BKD Advisor

June 2003

Strategies to Build Your Business & Personal Net Worth

Travel insurance

With summer comes the busiest time for vacation travel. Generally, none of the cost of personal travel is deductible, but does travel insurance make financial sense?

While it may be desirable in certain circumstances, be careful to avoid worthless coverage. For example:

- ✔ Many policies exclude pre-existing medical conditions, with the result that travelers won't collect when a trip is cancelled because of a recurring health problem
- ✔ Don't buy trip cancellation insurance from the tour operator because if the operator goes broke, you'll lose both the trip and the insurance indemnification
- ✔ Limit insurance to large losses you could incur; for example, there is no need to insure hotel reservations because they can usually be rebooked at little or no cost
- ✔ Determine whether policies provide coverage only for unforeseen (not preannounced) airline employee strikes and whether a service break must exceed a specified time frame before coverage is provided
- ✔ Make sure coverage is provided for war-related events

In addition, some companies have developed terrorism insurance products for worried vacationers. An estimated 20% of travelers now purchase them.

If you are considering a policy, read the fine print carefully. Some policies:

- ✔ Include protection only for travel within the United States
- ✔ Provide for trip cancellations within a very limited period from a terrorist strike
- ✔ Exclude specific destinations where there has been terrorist activity in the past six months
- ✔ Impose time requirements within which a policy must be purchased after a trip is booked

Policies typically run between $200 and $400, depending on the coverage provided and the risk factors at the vacation site.

Of course, if it's a relaxed vacation you're looking for, you might seriously consider a destination where terrorism protection isn't required.

The Jobs and Growth Tax Relief Reconciliation Act of 2003: how will it affect you?

President Bush recently signed the *Jobs and Growth Tax Relief Reconciliation Act of 2003*.

We responded to the new legislation with the release of a **BKD Advisor Alert**, which provided a brief review of the Act's provisions, including its significant tax cuts for stockholders, individual taxpayers, married couples and businesses.

Consult your BKD advisor for a more detailed analysis of the Act.❑

Combining business travel with pleasure

Transportation costs to and from a business destination are deductible only if the primary purpose of the trip is business related.

If you extend your stay for personal reasons or make side trips, the marginal costs are nondeductible, but no allocation is required for the transportation costs to and from the business destination.

Costs covering a spouse who accompanies you on a business trip are a favorite target of Internal Revenue Service (IRS) auditors, and you'll have to prove the spouse had a legitimate business purpose to deduct many of the expenses.

However, this would not apply to costs that would have been incurred regardless of whether your spouse came along or not.

Thus, the cost of a rental car would be fully deductible. Similarly, the single-person occupancy cost of a hotel room would be deductible. The cost is often identical to or slightly less than two people occupying the room.

Inside

BKD

Also, you could pay for and deduct the cost of a single airline ticket for yourself, and use frequent-flier miles to purchase a ticket for your spouse.

Finally, if business associates invite their spouses to meals, you would be eligible to deduct the cost for yourself and your spouse with respect to those meals.

Education credit update

Even though the Hope and the Lifetime Learning income tax credits have been around since 1998, the IRS has just issued final regulations to provide further guidelines and rules for their use, including:

- ✔ An eligible taxpayer (a parent) may claim the credit for the student only if the taxpayer claims the student as a dependent. Otherwise, only the student may claim the credit.
- ✔ If a parent does not claim a student who is eligible as a dependent (so that the student can claim the credit on his or her tax return), the student's personal exemption amount is zero.
- ✔ Medical expenses and other charges in student health fees, even if payment is a condition of enrollment, do not qualify as education expenses.
- ✔ Required book fees are qualified expenses only if the fee must be paid to the institution for the enrollment of the student.
- ✔ An education tax credit is allowed for expenses paid in one tax year for independent study during an academic period that begins in the tax year of payment or within the first three months of the next tax year, even if the independent study may take up to two years to complete.
- ✔ The Hope credit is allowable for the first two years of postsecondary education, which may include two 1-year certificate programs.
- ✔ If a taxpayer is a custodial parent not deemed as married and claims the taxpayer as a dependent, then the taxpayer can claim an education tax credit for qualified expenses paid by the noncustodial parent on behalf of the student.

