

Investing in DRPs: A Guide to Dividend Reinvestment Plans

The flow of money into dividend-paying stocks has increased now that dividends receive preferential tax treatment. Companies that offer dividend reinvestment plans offer an added bonus: lower transaction costs.

More than 750 companies in the U.S. offer dividend reinvestment plans to their shareholders. The concept is straightforward: Instead of sending participating investors cash dividends, the company applies those dividends to the purchase of additional company shares.

There are several advantages to investors who participate: Dividend payments are put to work, transaction costs are eliminated or held to a minimum, and the additional shares are purchased gradually over time—an easy-to-implement form of dollar cost averaging.

A major attraction of a dividend reinvestment plan is the opportunity to buy shares with little or no commissions



levied. Dividend reinvestment plans are custom-made for long-term, buy-and-hold investors. While they are not on their own a reason to buy a stock, they serve as a shareholder bonus on a company with promising long-term growth prospects.

How Do You Join a DRP?

Many companies will sell initial shares directly to investors so that no purchases need to be made through a broker, although most have minimum investment amounts. Minimums for direct purchase range from \$10 to \$3,000; a typical minimum is \$250.

Currently, roughly 300 firms offer their shares directly to
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DRP Enrollment Is Easy With Help From Netstockdirect.com

Netstock Direct has provided us with a special AAI member-only area on our Web site that allows you to easily search for companies that offer dividend reinvestment plans (DRPs) and direct initial purchase programs (also called direct stock plans, DSPs). The AAI Netstock Direct search engine can be found at www.aai.com/drpsearch and provides you with research on over 1,600 companies.

Visit the AAI Netstock Direct search engine today (www.aai.com/drpsearch) and receive access to charts, company profiles, plan details, fee information and on-line enrollment information. For more information on DRP/DSP investing, you can also go directly to www.netstockdirect.com.

