

STATE STREET CORP
Form 11-K
June 30, 2003

**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number _____

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

STATE STREET SALARY SAVINGS PROGRAM

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

STATE STREET CORPORATION

225 Franklin Street

Boston, Massachusetts 02110

**AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULE**

State Street Salary Savings Program
Years ended December 31, 2002 and 2001

State Street Salary Savings Program
Audited Financial Statements and Supplemental Schedule

Year ended December 31, 2002 and 2001

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[Ernst & Young LLP
Boston, Massachusetts Letterhead]

Report of Independent Auditors

Salary Savings Program Committee and Plan Participants
State Street Corporation

We have audited the accompanying statements of net assets available for benefits of the State Street Salary Savings Program (formerly State Street Corporation and Certain Related Companies Salary Savings Program) as of December 31, 2002 and 2001, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2002 and 2001, and the changes in its net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2002, is presented for purposes of additional analysis and is not a required part of the financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ERNST & YOUNG LLP

Boston, Massachusetts
June 2, 2003

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State Street Salary Savings Program

Statements of Net Assets Available for Benefits

| | December 31 | |
|--|---------------|---------------|
| | 2002 | 2001 |
| Assets | | |
| Cash | \$ 15,202 | \$ 356,617 |
| Investments: | | |
| Active U.S. Large Cap Core Fund | 74,644,332 | 91,717,214 |
| State Street Corporation ESOP Fund | 291,216,471 | 391,121,033 |
| Short-Term Investment Fund | 88,319,267 | 91,587,785 |
| Principal Preservation Fund | 59,886,027 | 43,937,324 |
| Daily EAFE Fund | 23,279,297 | 26,602,858 |
| Bond Market Fund | 41,895,382 | 27,812,379 |
| U.S. Core Opportunities Fund | 60,183,075 | 79,742,122 |
| Conservative Lifestyle Fund | 7,001,916 | 6,179,958 |
| Moderate Lifestyle Fund | 10,522,187 | 8,946,562 |
| Aggressive Lifestyle Fund | 13,812,017 | 13,651,013 |
| Russell 2000 Index Securities Lending Fund | 14,395,542 | 11,079,312 |
| S & P MidCap Index Fund | 32,440,846 | 25,811,719 |
| S & P 500 Flagship Fund | 27,274,253 | 24,709,314 |
| Self Managed Brokerage Accounts | 14,841,409 | 19,445,891 |
| Participant loans | 20,867,147 | 19,595,579 |
| Total investments | 780,579,168 | 881,940,063 |
| Accrued income | 2,054,425 | 1,310,908 |
| Total assets | 782,648,795 | 883,607,588 |
| Liabilities | | |
| Other liabilities | | 334,022 |
| | 3,351,989 | |
| Net assets available for benefits | \$779,296,806 | \$883,273,566 |

See accompanying notes.

State Street Salary Savings Program

Statements of Changes in Net Assets Available for Benefits

| | Year ended December 31 | |
|--|------------------------|---------------|
| | 2002 | 2001 |
| Additions: | | |
| Contributions: | | |
| Participants | \$ 61,060,105 | \$ 56,490,789 |
| Employer | 20,087,124 | 17,428,483 |
| Rollovers | 5,815,710 | 8,604,598 |
| | 86,962,939 | 82,523,870 |
| Interests and dividend income | 9,673,360 | 11,392,765 |
| Total additions | 96,636,299 | 93,916,635 |
| Deductions: | | |
| Benefit paid directly to participants | 41,975,603 | 37,785,077 |
| Net depreciation in fair value of investments | 157,990,648 | 102,429,767 |
| Investment management fees | 646,808 | 668,133 |
| Net transfers to other plans (<i>Note 1</i>) | - | 23,345,021 |
| Total deductions | 200,613,059 | 164,227,998 |
| Net decrease | (103,976,760) | (70,311,363) |
| Net assets available for benefits at beginning of year | 883,273,566 | 953,584,929 |
| Net assets available for benefits at end of year | \$779,296,806 | \$883,273,566 |

See accompanying notes.

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State Street Salary Savings Program

Notes to Financial Statements

December 31, 2002

1. Description of the Plan

The description of the State Street Salary Savings Program (formerly State Street Corporation and Certain Related Companies Salary Savings Program) (the Plan) is provided for general information purposes only. Employees should

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refer to the Summary Plan Description and Plan document for more complete information.