Recently issued final IRS regulations relating to information-reporting requirements for qualified tuition and related expenses also continue to require reporting on the basis of calendar rather than academic year and reporting on students who refuse to provide their taxpayer identification number.

Institutions continue to have a choice to report either the aggregate amount of payments received or the aggregate amount billed for qualified expenses during the calendar year for students enrolled for any academic period.

Manage rising costs with medical savings accounts

One solution for dealing with rising health care costs is to establish tax-advantaged medical savings accounts (MSAs) for workers. MSAs are restricted to small businesses, *i.e.*, self-employed individuals and companies with fewer than 50 employees.

Typically, the company carries a high-deductible, low-cost insurance policy. The deductible parameters and out-of-pocket limits for the insured are adjusted annually for inflation.

For individual coverage in 2003, the deductible minimums and maximums are $1,700 and $2,500, respectively, and maximum out-of-pocket costs for covered benefits are limited to $3,350.

For family coverage, the deductible ranges are $3,350 to $5,050, and out-of-pocket costs can't exceed $6,150 for MSA eligibility.

Either the company or the employees make deductible contributions to special savings accounts that build up on a tax deferred basis.

Healthy individuals who don't completely use the funds contributed to the MSA can carry the tax-deferred balance forward from year to year.

Employees and self-employed individuals who make contributions to MSAs receive a tax deduction from gross income for the amounts contributed and are not required to file an itemized tax return to obtain the tax benefit of this write off.

Meanwhile, funds withdrawn from the account to pay for medical expenses are tax free. If funds are withdrawn for nonmedical purposes, the withdrawals are subject to tax. A 15% penalty applies unless the individual is over the age of 65.

Deductible contributions for individual (self-only) coverage are limited to 65% of the deductible and to 75% of the deductible for family coverage.

Average millionaire profiled

A new millionaire is created in the United States about every four minutes. What's the profile of the average millionaire?

According to Forrester Research, he/she is a 55-year-old with an average income of $194,000 per year who works about 42 hours per week.

About 69% of millionaires have a college degree; 87% are married or live with a domestic partner, and 24% are retired.

What may distinguish them the most, however, is their mindset:

- ✔ Believe it's important to increase their assets during their earning years
- ✔ Want to manage and arrange their affairs during their working years to ensure a comfortable retirement
- ✔ Place a high value on family and want their children to be well off when they die
- ✔ Want to avoid taxation by federal and state government on an excessive amount of their wealth
- ✔ Appreciate the value of financial planning and begin the process when they are fairly young
- ✔ Rely on accountants, lawyers, insurance agents and stockbrokers to help manage their wealth

IRS issues guidance on auto contributions

You may have noticed the newspaper advertisements for "3,000 lb. tax deductions."

These ads usually promise a charitable contribution deduction in an amount equal to the "full Blue Book value" of a used automobile.

In 1999, the IRS identified two problems associated with these used-car programs:

- ✔ Blue Book values are promised, even when used cars are in poor or inoperable condition
- ✔ The cars were sometimes given to a for-profit entity that actually controlled the program and merely paid a royalty to the charity

The IRS recently issued guidance on the correct way these programs should be structured:

- ✔ A donor's transfer of a car to a

- charity's *authorized agent* may be treated as a transfer to the charity, and the agent may provide the contemporaneous written acknowledgment
- ✔ The donor may use an established used car pricing guide to determine fair market value for a single donated car, provided the guide lists a sales price for a car that is the same make, model and year sold in the same area and in the *same condition* as the donated car

Before you donate a vehicle, we recommend you confirm the legitimacy and charitable status of any not-for-profit organization.

New rules for easement donations

If you are a landowner concerned about the environment, and you'd like to obtain a current income tax benefit as well as lower your estate and property taxes, why not donate a conservation easement on your property to a local government or a qualified not-for-profit organization?

To qualify, you must have development or other conservation-oriented rights to give away that are substantial enough so the qualified recipient accepts the easement and agrees to monitor the restriction.

To obtain an income tax deduction, you must have an independent appraisal of the property both before donating the easement and after its donation.

The charitable deduction is based on the loss in value of the property and is currently limited to 30% of the donor's adjusted gross income. The excess can be carried forward up to five years.

The reduction in the value of your property through the easement also lowers the size of your taxable estate and it may lower property tax obligations.