Table 1. DRP Firms That Allow Direct Purchase of Initial Shares

Telephone	Company (Exchange: Ticker)	Direct Minimum (\$)	Telephone	Company (Exchange: Ticker)	Direct Minimum (\$)
800-286-9178	7-Eleven, Inc. (N: SE)	250	800-446-2617	Caterpillar Inc. (N: CAT)	500
516-767-8830	Acadia Realty Trust (N: AKR)	250	800-589-9469	Cendant Corporation (N: CD)	250
800-727-7033	Adams Express Co. (N: ADX)	500	800-231-6406	CenterPoint Energy (N: CNP)	250
800-929-6782	ADC Telecommunications (M: ADCT)	500	800-736-3001	Central Vermont Public Serv. (N: CV)	250
800-225-5923	ADVANTA Corp. (M: ADVNB)	1,500	888-280-3848	CH Energy Group, Inc. (N: CHG)	100
800-446-2617	Aetna Inc. (N: AET)	500	800-842-7629	ChevronTexaco Corp. (N: CVX)	250
800-235-2667	AFLAC Incorporated (N: AFL)	1,000	877-627-7020	Citizens Banking Corp. (M: CBCF)	100
800-633-4236	AGL Resources Inc. (N: ATG)	250	877-785-9659	Citizens, Inc. (A: CIA)	250
877-322-4941	Air Products and Chemicals (N: APD)	500	517-788-1868	CMS Energy Corp. (N: CMS)	500
877-842-1551	Albertsons, Inc. (N: ABS)	250	800-278-4353	Columbus McKinnon Corp. (M: CMCO)	250
800-842-7629	Allegheny Technologies Inc. (N: ATI)	1,000	800-278-4353	Community Bank System (N: CBU)	250
800-535-3056	ALLETE, Inc. (N: ALE)	250	800-368-5948	Connecticut Water Service (M: CTWS)	100
800-356-5343	Alliant Energy Corporation (N: LNT)	250	888-887-2968	ConocoPhillips (N: COP)	500
800-355-5191	Allstate Corporation (N: ALL)	500	800-649-4132	Consolidated Freightways (M: CFWEQ)	100
800-442-0077	Altria Group Inc. (N: MO)	500	800-278-4353	Crown American Realty Trust (N: CWN)	100
800-331-9474	AMB Property Corporation (N: AMB)	500	888-261-6800	CSX Corporation (N: CSX)	500
800-255-2237	Ameren Corp. (N: AEE)	250	877-854-0844	Curtiss-Wright Corp. (N: CWB)	2,000
800-328-6955	American Electric Power Co. (N: AEP)	250	877-287-7526	CVS Corporation (N: CVS)	100
800-842-7629	American Express Co. (N: AXP)	1,000	800-727-7033	DaimlerChrysler AG (N: DCX)	1,000
800-842-7629	American States Water Co. (N: AWR)	500	800-727-7033	Deere & Company (N: DE)	500
800-304-9709	AmerUs Group Co. (N: AMH)	1,000	800-818-6599	Delphi Corporation (N: DPH)	500
800-842-7629	Anadarko Petroleum Corp. (N: APC)	1,000	800-523-4079	Delta Air Lines, Inc. (N: DAL)	250
800-842-7629	Annaly Mortgage Mgmt. (N: NLY)	1,000	800-432-0140	Diebold Incorporated (N: DBD)	500
800-205-8314	Aqua American Inc. (N: WTR)	500	888-266-6785	Dollar General Corp. (N: DG)	50
866-857-2223	Arch Chemicals, Inc. (N: ARJ)	500	800-552-4034	Dominion Resources, Inc. (N: D)	350
800-461-9257	Archstone-Smith Trust (N: ASN)	200	800-842-7629	Dover Corporation (N: DOV)	500
518-745-1000	Arrow Financial Corp. (M: AROW)	300	800-842-7629	Dow Jones & Co., Inc. (N: DJ)	1,000
866-517-4570	ArvinMeritor, Inc. (N: ARM)	500	800-551-5009	DTE Energy Co. (N: DTE)	100
800-543-3038	Atmos Energy Corp. (N: ATO)	1,250	800-488-3853	Duke Energy Corporation (N: DUK)	250
800-756-8200	Avery Dennison Corp. (N: AVY)	500	718-921-8200	Duke Realty Corporation (N: DRE)	250
800-642-9855	Bank of America Corp. (N: BAC)	1,000	800-247-0400	Duquesne Light Holdings (N: DQE)	105
808-537-8239	Bank of Hawaii Corp. (N: BOH)	0	888-921-5563	Dynegy, Inc. (N: DYN)	250
800-432-0140	Bank of New York Co., Inc. (N: BK)	1,000	800-278-4353	Eastern Company (A: EML)	250
800-288-9541	Barnes Group Inc. (N: B)	250	800-253-6057	Eastman Kodak Co. (N: EK)	150
800-519-3111	Becton, Dickinson and Co. (N: BDX)	250	888-200-3167	Emcee Broadcast Products (M: ECIN)	250
800-756-8200	Bedford Property Investors (N: BED)	1,000	888-213-0970	Emerson Electric Co. (N: EMR)	250
888-266-6778	BellSouth Corp. (N: BLS)	500	800-946-4316	Energen Corporation (N: EGN)	250
800-446-2617	Blyth, Inc. (N: BTH)	250	800-225-1721	Entergy Corp. (N: ETR)	1,000
614-492-4952	Bob Evans Farms, Inc. (M: BOBE)	100	800-884-4225	Entertainment Prop. Trust (N: EPR)	200
800-842-7629	BorgWarner Automotive (N: BWA)	500	888-887-2971	Equifax Inc. (N: EFX)	500
888-877-2890	Boston Beer Co., Inc. (N: SAM)	500	888-752-4831	Equity Office Prop. Trust (N: EOP)	250
800-524-4458	Bowne & Co., Inc. (N: BNE)	500	800-733-5001	Equity Residential (N: EQR)	250
800-437-9050	BRE Properties, Inc. (N: BRE)	500	312-360-5354	Essex Property Trust, Inc. (N: ESS)	100
800-828-1639	C.R. Bard, Inc. (N: BCR)	250	888-860-6295	Estee Lauder Companies Inc. (N: EL)	250
888-775-2650	Calgon Carbon Corp. (N: CCC)	250	800-252-1800	Exxon Mobil Corp. (N: XOM)	250
800-337-3503	California Water Service Co. (N: CWT)	500	800-910-8277	Fannie Mae (N: FNM)	250
800-649-2160	Campbell Soup Company (N: CPB)	500	866-892-5627	FBL Financial Group, Inc. (N: FFG)	250
800-524-4458	Caraustar Industries, Inc. (M: CSAR)	250	800-524-3120	FedEx Corporation (N: FDX)	1,000
800-522-6645	Cascade Financial Corp. (M: CASB)	250	888-445-6428	Finova Group, Inc. (N: FNVG)	500
888-269-8845	Cascade Natural Gas Corp. (N: CGC)	250	800-727-7033	First Commonwealth Fin'l (N: FCF)	500