General

The Plan is a defined contribution plan. All employees of the State Street Corporation and certain related companies (the Corporation) are immediately eligible to participate in the Plan, as defined in the Plan. The Plan was amended effective January 1, 2001, to change the plan name to State Street Salary Savings Program, and for various regulatory-related changes as required by law.

During the year ended December 31, 2002, certain former employees of Russell Fund Distributors, Inc., Atlantic Trust Company, N.A. and J. & W. Seligman & Co. Incorporated who became employees of the Corporation were granted service credit for years of service rendered to these former employers.

Effective June 17, 2002, the Plan was amended to convert the Corporation Stock Fund to an Employee Stock Ownership Plan (ESOP Fund) within the Plan. The ESOP Fund will have such terms and conditions consistent with Section 404(k) of the Internal Revenue Code. Participants whose accounts are invested in the ESOP Fund will be able to choose to reinvest dividends in the ESOP Fund, or take quarterly distribution of the dividends in cash.

During the year ended December 31, 2001, certain participants were transferred to the CitiBuilder 401(k) Plan, as a result of a joint venture between the Corporation and CitiGroup. The majority of the Retirement Investment Services (RIS) Division of the Corporation became part of CitiStreet LLC. Total plan assets transferred out of the Plan amounted to \$26,336,622. Also in 2001, certain former employees of Merrill Lynch, Liberty Financial Companies Inc. and DST Portfolio Systems, Inc. who became employees of the Corporation were granted service credit for services rendered to these former employers. Total plan assets transferred into the Plan for certain former employees of Liberty Financial Companies, Inc. and DST Portfolio Systems, Inc. amounted to \$1,804,532 and \$1,187,069, respectively.

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State Street Salary Savings Program

Notes to Financial Statements (continued)

1. Description of the Plan (continued)

Contributions

Active participants may elect to make tax-deferred contributions to the Plan equal to 1% to 15% (25% effective January 1, 2003) of their compensation, subject to certain limitations. Contributions to the Plan are made by the Corporation, in amounts equal to 50% of the first 6% of the employee's tax-deferred contribution. All employees who have completed one year of employment and have worked at least 1,000 hours during that period are eligible for the corporate matching contributions. Participants in the Plan are fully vested when they become members.

Participant contributions and matching contributions are allocated in investment funds, including the ESOP Fund, at the participant's direction with no restrictions.

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All contributions to the Plan are paid to State Street Bank and Trust Company, which holds them in trust exclusively for participants and their beneficiaries, invests them and makes benefit payments as they become due.

Payment of Benefits

Upon retirement or other termination of employment, a participant eligible to receive a benefit may receive an immediate lump sum distribution or may elect to defer the payment of their benefits and remain in the plan, at which time the participants become nonactive.

Participant Loans

Participants may borrow from their fund accounts a minimum of \$1,000, up to a maximum equal to the lesser of one-half of the participant's vested balance, or \$50,000. Loans are secured by the balance in the participant's accounts and bear interest at a rate comparable to a similar loan with a commercial institution. Repayments of principal plus interest is required within five years, unless the loan is for the purchase of a principal residence. Principal and interest is paid ratably through payroll deductions.

Participant Accounts

Each participant's account is credited with the participant's contributions, Corporation contributions, and plan earnings. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account.

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State Street Salary Savings Program

Notes to Financial Statements (continued)

1. Description of the Plan (continued)

Plan Termination

Although it has not expressed any intent to do so, the Corporation has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. Participants are always 100 percent vested in their accounts.

2. Significant Accounting Policies

Basis of Accounting

The accounting records of the Plan are maintained on the accrual basis.

Investment Valuation and Income Recognition

The fair value of the participation units owned by the Plan in all funds, except the Short-Term Investment Fund, Self Managed Brokerage Accounts and in the Principal Preservation Fund, are based on each fund's net asset value per unit

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on the last business day of the Plan year, where net asset values are based on the fair value of the underlying assets in each fund.

Securities included in the Short-Term Investment Fund are short-term instruments and are valued at cost, which approximates fair value.

The fair value of participant accounts in the Self Managed Brokerage Accounts are based on the fair value of the underlying securities, determined as follows: investments listed on securities exchanges are valued at closing sales prices on the last business day of the year and, in the case of unlisted securities, the valuation is the last published sales price, or the mean between the bid and asked price, whichever is more recent.