Recent changes in the tax law may provide further estate tax benefits. The Internal Revenue Code used to restrict the exclusion to properties that were located within 25 miles of a metropolitan area, national park or wilderness area.

However, the 2001 tax law eliminated this location requirement, making virtually all U.S. property eligible for the estate tax exclusion if a conservation easement is donated and the property was owned by the decedent three years before death.

You also should be aware the exclusion you claim cannot exceed $500,000. Although the granting of a conservation easement can produce significant tax benefits, there is a downside.

For example, the granting of an easement will undoubtedly reduce the value of the underlying property, should you decide to sell it at a future time.

Furthermore, the granting of an easement involves appraisal fees, accounting fees and a variety of other costs. Therefore, landowners are cautioned to first carefully assess the value of the tax benefit.

The primary motivation should be a genuine desire to prevent future property development and preserve open space.

Qualifying for home-sale exclusions

Homeowners usually can exclude all the profit on the sale of a home from taxes.

To qualify for this exclusion, you generally must own and occupy the home for two of the five years before the sale, use the home as a principal residence and meet some additional requirements.

If you qualify, you can exclude up to $250,000 of gain if you are single, and $500,000 if you are married and file a joint return with your spouse.

The IRS has issued additional rules that will make it easier for taxpayers to qualify for a partial home-sale exclusion even if they don't meet the 2-year occupancy test.

IRS regulations state you can take a partial exclusion if you sell your home because of ill health, a job change or other "unforeseen circumstances," including:

- ✔ Death of the owner or co-owner
- ✔ Divorce or legal separation
- ✔ Change in employment that leaves you unable to pay the mortgage or basic living expenses
- ✔ Damage to the home caused by natural or man-made disaster, an act of war or terrorism

The IRS clarifications also explain how it determines whether your home was a principal resi-

Tax tip: capital loss planning

As a result of the downturn in equity markets the last three years, many taxpayers have realized capital loss greater than the currently deductible $3,000 limit.

This excess capital loss can be carried forward indefinitely and will retain their character as long or short-term loss. However, loss not used by date of death will expire and will not carry forward to the decedent's estate or trust.

The eventual value realized from the carryover loss depends on the rate at which it offsets future income and how quickly it's utilized. It is important to consider:

- ✔ Taxpayers who already have capital loss carryforwards can take capital gains to the extent of the carryforward with no immediate income tax cost. If gains taken in 2003 exceed the carryforward, consider selling assets with unrealized loss to "net out" the capital gain.
- ✔ For taxpayers with large capital loss carryforwards, attempt to convert future income to capital gains wherever possible. For example, selling stock of a business rather than selling the business depreciable assets may convert ordinary income into capital gain.

  Shifting the allocation of sales price from a personal covenant not to compete to business goodwill or additional stock sale price may also result in a better income tax result.
- ✔ For taxpayers with appreciated stock and no capital loss, consider gifting the appreciated stock to a child over age 13 if the child is able to sell the stock at a 5% tax rate.
- ✔ Taxpayers with capital loss and passive loss carryforwards may be able to "double dip."

  If the passive loss activity is sold at a capital gain, it will be sheltered by capital loss carryforwards and the sale may allow the previously disallowed loss to also be deducted.❑

dence and how you can fulfill the requirements of living in the residence for two of the five years before the sale.

Occupancy needn't be continuous, and short absences won't affect your ability to meet the 2-year residence requirement. The allocation between residential and business use of the property is no longer required.

Gain on a part of a home used as an office qualifies for the exclusion even when the space was not used for residential purposes. However, post-May 6, 1997, depreciation deductions must be recaptured and taxed at 25%.

The determination of whether a home is actually your principal residence will be based on:

- ✔ Time you spend in the home each year
- ✔ Where you work
- ✔ Where other family members live
- ✔ Address used for filing your tax return
- ✔ Address shown on your driver's license and your voter-registration card
- ✔ Where you bank
- ✔ Where you participate in community activities

The IRS says the rules can be applied retroactively, so those who failed to claim a partial exclusion can file amended tax returns.

New IRS requirement designed to nab money launderers

Businesses that issue or redeem money orders or traveler's checks are now required to use a new Form TD F 90-22.56 to report suspicious activity that could indicate money laundering.

