Crime—Gun Industry

Cross-
Gun
Control

Gun Industry to Meet In Bid to Avoid Suit By New York State

By a WALL STREET JOURNAL *Staff Reporter*

NEW YORK–Gun industry officials are expected to meet with New York Attorney General Eliot Spitzer this week, to negotiate curbs on the marketing, distribution and design of handguns that might enable the gun companies to avoid a lawsuit by New York state.

Twenty-eight cities and counties have sued gun makers in the past year, accusing them of designing guns that are unreasonably dangerous, and failing to take steps to keep them out of criminal hands. Mr. Spitzer has threatened to join this legal attack on guns, but has offered not to sue any gun company willing to sign a "code of conduct" aimed at keeping guns out of the hands of criminals and children and assisting police with investigations.

His preliminary discussions with gun makers led to the creation of two committees–one to explore the possibility of changes in gun design, and the other to explore what, if any, steps gun companies can take to prevent their product from reaching criminal hands. Now, the talks are "entering a new phase" in which the committees on both sides of the gun clash attempt to reach some sort of compromise, according to Darren Dopp, a spokesman for Mr. Spitzer's office.

Mr. Spitzer has asserted himself as the would-be deal maker between gun makers and a few politicians who have threatened to file suit against the industry but would prefer to compromise. Connecticut Attorney General Richard Blumenthal said he plans to be at the table during this week's talks.

Boeing Says Bolts in 767s Were Tightened Wrongly

By a WALL STREET JOURNAL *Staff Reporter*

SEATTLE–Boeing Co. said workers since at least 1993 have installed inadequately tightened bolts in the tail sections of its 767 jetliners because of a manufacturing error. The company said it doesn't believe the suspect parts pose any safety hazard, though it may recommend carriers fix the problem.

The installation problem, reported by the Seattle Post-Intelligencer, stems from improper calibration of tools used to assemble the jets, and Federal Aviation Administration officials also have begun examining why the mix-up occurred. It is far too early to determine whether the issue has any relation to last month's crash of an EgyptAir 767. "We don't have any activity" specifically looking at the bolt-installation question, said Greg Phillips, who heads the EgyptAir crash investigation for the National Transporation Safety Board.

Boeing officials said the suspect bolts have been replaced on all 767s under assembly, recently prompting a temporary suspension of flight testing of new extended-range models.

THE WALL STREET JOURNAL
TUESDAY, NOVEMBER 9, 1999

Citibank's Reed Faces Senate Questions on Salina

By MICHAEL ALLEN
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—When Citigroup Inc. Co-Chairman John Reed testifies in a Senate hearing on money laundering today, he can expect to be grilled on what he knows about Citibank's relationship with Mexico's Raul Salinas de Gortari, when he knew it—and, more important, what he did about it.

None of the evidence amassed during a months-long probe of Citibank's private bank by the Senate Select Subcommittee on Investigations Democratic staff points to wrongdoing by the 61-year-old Mr. Reed, who has largely sidestepped the bad publicity of the Salinas affair.


John Reed

But it does suggest that knowledge that the brother of the former Mexican president was a client went much higher up in the bank than had previously been known. Mr. Reed has insisted that he has never met Raul Salinas or knew that he was a client before Mr. Salinas's arrest in February 1995 on murder charges, because Mr. Reed had a policy of not knowing about private banking clients.

But documentation obtained by investigators showed that Mr. Reed's longtime aide, Citigroup Vice Chairman William Rhodes, met with Mr. Salinas in Citibank's private dining room in August 1993, along with Mr. Salinas's wife; his private banker, Amy Elliott; and Edward Montero, head of the private bank's Latin America operations.

'Briefly Say Hello'

A Citigroup spokesman said Mr. Rhodes stopped by "to briefly say hello for a few minutes" at Mr. Montero's request. "That's the only contact he ever had with Raul Salinas, either before or since," the spokesman added. According to investigators' notes, Mr. Rhodes, who has long represented Citibank at debt talks involving emerging nations, conversed about "developments in Mexico and President Carlos Salinas."