Exchange Key: N = New York Stock Exchange; A = American Stock Exchange; M = Nasdaq National Market; O = over the counter

Table 1. DRP Firms That Allow Direct Purchase of Initial Shares (con't)

Telephone	Company (Exchange: Ticker)	Direct Minimum (\$)	Telephone	Company (Exchange: Ticker)	Direct Minimum (\$)
800-368-5948	First Financial Holdings (M: FFCH)	250	800-842-7629	Lincoln National Corp. (N: LNC)	2,000
877-785-9670	First Niagara Financial Gp. (M: FNFG)	150	800-649-9895	Lion, Inc. (O: LINN)	150
800-736-3402	FirstEnergy Corp. (N: FE)	250	888-548-7701	Lockheed Martin Corp. (N: LMT)	250
888-441-4362	FNB Corporation (N: FNB)	1,000	800-401-1957	Longs Drug Stores Corp. (N: LDG)	500
800-955-4791	Ford Motor Company (N: F)	1,000	877-282-1174	Lowe's Companies, Inc. (N: LOW)	250
888-279-4029	Freddie Mac (N: FRE)	250	866-367-6351	LSB Bancshares, Inc. (M: LXBK)	250
800-727-7033	GenCorp Inc. (N: GY)	500	800-937-5449	Lubrizol Corp. (N: LZ)	250
800-786-2543	General Electric Co. (N: GE)	250	800-727-7033	Lucent Technologies Inc. (N: LU)	1,000
800-842-7629	General Growth Prop. (N: GGP)	200	800-567-0169	Macerich Company (N: MAC)	250
888-218-2841	Gillette Co. (N: G)	1,000	888-632-6848	Mack-Cali Realty Corp. (N: CLI)	2,000
800-937-5449	Glacier Bancorp, Inc. (M: GBCI)	250	800-842-7629	Manufact'd Home Commun. (N: MHC)	1,000
800-368-5948	Glenborough Realty Trust (N: GLB)	250	800-649-2213	Marriott International (CI A) (N: MAR)	350
800-286-9178	Glimcher Realty Trust (N: GRT)	na	888-909-9922	Mattel, Inc. (N: MAT)	500
800-317-4445	Goodyear Tire & Rubber (N: GT)	250	877-778-6784	McCormick & Co., Inc. (N: MKC)	250
888-835-2869	Gray Television, Inc. (N: GCS)	250	800-947-4542	McDermott International, Inc. (N: MDR)	500
816-556-2312	Great Plains Energy Inc. (N: GXP)	500	800-621-7825	McDonald's Corporation (N: MCD)	500
800-224-2741	GreenPoint Financial Corp. (N: GPT)	2,000	800-842-7629	McGraw-Hill Companies (N: MHP)	500
800-537-1677	Guidant Corporation (N: GDT)	250	877-536-3553	MDU Resources Group, Inc. (N: MDU)	250
800-253-3399	H.J. Heinz Co. (N: HNZ)	250	800-649-2579	Meadowbrook Insurance Gp. (N: MIG)	250
866-360-5339	Harley-Davidson, Inc. (N: HDI)	500	800-432-0140	Meadwestvaco Corp. (N: MWV)	250
808-532-5841	Hawaiian Electric Industries (N: HE)	250	800-842-7629	Mellon Bank Corporation (N: MEL)	500
866-857-2227	Health Care Prop. Investors (N: HCP)	750	800-831-8248	Merck & Co., Inc. (N: MRK)	350
888-216-7206	Health Care REIT, Inc. (N: HCN)	1,000	800-278-4353	Met-Pro Corp. (N: MPR)	1,000