Suspicious transactions include:

- ✔ Funds derived from illegal activity
- ✔ Transactions intended to hide or disguise funds or assets derived from illegal activity
- ✔ Transactions intended to evade the requirements of the Bank Secrecy Act
- ✔ Serve no business or apparent lawful purpose

There are an estimated 200,000 nonbank money-service businesses, *e.g.*, convenience stores, grocery stores, service stations, drug stores and liquor stores, now required to file the suspicious activity reports when engaging in a money-service transaction that is both suspicious and for an amount greater than $2,000.❑

Shorten depreciable life without IRS permission

The IRS has long maintained that once a taxpayer uses a recovery period to calculate two years' depreciation expense on a particular asset, the recovery period cannot be changed without the IRS's prior consent.

The IRS contends the recovery period constitutes an accounting method; accounting method changes are controlled by Code Section 446, which mandates advance approval by the IRS.

However, the IRS has been losing this argument in recent court cases that hold placement of the asset on a shorter recovery period is analogous to a change in useful life, which IRS regulations state is not an accounting method change requiring prior consent.

The court holdings are good news for taxpayers who believe they are entitled to a faster write-off of assets than they have claimed in the past but do not wish to traverse the IRS's prior consent procedures.

In addition, the cumulative income effect of the change is not required to be spread over multiple years under Code Section 481(a).❑

Increase cash flow with real estate cost segregation

A cost segregation study could help your company recover major capital improvement costs more rapidly, shrinking the number of years it usually takes to see a return on real estate investments.

Real estate cost segregation is a procedure that significantly accelerates depreciation of investments for construction, acquisition or renovation of business buildings and income-producing residential properties.

The procedure generates cash tax savings by identifying shorter-lived assets qualifying for 5-, 7- or 15-year write-off periods, costs typically imbedded in a building's construction or acquisition costs and depreciated over 39 years.

A complete "audit trail" traces derived unit costs from contract documents and other source data. Your property is reclassified into shorter-life classes based on applicable tax authorities.

Working with thousands of businesses that represent many industries, our cost segregation consultants identify tax savings from:

- ✔ New buildings under construction
- ✔ Existing buildings undergoing renovation, remodeling, restoration or expansion
- ✔ Purchases of existing properties
- ✔ Office/facility leasehold improvements and "fit-outs"
- ✔ Post-1986 real estate construction, building acquisitions or improvements where no cost segregation study was performed (even though the statute of limitations previously closed on the property construction/acquisition year)

Cost segregation is highly specialized. The judicial decisions, IRS rulings, regulations and other interpretations are complex. The challenge is to apply this complex knowledge to your industry and your company's circumstances.

The engineering-based approach BKD uses is the only cost segregation method accepted by the IRS for acquired properties and is the best method for improving cost segregation returns on new construction.

BKD's engineers are experienced in segregating costs and applying this complex body of law to your circumstances.

Our experience in conducting successful cost segregation studies means yours is likely to withstand IRS scrutiny and capture the costs that will earn tax benefits.❑

BizProbe offers electronic data risk solutions

Over the last 10 years, electronic communications have become important tools in today's business environment, but e-mail, web-based communications and archived electronic data also are vulnerable to risk and must be protected.

How can your company tighten data security, reduce litigation risk, educate staff about e-technology's inherent risks and still maintain a viable business?

BizProbe, a solution to business electronic data risk, was created by the information system security professionals from BKD Technologies division in collaboration with the certified fraud investigators from our Forensics & Dispute Consulting division.

BizProbe professionals focus on the following concepts related to electronic data risk:

1. Usage policy development

When it comes to usage policies, one size definitely does not fit all. Your policy must fit your technology, the practical business needs of your company, the workforce, company size, regulatory requirements and other issues unique to your company.

The policy should have a strong component of training, reinforcement and education of employees and an enforcement mechanism.

2. Data management & retention policies that work

While e-mail has become an essential staple of business communication, it also is the first type of information requested by litigators. Managing e-mail communications with litigation risk in mind is critical.

Every business should have an electronic data retention policy to address the character and content of electronic communications, retention periods and the steps it must take in the event of litigation.

3. Risk sensitivity

Recent huge jury verdicts and settlements whose cases turned on electronic data reinforce the importance of your company's information security practices.