Mr. Reed himself told investigators that, in 1993 or 1994, Mexican businessmen spoke to him of Raul Salinas's "inserting himself in local business deals inappropriately" and potentially embarrassing President Salinas, according to the report.

Citibank, which accepted Mr. Salinas as a private bank client in 1992, helped Mr. Salinas move more than $87 million from Mexico between October 1992 and October 1994. Mexican investigators believe much of the money originated from corrupt dealings in Mexico, while Swiss authorities have charged that a substantial portion derived from drug-trafficking activities and frozen his accounts there. Mr. Salinas, who was convicted of murder, has denied any wrongdoing. Citibank has also said it did nothing wrong.

Compliance Problems

Many of the questions today will focus on what Mr. Reed and other senior managers did to fix problems at the private bank, particularly after the Salinas affair burst into the public arena. Mr. Reed will point out today that Citibank's private bank, which caters to wealthy clients at home and abroad, represents only 2.5% of Citigroup's business, and that he had plenty of other strategic issues on his plate. He will also argue that changing the culture of some 3,600 bankers, with 40,000 customers world-wide, takes time.

But there are questions about wheth Mr. Reed was fully engaged in the turn around, particularly early on. Citibank internal auditors were unearthing serious compliance problems at the private bank, assigning failing grades in 1995 through 1997. According to the Senate report, Monsanto Chairman Robert B. Shapiro, then head of Citibank's audit committee, was so troubled by the low audit scores and "repeated failure to meet deadlines for corrective action" that he personally talked to Mr. Reed about the need to take action. "He said Mr. Reed responded by taking a personal interest in addressing the private bank problems," according to the report.

Mr. Reed, who had already replaced the head of the private bank less than a year earlier, did so again, bringing in Shaukat Aziz, who last month left to become Pakistan's finance minister. Audit scores have since improved, and exams so far this year have yielded grades of 100%, officials say.


Raul Salinas de Gortari

Another turning point for Mr. Reed was an interview, apparently in 1997, by Justice Department officials investigating Citibank for possible money laundering in the Salinas affair.

Talking to 'God'

"I spent a day being interviewed by the Department of Justice on the Salinas affair," he wrote in a November 1997 letter to the board. "As a legal issue, I continue to think that we are on very solid ground. However, I am more than ever convinced that we have to rethink and reposition the Private Banking business. . . . Much of our practice that used to make good sense is now a liability. We live in a world where we have to worry about 'how someone made his/her money' which did not used to be an issue. Much that we had done to keep Private Banking private becomes 'wrong' in the current environment."

One intriguing mystery concerns a series of tape-recorded telephone conversations among private-bank employees the day after Mr. Salinas's arrest. The head of the private bank at the time can be heard discussing whether to move the controversial client's accounts to Switzerland, where greater bank secrecy prevails. That idea was discarded as ineffective.

There are a series of conversations about how "God" is reacting to the scandal, and at one point Ms. Elliott says: "I expect I will have to go up to to God, and when I do I will let you guys know."

Senate investigators suspected, but couldn't prove, that "God" was a reference to Mr. Reed or some other top Citibank official. A person close to Ms. Elliott says she used the term as a figure of speech. A person familiar with Citigroup's thinking said Mr. Reed didn't talk to Ms. Elliott until long after that point, adding: "God is not John Reed."

THE WALL STREET JOURNAL
TUESDAY, NOVEMBER 9, 1999

Handgun Makers Recoil as Industry Shakes Out

By PAUL M. BARRETT
And ALEXEI BARRIONUEVO
Staff Reporters of THE WALL STREET JOURNAL

A group of California handgun manufacturers, whose small, inexpensive weapons police often associate with crime, are retreating from the cheap-gun market.

GUNS

The little-noticed development began several years ago and could be the first stage of a substanial shakeout in the gun business. A wave of municipal lawsuits against the entire handgun industry appears to be accelerating the restructuring.

People in both the pro- and antigun camp predict that the process could result in the disappearance of some smaller gun makers, an increase in overall prices, and greater stability for the larger players. What's more, the restructuring could encourage the remaining big companies to accept greater regulation, which could be the basis for settling the municipal suits.