800-842-7629	Hershey Foods Corp. (N: HSY)	250	800-356-6423	MGE Energy, Inc. (M: MGEE)	50
888-716-3607	Hillenbrand Industries, Inc. (N: HB)	250	800-577-4676	Michael's Stores, Inc. (M: MIK)	500
800-997-8625	Home Depot, Inc. (N: HD)	250	800-285-7772	Microsoft Corp. (M: MSFT)	1,000
888-245-0458	Home Properties of NY (N: HME)	1,000	800-842-7629	Mid-State Bancshares (M: MDST)	1,000
800-457-8850	Huffy Corp. (N: HUF)	500	800-990-1010	Mills Corporation (N: MLS)	250
800-635-5406	IdaCorp, Inc. (N: IDA)	10	800-813-3324	Modine Manufacturing Co. (M: MODI)	500
800-814-0291	IndyMac Bancorp, Inc. (N: NDE)	250	800-926-6669	MONY Group Inc. (N: MNY)	3,000
201-703-2265	Interchange Financial Servs. (M: IFCJ)	100	800-842-7629	Morgan Stanley, Dean Witter (N: MWD)	1,000
888-426-6700	IBM (N: IBM)	500	800-842-7629	Motorola, Inc. (N: MOT)	500
800-678-8715	International Paper Co. (N: IP)	500	800-648-8166	National Fuel Gas Co. (N: NFG)	1,000
888-333-5336	Investors Financial Servs. (M: IFIN)	250	800-842-7629	Nationwide Financial Servs. (N: NFS)	500
877-602-5287	iStar Financial Inc. (N: SFI)	100	800-627-2303	NCR Corporation (N: NCR)	250
800-254-2823	ITT Industries, Inc. (M: ITT)	500	800-736-3001	New England Business Serv. (N: NEB)	250
800-565-2576	J.C. Penney Co., Inc. (N: JCP)	250	212-556-1234	New York Times CI A (N: NYT)	na
800-649-2202	John H. Harland Co. (N: JH)	500	800-432-0140	Newell Rubbermaid Inc. (N: NWL)	250
877-602-7397	Johnson Controls, Inc. (N: JCI)	250	800-468-9716	Newport Corp. (M: NEWP)	250
800-842-7629	Kaman Corp. (M: KAMNA)	250	800-401-3439	NIKE, Inc. Class B Comm (N: NKE)	500
800-278-4353	Kellwood Company (N: KWD)	100	800-778-6783	NorthWestern Corp. (N: NTHWQ)	500
810-362-4444	Kelly Services (M: KELYA)	250	800-681-8059	Office Depot, Inc. (N: ODP)	250
800-786-2556	Kerr-McGee Corp. (N: KMG)	750	800-842-7629	OGE Energy Corp. (N: OGE)	250
800-948-1691	KeySpan (N: KSE)	250	800-677-1749	Old National Bancorp (M: ONB)	500
888-816-7506	Kilroy Realty Corp. (N: KRC)	750	877-870-2370	Omnicom Group Inc. (N: OMC)	250
866-557-8695	Kimco Realty Corp. (N: KIM)	100	800-235-0232	ONEOK, Inc. (N: OKE)	250
800-727-7033	Lear Corporation (N: LEA)	250	800-472-2210	Owens Corning (N: OWENQ)	1,000
800-824-5707	Lehman Brothers Holdings (N: LEH)	500	800-524-4458	Pan Pacific Retail Prop. (N: PNP)	250
800-727-7033	Libbey Inc. (N: LBV)	100	800-942-5909	Parkway Properties (N: PKY)	100
800-944-2214	Liberty Property Trust (N: LRY)	1,000	877-814-9688	Paychex, Inc. (M: PAYX)	250

na = not available

Table 1. DRP Firms That Allow Direct Purchase of Initial Shares (con't)

