as sales exceeded $1 billion for the first time. Profit was $105.3 million, up from $82.7 million in the quarter a year earlier. Sales in the three months ended March 1 rose 19 percent to $1.05 billion. Bed Bath & Beyond also appointed Steven H. Temares, 44, who has been president since 1999, to the additional position of chief executive.

Circuit City Stores said its fourth-quarter net income fell 53 percent, to $75.3 million, because of economic and national security worries and difficult comparisons to the previous year. Sales were $3.19 billion, down 5 percent, in the quarter that ended Feb. 28.

Compiled from reports by the Associated Press, Bloomberg News, Dow Jones News Service and Washington Post staff writers

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THE INSIDE SCOOP

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Few funds this big are this good. Over the past 10 years, Fidelity Contrafund (FCNTX) has produced an average return of 10.6 percent for its shareholders (including me), beating the benchmark Standard & Poor's 500-stock index by 2 percentage points. Last year, the fund, managed by Will Danoff since 1990 and charging just 0.9 percent in expenses, lost less than 10 percent of its value, compared with a loss of 22 percent for the S&P. Contrafund -- which, despite the value implications of its name, is a large-cap growth fund -- is a fine core holding, but it's also a good repository of public information that investors should consider plundering. Go to a Web site such as Morningstar.com or ask Fidelity for the latest annual report, and you'll find Danoff's favorite stocks, some of which you may want to make your own. Danoff, like the great Peter Lynch before him, likes to own lots and lots of companies (Contra had 422 at last count), but, as of Dec.

31, only seven
represented more than 2 percent (each) of the fund's total assets. They are, in order: Lockheed Martin (LMT), defense; Colgate-Palmolive (CL), consumer products; Berkshire Hathaway (BRK), diversified holding company; 3M (MMM), adhesives and industrial products; Avon Products (AVP), cosmetics; UnitedHealth Group (UNH), managed care; and EnCana (ECA), oil and gas. Check them out.

-- James K. Glassman

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