The California handgun makers are in the spotlight following the church rampage last week in Fort Worth, Texas. One of the pistols carried by gunman Larry Gene Ashbrook was made by Arcadia Machine & Tool Inc., a small manufacturer typically included among the so-called Ring of Fire companies, named for their location ringing Los Angeles.

Mr. Ashbrook, a 47-year-old loner, killed seven people and injured seven more, and killed himself at Wedgwood Baptist Church. He appears to have done most of his bloodletting with a 9mm pistol, made by the largest U.S. gun company, **Sturm, Ruger** & Co., of Southport, Conn. But he also carried a small .380 semiautomatic from Arcadia, one of the company's Backup line, which it pitches as a concealed backup weapon for police officers or civilians.

The other half-dozen companies in the Ring of Fire all have ties to the extended Jennings family, a legendary clan of firearm entrepreneurs; Arcadia, now owned by **Galena Industries** Inc. of Irwindale, Calif., doesn't. Arcadia's weapons aren't linked to crime as frequently as those of some other Ring of Fire manufacturers. But like the Jennings-related companies, such as **Lorcin Engineering** Co., **Bryco Arms** Inc. and **Davis Industries** Inc., Arcadia in the early 1990s stepped up production of smaller models such as the .380.

The gun industry as a whole enjoyed a boom in 1993 and 1994, when people stocked up on firearms in reaction to industry-fanned fears that passage of the Brady background-check law foreshadowed even stiffer gun restrictions. But the Ring of Fire companies particularly thrived.

Arcadia was "part of that whole move to produce a lot of smaller personal-protection pistols at a reasonable price," says Robert Ricker, a veteran industry lobbyist in Sacramento, Calif. Law-enforcement investigators say that Mr. Ashbrook paid about $175 for his Arcadia Backup, a model with a reputation for durability. A comparable Lorcin retails for $100 or less and is known as a "junk gun" because of a tendency to jam. Top-quality handguns typically retail for $350 to $550.

A predictable slump followed the fat times of 1993-94. The southern California companies making smaller guns were hardest hit. As gun foes began focusing critical attention on the Ring of Fire companies, those manufacturers were actually cutting production sharply.

CRIME –
GUN INDUSTRY

Other factors exacerbated the difficulties Ring of Fire companies faced. Some larger companies, such as Smith & Wesson Corp., a unit of Britain's Tomkins PLC, stepped up marketing of small personal-protection guns. Also, the decline in violent- crime rates is thought to have dented consumer demand for such guns. "That end of the market has been in trouble for a while," says Mr. Ricker, the lobbyist.

Last month, the Ring of Fire suffered another blow when California enacted a law intended to ban "junk guns" that fail tough new safety standards. Most of the larger gun companies, which didn't aggressively oppose the law, can probably meet its tougher standards and would benefit if their low-price competitors are hurt.

Meanwhile, lawsuits filed by cities and counties around the country are taking yet another toll. The suits, filed by 27 municipalities so far, seek reimbursement of public gun-violence costs and reform of industry marketing and distribution practices.

Faced with potentially crippling legal expenses, two of the southern California companies, Davis Industries of Chino, and Sundance Industries Inc. of Valencia, have sought bankruptcy-court protection. Lorcin Engineering of Mira Loma has ceased operation, citing management problems as well as the litigation.

The owners of some of these gun makers may resurface in new guises. James Waldorf, Lorcin Engineering's co-founder and former president, for example, says he plans to start producing higher-end guns in Nevada. Arcadia, which is named in only some of the suits, this year has promoted a limited-edition high-end model, in an apparent continuing move away from mass-production of lower-priced handguns.

Like most gun companies, Arcadia is privately held and doesn't release financial information. Officials at its parent didn't return telephone messages seeking comment. An industry person familiar with the situation said Galena Industries was in the process of moving the Arcadia gun-making operations to South Dakota.

Gun-industry veterans, as well as critics, believe that a significant restructuring of the gun business could be underway.

"This could be the first stage of a very rational shakeout in a business under tremendous pressure," says Tom Diaz, a senior analyst with the antigun Violence Policy Center in Washington and author of "Making a Killing," a 1999 book on the gun business. He predicts "some cleaning out of bottom-feeders," leaving a more consolidated industry of larger companies that will seek to nudge prices up and possibly move away from production of smaller, cheaper handguns.