Investments in the Principal Preservation Fund are units representing investments in guaranteed investment contracts of insurance companies, which are rated AAA or AA by the major rating agencies. Investment contracts are valued at cost plus accrued interest (contract value). Investment contracts will normally be held to maturity and meet the fully benefit-responsive requirements of AICPA Statement of Position 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*.

State Street Salary Savings Program

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Investment contracts are recorded at their contract values, which represent contributions and reinvested income, less any withdrawals plus accrued interest, because these investments have fully benefit-responsive features. For example, participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value. However, withdrawals influenced by Corporation-initiated events, such as in connection with the sale of business, may result in a distribution at other than contract value. There are no reserves against contract values for credit risk of contract issues or otherwise. Rates are fixed on traditional investment contracts and are reset quarterly or monthly on synthetic investment contracts. All resets have a floor of 0%. The fair value of the investment contracts at December 31, 2002 and 2001 was \$70,626,109 and \$43,911,732, respectively. The average yield was approximately 5.51% in 2002 and 6.04% in 2001, respectively.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results differ from those estimates.

Reclassification

Certain 2001 financial statement amounts have been reclassified to conform with 2002 presentation.

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State Street Salary Savings Program

Notes to Financial Statements (continued)

3. Investments

During 2002 and 2001, the Plan's investments (including investments bought, sold and held during the year) depreciated in value as follows:

| | Year ended December 31 | |
|---|------------------------|-----------------|
| | 2002 | 2001 |
| State Street Corporation - common stock | \$ (95,326,217) | \$ (74,619,421) |
| Collective Investment Funds | (57,294,763) | (23,333,292) |
| Common stock | (3,872,727) | (3,502,759) |
| Bonds | (24,454) | 2,955 |
| Mutual funds | (1,472,487) | (977,250) |
| | \$(157,990,648) | \$(102,429,767) |

4. Transactions and Agreements with Parties-in-Interest

All costs and expenses incurred in connection with the operation of the Plan are borne by State Street Corporation, except investment management fees, which are paid by the Plan. On May 7, 2002, the Plan Committee voted that cost incurred to operate the Plan will be paid by the Plan assets beginning after plan year 2002.

5. Income Tax Status

The Plan has received a determination letter from the Internal Revenue Service, dated March 24, 2003, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (the Code), and therefore, the related trust is exempt from taxation. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan has been amended since receiving the determination letter; however, the Plan administrator and the Plan's tax counsel believe that the Plan, as amended, is operated in compliance with the applicable requirements of the Code, and therefore, believe that the Plan is qualified and the related trust is tax exempt.

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State Street Salary Savings Program

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Notes to Financial Statements (continued)

6. Subsequent Events

Effective January 1, 2003, Plan participants who were hired by US Bank on January 1, 2003, pursuant to an agreement between State Street Bank and Trust Company and US Bancorp, may elect to have their account (consisting of cash and one or more outstanding loan balance) directly rolled over to the US Bank 401(k) Plan.

In February 1, 2003, certain former employees of Deutsche Bank who became employees of the Corporation were granted service credit for years of service rendered to Deutsche Bank. These former employees of Deutsche Bank are allowed to make a one-time election to make a direct rollover contribution of their account (consisting of cash and one or more outstanding loan balance) from the Deutsche 401(k) Plan to the Plan.

On April 10, 2003, as part of the Corporation's cost reduction plan, the Corporation announced its voluntary separation program offered to eligible employees. The impact to the Plan is not currently determinable.

Supplemental Schedule

State Street Salary Savings Program

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EIN No: 04-2456637 Plan No.: 002

Schedule H, Line 4i – Schedule of Assets (Held at End of Year)