Risk education helps your staff understand company usage, management and retention policies and can help employees make good decisions about the use of electronic data and e-mail.

What we can do for you

Our security and forensic experts will work with your staff and management to perform targeted assessments designed to highlight areas of potential litigation and security risk.

These potential issues are used to bring focus to our educational program and recommendations for improvement.❑

Management's top technology concerns

Each year the American Institute of Certified Public Accountants (AICPA) surveys its members to determine the top 10 technology concerns of business managers.

Here are the AICPA's most recent survey results in order of importance:

1. Information security protection against internal and external threats to equipment, software and processes
2. Business information management (capture, indexing, storage, search and electronic management of documents)
3. Application integration (ability of different operating systems, applications and data bases to talk to each other)
4. Web services (applications that use the Internet as their infrastructure and access tool)
5. Disaster recovery planning
6. Wireless technologies (cellular, satellite, infrared, two-way paging, etc.)
7. Intrusion detection built into many of today's firewall applications
8. Remote connectivity
9. Customer relationship management
10. Privacy concerns ❑

Bogus e-mail raises privacy concerns

A misleading, anonymous e-mail circulating since June 2001 is generating renewed privacy concerns among consumers as the July 1, 2003, deadline it refers to draws closer.

The e-mail warns that the four major U.S. credit bureaus will be able to release credit information to anyone who requests it. To protect their privacy, consumers are told they can opt out by calling a toll-free number the e-mail provides, but they must do so by July 1, 2003.

By law, credit bureaus have always been able to release credit information but only to people with a legitimate business need.

July 1, 2003, relates to the *Gramm-Leach-Bliley Act's* deadline for financial institutions to inform customers of their privacy policies and inform them of their right to opt out any time of receiving unsolicited or "prescreened" offers from lenders and insurers.

You may have recently received a mailing or statement insert from your financial institution about this, including opt out instructions and the same toll-free number provided in the bogus e-mail. The phone number is legitimate and has been available to consumers for several years.

The *Financial Services Modernization Act*, enacted July 1, 2001, is another piece of legislation that has actually *increased* consumer privacy rights by giving them the right to opt out of information-sharing practices conducted between financial institutions and "unaffiliated firms," such as telemarketing companies.

For more information, call the Federal Trade Commission toll-free at 1 877 FTC-HELP (1-877-382-4357), or visit its web site: **http://www.ftc.gov/index.html**.❑

Nothing like a down market to test investment strategy

by Jeff Layman, Springfield

When market volatility yields a rash of selling, the media works hard to fan the flames of investor panic. Phrases like "investors dumped stocks" and "assets fled to the safe haven of cash" fill the newspapers.

Correspondents on the evening news and CNN earnestly wonder if the "sell off" will continue. The resulting barrage of scary-sounding terms like "correction," "crash" and "bear market" is enough to make even seasoned investors wonder if they, too, should sell.

What the headlines don't tell you

During these media-driven frenzies, you never hear anyone mention the fact that every stock "dumped" by one investor was bought by another. Even stocks investors "abandoned" were bought by someone else, every single share.

Equally unmentioned is that many of the investors who "took profits" by selling may lose a substantial portion of those gains to the tax man.

While pulling your money out of the market may be the trendy thing to do on a day when the markets are down, it might not feel so chic on April 15.

What to do when markets turn bad

So what should you do when the markets drop? If you're a long-term investor with a well-planned investment strategy, you probably shouldn't do much of anything.

Think about it for a minute. Does a rise or fall in the market today have any impact on your long-term financial needs?

Without even knowing who you are, I can already tell you that the answer to this question is "no." Nothing that happens in the market today will change the amount of money you will need in the future.

Likewise, daily fluctuations in the stock market have no impact on the expected results of a good investment strategy. In other words, if your strategy is sound, you can sleep well at night regardless of what happened in the market during the day.

A good strategy: what it is & how to get one

A good investment strategy is an approach to money management based on your personal financial needs, risk tolerance and time horizon.

It results in investments that have a high likelihood of reaching a particular goal within a specifically defined time frame and tolerance for risk. A sudden drop in the stock market does not change the likelihood this strategy will be successful.