Mainstream industry officials contest much of Mr. Diaz's book and publicly tend to avoid criticism of the low-end companies. But privately, some executives with major manufacturers say that they wouldn't mourn the Ring of Fire's fading.

In fact, in the face of the municipal lawsuits, some of the larger firearm manufacturers are taking steps they hope will be seen as distinguishing themselves from the Ring of Fire. Although modest, these steps are significant because in the past, gun makers have responded to demands for reform by arguing that there is little they can do to control what happens to guns once they leave the factory.

Colt's Manufacturing Co. of West Hartford, Conn., for example, has discussed with the New York state attorney general's office ways that the company might be willing to supervise sales of its guns more closely. New York Attorney General Eliot Spitzer has threatened to be the first state official to join the antigun litigation unless major manufacturers agree to a more restrictive industry "code of conduct." Colt's independently has begun using federal law-enforcement data to examine criminal trends in the use of its guns-a step that until now gun makers have strongly resisted.

It isn't clear how far this trend will go. The industry says it plans to fight the lawsuits in court. In Washington, the National Rifle Association, which represents gun-owner interests, is resisting any substantial increases in federal gun control.

Property Insurers Slash Loss Estimates From Hurricane Floyd to $800 Million

By DEBORAH LOHSE

Staff Reporter of THE WALL STREET JOURNAL

The nation's property insurers, which early last week feared that Hurricane Floyd could cause as much as $4 billion in insured losses, now expect to pay significantly less, perhaps $800 million or more.

Most of the damage is expected to stem from relatively minor structural damage to homes in North Carolina and more than a dozen other states.

"The numbers are not as high as initially anticipated, because the storm veered further off the East Coast, didn't hit any major urban area [at its full strength] and much of the damage on the East Coast was flooding," said Steven Goldstein, a spokesman for the Insurance Information Institute, a trade group in New York.

Early last week, the insurance industry predicted insured losses of $4 billion. And even after the storm largely bypassed Florida, some research companies that predict insurance losses based on insurance-company exposure models estimated that insured losses could top $2 billion. But the Insurance Information Institute said Friday that, until homeowners and adjusters in many flooded states could get in to assess damage, current estimates as of Friday were more like $800 million.

Still, such estimates have been a moving target since Floyd first started threatening the Florida coast. Many homeowners and insurance claims adjusters were just being granted access in recent days to areas rendered impassable due to hurricane-driven flooding. Insurance executives say the highest concentration of claims so far have come from hard-hit North Carolina, where Floyd first made landfall, but that a steady stream of claims had come in from more than a dozen affected states from Florida to New England.

Adding to the uncertainty, much of the damage wreaked by Floyd has been in the form of flooding, a loss that won't be borne directly by the nation's private homeowners' insurers, but rather by the federal government's flood-insurance program—provided homeowners had purchased such coverage. Typical private homeowners' policies don't cover flooding, which is deemed too risky and expensive for insurance carriers, and only a small percentage of homeowners in flood-plains areas purchase the relatively expensive federal coverage.

Moreover, unlike with past disastrous hurricanes like Andrew in 1992, those homes with structural damage by and large don't appear to be total losses, insurance-company executives say. "A lot of it has been in the form of trees smashing into homes," said Orysia Meyers, property officer for Nationwide Insurance, a subsidiary of **Nationwide Mutual Insurance** Co. of Columbus, Ohio.

No matter how extensive the damage, insurers expect that their overall exposure will be reduced due to the industry's imposition in recent years of so-called hurricane deductibles on many coastal homeowners' policies. Such deductibles are payments representing a percentage of an insured home's value—say 2% to 5%—that homeowners must pay before receiving insurance reimbursement. Someone with a $300,000 home and a 5% deductible would have to pay $15,000 before insurance payments kick in.

Another expected source of losses for insurers is due to the cars damaged by the hurricane and resultant flooding. Car owners covered by comprehensive auto insurance policies will be reimbursed for such damage, said Steven Goldstein, a spokeman for the New York-based trade group Insurance Information Institute. "We're expecting a lot of auto claims," said Mr. Goldstein, who said such claims have not hit insurers by and large yet.