December 31, 2002

| Identity of Issue | Description of Investment | Current Value |
|---------------------------------------|---|---------------|
| State Street Bank and Trust Company | | |
| Investment Funds for Employee Trusts: | | |
| Active U.S. Large Cap Core Fund* | 5,393,767 units of participation | \$ 74,644,332 |
| State Street Corporation ESOP Fund* | 7,467,090 units of participation | 291,216,471 |
| Short-Term Investment Fund* | 88,319,267 units of participation | 88,319,267 |
| Principal Preservation Fund: | | |
| Allstate Life Insurance Co. | 1998 Stable Fixed Income Fund, 5.08%; matures 3/31/03 | 409,117 |
| Bank of America | 2000 Stable Fixed Income Fund, 5.83%; matures 10/17/11 | 539,394 |
| Bank of America | 2000 Stable Fixed Income Fund, 6.23%; matures 2/15/09 | 1,152,660 |
| Bank of America | 2000 Stable Fixed Income Fund, 9.91% (SSgA Daily Mortgage Fund) | 1,247,874 |
| Cassietes Depots | 1999 Stable Fixed Income Fund, 6.64%; matures 6/30/03 | 501,323 |
| Cassietes Depots | 2002 Stable Fixed Income Fund, 4.81%; matures February 2007 | 912,624 |
| General Electric Capital Assurance | 2000 Stable Fixed Income Fund, 6.71%; matures 9/30/03, 3/31/05 | 2,272,143 |
| General Electric Capital Assurance | 2001 Stable Fixed Income Fund, 5.79%; matures 12/30/04, 6/30/05, 12/29/05 | 2,183,418 |
| General Electric Life Insurance Co. | 1999 Stable Fixed Income Fund, 6.11%; matures 3/31/03 | 623,982 |
| Hartford Life Insurance Co. | 2001 Stable Fixed Income Fund, 5.85%; matures 9/30/04, 12/30/04, 6/30/05 | 2,190,801 |

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State Street Salary Savings Program

EIN No: 04-2456637 Plan No.: 002

Schedule H, Line 4i – Schedule of Assets (Held at End of Year) (continued)

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| Identity of Issue | Description of Investment | Current Value |
|--|---|---------------|
| Hartford Life Insurance Co. | 2001 Stable Fixed Income Fund, 5.58%; matures 9/30/04, 12/30/04, 9/30/05 | \$ 1,352,143 |
| Jackson National Life Insurance Co. | 2000 Stable Fixed Income Fund, 7.06%; matures 6/30/03, 3/31/04, 6/30/04 | 2,899,943 |
| John Hancock Mutual Life Insurance Co. | 2000 Stable Fixed Income Fund, 7.68%; matures 12/31/03, 6/30/04, 9/30/04 | 2,999,778 |
| Metropolitan Life Insurance Co. | 1998 Stable Fixed Income Fund, 5.71%; matures 3/31/03 | 421,208 |
| Metropolitan Life Insurance Co. | 2001 Stable Fixed Income Fund, 4.65%; matures 12/30/03, 3/31/05, 6/29/06 | 1,048,065 |
| Metropolitan Life Insurance Co. | 2002 Stable Fixed Income Fund, 5.42%; matures 6/15/04, 3/15/05, 12/15/05, 9/15/06 | 2,073,327 |
| Metropolitan Life Insurance Co. | 2002 Stable Fixed Income Fund, 4.13%; matures 3/15/04, 3/15/06, 3/15/07 | 2,030,612 |
| Monumental Life Insurance Co. | 1998 Stable Fixed Income Fund, 5.63%; matures 9/30/03 | 414,172 |
| Monumental Life Insurance Co. | 1999 Stable Fixed Income Fund, 5.95% | 1,235,886 |
| Monumental Life Insurance Co. | 2000 Stable Fixed Income Fund, 7.95%; matures 12/31/03; 3/31/04 | 1,215,205 |
| Monumental Life Insurance Co. | 2000 Stable Fixed Income Fund, 4.14% | 1,000,000 |
| Monumental Life Insurance Co. | 2001 Stable Fixed Income Fund, 4.69%; matures 12/30/03, 9/29/05, 6/29/06 | 1,577,465 |
| Monumental Life Insurance Co. | 2001 Stable Fixed Income Fund, 5.17%; matures 9/30/03, 6/30/05, 12/29/05, 9/28/06 | 1,571,896 |

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 State Street Salary Savings Program

EIN No: 04-2456637 Plan No.: 002

Schedule H, Line 4i – Schedule of Assets (Held at End of Year) (continued)