Telephone	Company (Exchange: Ticker)	Direct Minimum (\$)	Telephone	Company (Exchange: Ticker)	Direct Minimum (\$)
877-739-9934	Pennichuck Corp. (M: PNNW)	500	888-290-7270	Southwestern Energy (N: SWN)	250
800-953-2592	People's Bank (M: PBCT)	250	800-543-6757	Stanley Works (The) (N: SWK)	250
800-901-8878	People's Energy Corp. (N: PGL)	250	800-948-2504	Sunoco, Inc. (N: SUN)	250
877-602-7611	PepsiAmericas Inc. (N: PAS)	250	800-524-4458	Susquehanna Bancshares (M: SUSQ)	250
800-842-7629	PerkinElmer, Inc. (N: PKI)	250	706-649-5220	Synovus Financial Corp. (N: SNV)	250
800-727-7033	Petroleum & Resources (N: PEO)	500	800-794-9871	Target Corporation (N: TGT)	500
800-733-9393	Pfizer Inc. (N: PFE)	500	800-437-1329	Taubman Centers, Inc. (N: TCO)	250
800-719-9056	PG&E Corporation (N: PCG)	250	800-842-7629	Tektronix, Inc. (N: TEK)	500
800-842-7629	Phelps Dodge Corp. (N: PD)	1,000	847-482-5000	Tenneco Automotive (N: TEN)	250
800-937-5449	Piedmont Natural Gas (N: PNY)	250	800-981-8676	Texas Instruments Inc. (N: TXN)	250
800-842-7629	Pier 1 Imports, Inc. (N: PIR)	500	800-509-5586	Thornburg Mortgage (N: TMA)	500
800-457-2983	Pinnacle West Capital Corp. (N: PNW)	50	800-851-9677	Tiffany & Co. (N: TIF)	250
877-663-7775	PNM Resources, Inc. (N: PNM)	50	800-622-6757	Timken Company (N: TKR)	1,000
888-767-7166	PolyOne Corp. (N: POL)	250	877-573-4008	Tompkins Trustco (A: TMP)	100
800-648-8160	PPG Industries, Inc. (N: PPG)	500	706-649-5220	Total System Services (N: TSS)	250
888-290-7286	Prentiss Properties Trust (N: PP)	500	800-524-4458	Transocean Offshore (N: RIG)	na
800-764-7483	Procter & Gamble (N: PG)	250	800-924-1490	Tribune Company (N: TRB)	500
866-290-4388	Progress Energy, Inc. (N: PGN)	250	888-213-0965	Twin Disc, Inc. (N: TDI)	250
800-956-3378	ProLogis Trust (N: PLD)	200	800-828-0812	TXU Corporation (N: TXU)	500
800-317-4445	Provident Financial Corp. (N: PVN)	500	800-822-7096	Tyson Foods, Inc. (N: TSN)	250
800-242-0813	Public Service Enterprise Gp. (N: PEG)	250	888-778-1311	U.S. Bancorp (N: USB)	250
800-997-8438	Puget Energy, Inc. (N: PSD)	250	800-537-0222	U.S. West, Inc. (N: USW)	1,000
800-278-4353	Quanex Corp. (N: NX)	250	800-647-4488	UAL Corporation (N: UALAQ)	250
800-729-6788	Questar Corporation (N: STR)	250	888-269-8845	UniSource Energy (N: UNS)	250
877-679-5701	R.J. Reynolds Tobacco (N: RJR)	500	800-758-4674	United Parcel Service (N: UPS)	250
888-218-4374	RadioShack Corporation (N: RSH)	250	312-661-4600	Unitrin, Inc. (N: UTR)	500
800-242-4653	Reader's Digest Association (N: RDA)	1,000	888-485-2938	USEC, Inc. (N: USU)	250
800-962-4293	Redwood Trust, Inc. (N: RWT)	500	877-360-5385	USG Corp. (N: USG)	500
800-922-3468	Regions Financial Corp. (N: RF)	1,000	800-842-7629	Valspar Corp. (N: VAL)	1,000
888-333-0203	Reliv International, Inc. (M: RELV)	250	800-631-2355	Verizon Communications (N: VZ)	1,000
800-568-3476	RFS Hotel Investors, Inc. (N: RFS)	100	800-821-1403	Visteon Corporation (N: VC)	1,000
800-622-6757	Robbins & Myers, Inc. (N: RBN)	500	888-368-7346	Walgreen Co. (N: WAG)	50
800-842-7629	Rockwell Automation (N: ROK)	1,000	800-438-6278	Wal-Mart Stores (N: WMT)	250
800-842-7629	Rockwell Collins, Inc. (N: COL)	100	818-553-7200	Walt Disney Co. (N: DIS)	1,000
800-842-7629	Sanderson Farms, Inc. (M: SAFM)	500	800-234-5835	Washington Mutual, Inc. (N: WM)	500
800-351-7221	SBC Communications Inc. (N: SBC)	500	877-386-8123	Washington REIT (N: WRE)	250
800-763-5891	SCANA Corp. (N: SCG)	250	800-969-1190	Waste Management (N: WMI)	500
800-524-4458	Schnitzer Steel Industries (M: SCHN)	500	888-887-2966	Weingarten Realty Investors (N: WRI)	500
800-732-7780	Sears, Roebuck and Co. (N: S)	500	800-813-3324	Wells Fargo & Company (N: WFC)	250
800-255-7647	SEMCO Energy (N: SEN)	250	877-777-0800	Western Digital Corp. (N: WDC)	100
877-773-6772	Sempra Energy (N: SRE)	500	800-527-2495	Western Energy (N: WR)	250
800-662-7575	Sierra Pacific Resources (N: SRP)	250	800-446-2617	Whirlpool Corp. (N: WHR)	250
800-727-7033	Sky Financial Group, Inc. (M: SKYF)	500	800-558-9663	Wisconsin Energy Corp. (N: WEC)	250
800-501-9474	Snap-on Incorporated (N: SNA)	500	800-236-1551	WPS Resources Corp. (N: WPS)	100
800-633-4236	Sonoco Products Co. (N: SON)	250	800-565-2067	Wyeth (N: WYE)	500
888-200-3163	Sonoma Valley Bank (O: SBNK.OB)	250	877-778-6786	Xcel Energy, Inc. (N: XEL)	1,000
888-SJI-3100	South Jersey Industries (N: SJI)	100	800-938-6387	XTO Energy Inc. (N: XTO)	500
800-554-7626	Southern Company (N: SO)	250	877-946-6487	Yahoo! Inc. (M: YHOO)	250
800-793-8938	Southern Union Co. (N: SUG)	250	800-437-6726	York International Corp. (N: YRK)	1,000
800-331-1119	Southwest Gas Corp. (N: SWX)	100	888-439-4986	Yum! Brands, Inc. (N: YUM)	250