Develop your strategy before you invest your first dollar. Be sure to consider the following:

- ✔ Understand the investments you are about to make
- ✔ Understand the risks and the potential rewards, and make sure you are comfortable with them
- ✔ Know why you are putting your money into every investment that you make
- ✔ Know how long you expect to hold the investment
- ✔ Know what you expect to get out of the investment
- ✔ Set realistic expectations for projected investment returns
- ✔ Find out if there are tax implications and, if so, what impact they will have on your portfolio

Remember, the financial markets are cyclical. They don't always go up. Never have. Never will. If you bite your nails when you hear the markets are down or lose sleep worrying about your money, maybe it's time to rethink your strategy.❑

Tips for preserving wealth

Many people have suffered severe stock market losses in recent years, and, because of low interest rates that don't generate adequate income, are opting for other types of investments that have become severely inflated.

It's one of the most difficult periods since the Great Depression for engaging in sound money management. The following tips can help you preserve wealth:

- ✔ Maintain adequate diversification between stocks and bonds, as well as *within* these categories
- ✔ Decrease debt and avoid home equity loans that could put your home at risk in the event of a severe financial setback
- ✔ Be cautious about making real estate investments; rising interest rates could dampen the market for housing in areas with inflated prices
- ✔ Retain a cash reserve for health emergencies, unanticipated repairs and a possible job loss

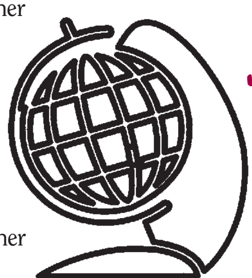
WealthPlan

- ✔ With respect to life, long-term care and disability insurance, avoid overinsuring by evaluating your actual needs instead of using a rule-of-thumb formula
- ✔ Consider the after-tax consequences of financial decisions, and engage in ongoing tax planning
- ✔ Establish a budget to control expenditures, allowing you to pursue a financial plan that will let you accumulate wealth❑

Stocks around globe surged with short, successful campaign in Iraq

Here is a summary of how this and other world events affected economic and capital markets:

- ✔ U.S. stock prices surges over 10% in April because of the successful end of the war in Iraq, with better-than-expected quarterly earnings reports and lower energy prices. Consumer confidence also moved higher off recent lows.



- ✔ Bond markets moved lower as yields inched higher during the month. The yield on the benchmark U.S. Treasury 10-year bond moved from 3.34% in March to 3.47% near the end of April. Bond yields crept higher on expectations of a recovery in economic growth.

  Investors embraced this scenario based on the successful completion of the conflict in Iraq, slight improvement in corporate earnings and the potential for a Bush-led tax cut.

- ✔ International equity markets surged during the month, as well, with the Europe, Australasia and Far East (EAFE) Index up nearly 10% during April.

  Most of the gains were centered in Europe, with few overseas losses posted in the Asian equity markets.

  The impact of the SARS scare in mainland China and Hong Kong has had a devastating impact on both local economies.

- ✔ In the U.S. equity markets, the biggest gainers during April were from sectors with severely depressed stock prices.

  Those winners posted returns in the midteens and included the consumer durables, transportation and technology sectors.

  The laggards during April were stocks in the energy, consumer nondurables and health care sector.

- ✔ The large swing in market volatility and the shift in stock market leadership from February/March to April did not reflect underlying investment fundamentals but rather the rush by investors to scoop up distressed assets, such as airline stocks and steel companies.

- ✔ Returns in the international markets during April did not reflect underlying investment fundamentals either.

  In Europe, Germany is suffering from the effects of deflation and rising rates on unemployment, and the picture is nearly the same in France.

  In Asia, Japan continues the struggle to jumpstart its economy, and other areas in the region have been hit hard by the SARS scare.

- ✔ The U.S. dollar continued its slide relative to the Euro and Canadian dollar.

  The Euro appreciated over 2.5% relative to the U.S. dollar during the month, and the Canadian dollar appreciated over 2%.

  The strength of these currencies relative to the dollar reflects the slowdown of foreign capital flows into the U.S. capital markets and the large U.S. trade deficit.

Market outlook: will the real price/earnings ratio please stand up?

Is the U.S. stock market cheap, fairly valued or expensive? It depends on who you believe and to which measure of accounting for earnings you subscribe.

Market variations, as measured by the price/earnings (P/E) ratio, based on various measures of earnings forecasts over the next 12 months range from 18 to 30!