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| Identity of Issue | Description of Investment | Current Value |
|--------------------------------|--|---------------|
| New York Life Insurance Co. | 1998 Stable Fixed Income Fund, 6.02% matures 5/15/03 | \$ 288,689 |
| New York Life Insurance Co. | 1999 Stable Fixed Income Fund, 5.93%; matures 3/31/03 | 359,869 |
| New York Life Insurance Co. | 1999 Stable Fixed Income Fund, 5.84%; matures 3/31/03 | 412,145 |
| The Principal Financial Group | 1998 Stable Fixed Income Fund, 5.68%; matures 9/30/03 | 314,096 |
| The Principal Financial Group | 1998 Stable Fixed Income Fund, 6.01%; matures 8/1/03 | 103,791 |
| The Principal Financial Group | 2000 Stable Fixed Income Fund, 7.47%; matures 6/30/03, 12/30/03, 3/31/04 | 1,775,044 |
| The Principal Financial Group | 2001 Stable Fixed Income Fund, 4.95%; matures 9/28/05, 12/29/05, 3/30/06 | 2,646,071 |
| Protective Life Insurance Co. | 2002 Stable Fixed Income Fund, 3.94% matures 9/15/05, 9/15/06, 6/15/07 | 3,513,737 |
| Raiffeisen-Boerenleenbank B.A. | 2002 Stable Fixed Income Fund, 6.94% (SSgA Daily Mortgage Fund) | 2,073,636 |
| Raiffeisen-Boerenleenbank B.A. | 2002 Stable Fixed Income Fund, 5.51%; matures October 2010 | 668,305 |
| Raiffeisen-Boerenleenbank B.A. | 2002 Stable Fixed Income Fund, 5.45%; matures September 2009 | 1,404,493 |
| Raiffeisen-Boerenleenbank B.A. | 2002 Stable Fixed Income Fund, 3.51%; matures May 2007 | 1,498,935 |
| Travelers Life Insurance Co. | 1997 Stable Fixed Income Fund, 6.30%; matures 6/30/03 | 338,127 |
| Travelers Life Insurance Co. | 1999 Stable Fixed Income Fund, 5.59%; matures 9/30/03 | 614,242 |
| Travelers Life Insurance Co. | 2002 Stable Fixed Income Fund, 4.81%; matures 6/15/05, 6/15/06, 12/15/06 | 1,533,775 |

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State Street Salary Savings Program

EIN No: 04-2456637 Plan No.: 002

Schedule H, Line 4i – Schedule of Assets (Held at End of Year) (continued)

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| Identity of Issue | Description of Investment | Current Value |
|--|--|----------------------|
| Union Bank of Switzerland | 2001 Stable Fixed Income Fund, 4.38%; matures September 2005 | \$ 2,496,594 |
| Union Bank of Switzerland | 2002 Stable Fixed Income Fund, 3.89%; matures May 2007 | 1,529,052 |
| Union Bank of Switzerland | 2002 Stable Fixed Income Fund, 3.64%; matures December 2006 | 1,537,195 |
| United of Omaha Life Insurance Company | 2002 Stable Fixed Income Fund, 5.16%, matures 9/15/05, 12/15/06 | 1,027,943 |
| United of Omaha Life Insurance Company | 2002 Stable Fixed Income Fund, 4.51%; matures 3/15/05, 3/15/06, 12/15/06 | 2,547,565 |
| Westdeutsche Landesbank Girozentrale | 2002 Stable Fixed Income Fund, 4.05%; matures April 2007 | 1,329,687 |
| Total Principal Preservation Fund | | \$ 59,886,027 |

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State Street Salary Savings Program

EIN No: 04-2456637 Plan No: 002

Schedule H, Line 4i – Schedule of Assets (Held at End of Year) (continued)

| Identity of Issue | Description of Investment | Current Value |
|---|----------------------------------|----------------------|
| Daily EAFE Fund* | 3,053,023 units of participation | \$ 23,279,297 |
| Bond Market Fund* | 1,947,717 units of participation | 41,895,382 |
| U.S. Core Opportunities Fund | 8,211,636 units of participation | 60,183,075 |
| Conservative Lifestyle Fund* | 333,447 units of participation | 7,001,916 |
| Moderate Lifestyle Fund* | 317,870, units of participation | 10,522,187 |
| Aggressive Lifestyle Fund* | 654,892 units of participation | 13,812,017 |
| Russell 2000 Index Securities Lending Fund* | 1,201,932 units of participation | 14,395,542 |
| S&P MidCap Index Fund* | 2,261,001 units of participation | 32,440,846 |
| S&P 500 Flagship Fund* | 176,032 units of participation | 27,274,253 |
| Self Managed Brokerage Accounts | | 14,841,409 |
| Participant loans* | 4.75% to 10.50% | 20,867,147 |
| | | \$780,579,168 |

* Indicates party-in-interest to the Plan.

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SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the Salary Savings Program Committee of State Street Corporation has duly caused this annual report to be signed by the undersigned hereunto duly authorized.

STATE STREET SALARY SAVINGS PROGRAM

Dated: June 30, 2003

By: /s/Frederick P. Baughman
Senior Vice President, Corporate
Controller and Chief Accounting Officer