Source: NetStock Direct.

(continued from page 22)

the public. In a very few cases, a firm may offer only a direct purchase plan without maintaining a dividend reinvestment plan if they do not pay a cash dividend. Table 1 lists the companies that offer direct initial investment, along with a contact phone number and initial investment minimum.

Other dividend reinvestment plans require that you own at least one share (and sometimes more) registered in your name—you are a shareholder “of record.” That means your name appears on the corporate records as the owner of the shares rather than the nominee name (“street name”) of the broker or bank that may have purchased the shares for you (and who may be safekeeping them for you). If your shares are held in street name, you should ask your broker to transfer the shares to your own name.

Usually, a company will send you a dividend reinvestment plan prospectus or description and an authorization card once you become a registered shareholder. You can also call the company (ask for shareholder relations) or the dividend reinvestment plan agent and request these items.

You should read the plan prospectus or description carefully. While the overall structure of most dividend reinvestment plans is similar, they vary in the details. The prospectus or description will provide information on such items as: eligibility requirements, plan options, costs, how and when purchases are made, how and when certificates will be issued, and how participants withdraw from the plan.

Plan Mechanics

Some companies have extensive investor relations departments that administer their own dividend reinvestment plans. Most companies, however, appoint an outside agent to serve as the administrator for the plan.

The administrator maintains records, sends account statements to participants, furnishes certificates for shares upon request and liquidates par-

ticipants' shares when they leave the plan. The agent also is responsible for the purchase of company shares for the plan. When you join a plan, you will sign a card that authorizes the agent to make purchases on your behalf.

Shares purchased under a dividend reinvestment plan are held by the plan and registered in the nominee name of the agent or plan trustee on behalf of the participants, each of whom has an account under the plan. For many participants, that means you will hold the company's shares in two places—your original registered shares, with the certificates either held by you or in custody at a bank or brokerage firm, and the shares purchased through the dividend reinvestment plan, held by the plan.

Many plans will allow participants to deposit certificates of shares registered in their own name into their dividend reinvestment plan account for safekeeping at no charge or for a modest fee; these shares are then treated in the same way as the other shares in the participant's account.