State Farm Mutual Automobile Insurance Co., of Bloomington, Ill., Friday projected it will process about 26,000 homeowners policyholder claims in states from Delaware south to Florida, paying an estimated $55 million in the process. It had not projected losses from damages north of Delaware. State Farm projected it would receive 5,000 auto claims costing $12 million.

Allstate Corp., another large property insurer based in Northbrook, Ill., said by Friday it had received 11,000 claims from 15 states, with the highest volume of claims, 2,400 coming from North Carolina.

Similarly, Nationwide said that as of about midday Friday, it had received fewer than 10,000 claims, but that many people in areas of the Northeast hadn't been able to assess damages in order to make claims. "There are still a lot of people who need to get back to their homes, see the damage, and others who are without power" said Ms. Meyers of Nationwide. "I don't think we've peaked yet, not even close."

THE WALL STREET JOURNAL
MONDAY, SEPTEMBER 20, 199

Gun-Industry Public-Relations Effort Puts Antigun Activists on the Defensive

By Paul M. Barrett
Staff Reporter of The Wall Street Journal

Crime –
Gun
Gun Industry

A new gun-industry public-relations drive focusing on firearm safety has put antigun activists on the defensive.

The campaign, launched this week in Las Vegas, enlists local police and public officials to hold news conferences and give away gun locks and firearm-safety literature provided by the National Shooting Sports Foundation, the industry's main trade group.

Robert Delfay, the foundation's president, says about 10 other cities so far have agreed to participate in the drive to promote safe gun storage—and burnish the image of an industry besieged by litigation. In May, the industry canceled its first major advertising campaign in general-interest magazines for fear of offending readers in the wake of the Littleton, Colo., high-school massacre.

Antigun activists are fuming about the new safety campaign because it effectively divides cities into two camps: those that are suing the industry and those that are cooperating with what the shooting foundation is calling Project HomeSafe.

Some cities have found themselves with a foot in each camp. The New Orleans police department, for example, scheduled a news conference for Tuesday to launch the lock-giveaway. But that was before lawyers representing New Orleans in its suit against the gun industry heard about Project HomeSafe.

"This was just a setup, a sham" meant to undercut the New Orleans lawsuit, says Daniel Abel, an outside attorney for the city. Alerted by the lawyers, Mayor Marc Morial canceled the news conference and pulled New Orleans out of the program.

Mr. Morial's spokeswoman, Rhonda Spears, says her boss considers it improper for the industry to have made arrangements with the police department in the midst of litigation between the city and the industry. In fact, New Orleans has named the shooting-sports foundation as a defendant in its suit. "We're warning other cities around the country to be aware of who is behind this thing," she says.

New Orleans is one of 27 municipalities that have sued the industry, seeking reimbursement for public costs related to gun violence and new restrictions on the marketing of firearms.

Mr. Delfay says the New Orleans experience underscores that some cities want to promote gun safety, while others are pursuing gun lawsuits. "It's very unfortunate, but illuminating, isn't it?" the industry official says. Other cities that are participating in Project HomeSafe include Pittsburgh, Orlando, Fla., and Augusta, Ga., Mr. Delfay adds. He says that the project had been planned since before the municipal suits were launched last October and wasn't simply a response to litigation or to recent high-visibility mass shootings.

Oakland, Calif., another city suing the industry, announced its participation in Project HomeSafe just yesterday. Officials in Oakland's city attorney's office didn't return phone calls seeking comment on the apparent contradiction.

Mayor Michael Albano of Springfield, Mass., heard dissent from antigun public-health officials in his city, but nevertheless decided to join forces with the shooting-sports foundation. "I don't care what the motives are," he says, "let's get the locks into the homes."

But gun foes say that motives are important. "This is public relations, not gun safety," maintains Josh Sugarmann, executive director of the Violence Police Center, a Washington, D.C., group pushing for sharp curbs or a ban on handguns. Mr. Sugarmann argues that even with locks, guns kept in homes create a danger of suicide, accident or other misuse that outweighs any enhanced security.