Those who say the market is cheap subscribe to operating earnings as the proper measure, and those who believe the market is expensive subscribe to the core measure of earnings.

For example, the 2003 earnings forecast for the Standard and Poor's 500 based on operating earnings is $54 per share versus $28.91 per share based on core earnings.

The difference between the two measures is that the core earnings are adjusted for stock option expense, pension interest adjustments, goodwill impairment and settlements and litigation.

At the peak of the stock market, dividend yield on the market was 1.29% and P/E ratio based on operating earnings was 28.5

At the end of March 2003, dividend yield on the market was near 2%, P/E ratio was near 18, and the rate of corporate earnings growth had fallen 19.59% from levels in April 2000.❏

Tale of the Tape

Selected Returns through June 12, 2003

Benchmarks	1 Year	Year to to Date
DOW	-3.22%	10.25%
S&P 500	-1.09%	13.49%
NASDAQ Composite	10.47%	23.82%
Russell 2000	0.17%	19.23%
Selected Asset Classes - Mutual Funds		
Large Cap Growth		14.22%
Large Cap Value		13.55%
Mid Cap Growth		17.84%
Mid Cap Value		16.10%
Small Cap Growth		19.00%
Small Cap Value		16.94%
Science & Technology		24.92%
International		12.00%

Source - **The Wall Street Journal**, June 13, 2003. As with a portfolio of all stocks and bonds, a diversified portfolio gives no guarantee of safety of principal, which is subject to fluctuation.

Pay cards becoming popular

Though most companies still pay their employees by check, this method is now considered to be inefficient and costly.

In an attempt to lower costs, many companies have tried to convert payroll to direct deposit (the transfer of electronic funds to an employee's bank account).

Unfortunately, this approach may not work because of the significant percentages of workers who either don't have bank accounts or are wary of providing account information.

Therefore, some employers are beginning to use pay cards issued by credit card providers, such as VISA and MasterCard.

Pay cards work like this: the employee's pay is loaded electronically onto the card, which can then be used like a credit card or to draw cash at an ATM. After an initial fee in the range of $3 per card, the card issuer charges about 25 cents per transaction to load an employee's pay onto the card.

The use of pay cards is ideal for firms that have a high employee turnover rate, frequently use temporary employees or have a decentralized employee base that makes it difficult to use direct deposit to an employee's bank account.

The hospitality, food service, retail and health care industries are among those where pay cards are making rapid inroads.❑

BKD stands for PRIDE values

You care about what your accountants and consultants stand for. Values matter.

BKD's most valuable asset has always been our people. Their collective values of **passion, respect, integrity, discipline** and **excellence** have become the firm's values of **PRIDE.**

You see our partners and employees **"living the PRIDE"** everyday as they provide solutions to your business and financial needs.

Here is a synopsis of what our values mean for our clients. For a more complete explanation, ask your BKD advisor for details or for a copy of our values information sheet.

Passion - BKD's mission is to first "strive for excellence in providing services to clients." This commitment drives our practice and accounts for the dedication of our partners and staff to meeting your deadlines and needs. Consistent with our values, we are enthusiastically committed to making tomorrow better than today by helping you make informed decisions to improve business and financial outcomes.

Respect - BKD respects diversity. You benefit from our diverse client service teams, which bring a broad mix of skills and approaches to bear on your needs.

Integrity - "Do the right thing" has been the tone from the top of BKD since our founding. You and your stakeholders and customers rely on our integrity and objectivity to help you make smart—but right—business decisions. We are committed to telling you what you need to know vs. what you want to hear.

Discipline - Discipline is a hallmark of BKD, and you benefit from our well-established and successful protocols, standards and processes.

Excellence - We are committed to lifelong learning to continually improve the technical and analytical skills we apply to your needs. Our desire to "be the best" means we seek to consistently surpass your expectations.❑

Passion Respect Integrity
Discipline Excellence

How to Reach BKD

For a complete list of our offices and subsidiaries and their contact information, go to bkd.com or call Director of Communications at 417 831-7283.

bkd.com

P.O. Box 1900
Springfield, MO 65801-1900

A member of Moores Rowland International

PRSRT STD
US POSTAGE PAID
SPRINGFIELD MO
PERMIT #801

Address Service Requested