Certificates for shares purchased under the plan are usually issued only upon written request, although often at no charge. Certificates are also issued when a participant no longer wants to participate in the plan.

Plan Options

The basic plan offers reinvestment of dividends on all shares of stock registered in the participant's name. This is often referred to as “full reinvestment.”

Under most plans, it isn't necessary to reinvest all dividends. Instead, participants are allowed to reinvest dividends on a portion of their registered shares while receiving cash dividends on the remaining shares. This is usually referred to as a “partial reinvestment option.”

Most plans also allow participants to purchase additional shares by making cash payments directly to the plan. This option is often referred to as “optional cash payment,” and since the allowable amounts can be large, it offers participants a low-cost way to build

a sizeable holding in a company. The payments are optional—participants are not committed to making periodic cash investments.

However, usually there are minimums for each payment made, and often there is a maximum.

It is also important to note the frequency with which the plan invests cash payments, since interest is not paid on payments received in advance of actual investment.

A twist on the cash payment option is that some companies will allow registered shareholders to make cash investments without requiring them to reinvest dividends on the shares they are holding, although they may do so if they want. This is frequently referred to as the “cash payment only option.”

An added convenience for participants who wish to make systematic cash investments is an automatic investment feature that is offered by about half of the companies. The company or the plan agent automatically debits the investor's checking or savings account at regular intervals to purchase additional shares.

The Costs

Participant costs usually come in two forms: service charges and prorated brokerage commissions. Service charges cover administrative costs and are generally levied on each transaction; participants can hold costs down by combining a cash payment with a dividend reinvestment transaction, since usually the charges are capped (a \$5.00 per transaction maximum is typical). Brokerage commissions levied on open market shares are at institutional rates (since the number of shares purchased is large), and are therefore considerably lower than the rate an investor would pay on his own.

Many companies cover all of the costs for share purchases from both reinvested dividends and optional cash payments. Some companies levy service charges, others prorate brokerage costs, still others charge participants for both—there are many variations, so

check the prospectus or plan description carefully.

When participation is terminated, some dividend reinvestment plans will sell plan shares for you, if you prefer, instead of sending you certificates. The cost to the participant is usually any prorated brokerage commissions, a lower-cost alternative than selling through a broker. Some plans will sell plan shares for you even if you are not terminating. Check the prospectus or plan description.

Share Purchases

The source of share purchases under a dividend reinvestment plan is spelled out in the plan description and prospectus.

The most common source is the secondary market—through an exchange where the shares are traded, in the over-the-counter market, or through negotiated transactions. Another source for some purchases is the company itself, using authorized but unissued shares of common stock or shares held in the company's treasury.

In plans that prorate brokerage commissions among participants, the source of share purchases is a concern.

When shares are purchased directly from the company, there are no brokerage expenses to prorate.

When shares are purchased directly from the company, the prospectus will describe how the share price is determined. Usually, it is based on an average of the high and low or the closing price for the stock as reported by a specified source.

Some companies offer participants discounts on the share price, but there is wide variation in how this is offered. Most often, the discounts are available only on shares purchased with reinvested dividends, but sometimes discounts apply to shares purchased both with reinvested dividends and with cash payments. Discounts are described in detail in the plan's prospectus.

Taxes

Dividend reinvestment plans have many advantages, but their tax status is not one of them—unless you are investing through an IRA (offered by a few companies). Whether you receive your dividends in cash or have them reinvested, a taxable event has occurred, although the tax treatment now is lower than it was previously. In addition, if

you reinvest dividends, the IRS considers the “dividend” to be equal to the fair market value of shares acquired with reinvested dividends. The fair market price is the price on the exchange or market where shares are traded, not any discounted price. Furthermore, any brokerage commissions paid by the company in open market purchases are considered additional dividend income to the participant.

When shares are sold, the tax basis is the fair market value as of the date the shares were acquired, plus any brokerage commissions paid by the company, and it is treated as income to the participant.

Participants receive 1099-DIV forms each year from the company detailing dividends to be treated as income as reported to the IRS.

Where to Find DRPs

Listings of companies that maintain dividend reinvestment plans are readily available on the Internet. Most lists include basic information about enrollment and plan minimums. See the accompanying box for a convenient link to [DRP information on AAIL.com](http://AAIL.com), provided by Netstock Direct. □