Gun advocates counter that accidental gun deaths have been falling steadily for 15 years and guns are used frequently to ward off or shoot intruders. "This is totally apolitical for us," says Mr. Delfay.

In Project HomeSafe, the industry has pledged to provide cities up to 5,000 cable gun locks each. The locks, which retail for about $10 apiece and resemble bicycle locks, can be threaded through the handle or barrel of handguns, making them impossible to fire. The industry also is paying administrative costs for Project HomeSafe, which overall could have a price tag of hundreds of thousands of dollars.

The foundation has hired the Bean Agency, a small Seattle public-relations firm, to coordinate the campaign.

THE WALL STREET JOURNAL

THURSDAY, SEPTEMBER 23, 1999

Stock Markets Get the Point By July 2000

By GASTON F. CEKON
Dow Jones Newswires

NEW YORK – Get ready to see some strange-looking stock prices.

Yesterday, Wall Street proposed that the long-awaited conversion to trading stocks and options in decimals be phased in over a three-month period beginning in July 2000.

This represents a more-precise timetable for what will be a historic change in the U.S. stock market. Quotations for stocks and other securities in the U.S. long have been expressed in fractions – such as ⅛ of a dollar, which is then converted into 12.5 cents. Previously, traders had expected the conversion to begin later next year, at the earliest.

Decimalization would make it easier to express stock prices in varying increments. In the new system, investors will see prices such as $15.05 a share. The stock tables in newspapers would likely look different when this happens. However, decimal quotations also will result in a huge increase in the number of stock quotes that market-data computers will have to process, particularly when stock options are included.

The first phase of the implementation plan, which potentially could affect all major U.S. exchanges, would consist of decimal trading in selected securities in increments of five cents, said Scott Abbey, a PaineWebber Group Inc. executive who is also chairman of the Securities Industry Association's decimal steering committee. He spoke at the SIA trade group's convention on decimalization in New York. This phase would last roughly five weeks, with a tentative starting date of July 3 and would involve 30 to 40 stocks and their underlying

Please Turn to Page C17, Column 1

options chosen by the markets and by the SIA committee.

In the second phase, which would last eight weeks, beginning in early August, all securities would trade in increments of five cents. In the third and final phase, beginning in early October, all securities would trade in whatever increments market forces determine.

The SIA is asking the Securities and Exchange Commission to issue rules that would permit this schedule.

One concern that was voiced at the convention was whether spreads on stocks—the difference between buying and selling prices—would shrink too much as a result of decimalization and whether that would cause stock dealers to avoid certain stocks. In response, Judith Poppalardo, vice president and associate general counsel of the SIA, said some people thought that even though spreads may narrow, trading commissions could rise. This view, however, wasn't shared by all members of the audience.

Richard Strasser, assistant director of the SEC's office of market supervision, didn't explicitly say whether the SEC would go along with the SIA's proposed phase-in plan, but he didn't criticize it, either. He said the move to decimals "has been a priority at the SEC for some time now." But he said the SEC thinks that until the end of 1999, the securities industry should focus on the year-2000 computer-bug problem. After that, decimalization is the next priority, he indicated.

Mr. Strasser said the move to decimalization will help individual investors have a better understanding of stock prices. He noted that market professionals already think of stock prices in terms of decimals, as evidenced by the fractions-to-decimals tables that he said are common at many Wall Street firms. "It's time for the rest of us to get there, too," he said.

Indeed, most investors aren't yet aware of the coming conversion to trading stocks in decimals, a study commissioned by the SIA found. The survey, which was conducted by Yankelovich Partners, found that only 18% of investors in stocks know of the coming conversion. But many of the investors who have heard of decimalization seem to view it as positive. Yankelovich Partners found that 72% of those investors think that decimalization will make stock prices easier to understand.

Separately, the SEC's market regulation director, Annette Nazareth, said: "The SEC has long been committed to pricing stocks in decimal increments and is pleased that the private sector is leading the effort to make decimal pricing a reality."

THE WALL STREET JOURNAL

THURSDAY, SEPTEMBER 23, 1999