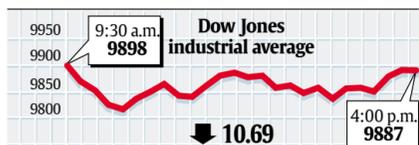


Thursday, October 21, 2004

Moneyline

Wednesday markets



Index	Close	Change
Nasdaq composite	1932.97	▲ 10.07
Standard & Poor's 500	1103.66	▲ 0.43
Treasury bond, 30-year yield	4.78%	▼ 0.04
Treasury note, 10-year yield	3.99%	▼ 0.04
USA TODAY Internet 50	107.83	▼ 0.56
e-Business 25	92.13	▼ 0.36
e-Consumer 25	159.61	▼ 1.28
Oil, light sweet crude, barrel	\$54.92	▲ 1.63
Euro (dollars per euro)	\$1.2587	▲ 0.0069
Yen per dollar	108.19	▼ 0.22

Sources: USA TODAY research, MarketWatch.com
▶ Market scoreboard with currencies, 6B

KPMG settles with the SEC for \$10M

The Securities and Exchange Commission said Wednesday that KPMG must pay \$10 million — the most ever required of an accounting firm in an SEC action — for improper conduct while auditing Gemstar-TV Guide International. SEC officials found that the conduct of two former partners, a current partner and a senior manager from September 1999 through March 2002 resulted in revenue overstatements by Gemstar. The accounting firm settled without admitting or denying the charges.

Sinclair climbs after dropping Kerry film

Shares of Sinclair Broadcasting rose nearly 13% a day after the company decided not to air *Stolen Honor: Wounds That Never Heal*, a documentary about Sen. John Kerry's anti-Vietnam War activities, which was to air Oct. 22. Kerry supporters said broadcasting the film would be an illegal "in-kind" contribution to President Bush's campaign, and Sinclair had faced a possible advertising boycott. Shares gained 79 cents to close \$7.05. Shares are down more than 50% for the year.

SEC upgrades FirstEnergy investigation

Akron, Ohio-based FirstEnergy said Wednesday that U.S. market regulators began a formal investigation of the company's past restatements and of an outage at its Davis-Besse nuclear power plant. After the plant in Ohio closed in February 2002, it was discovered that leaking boric acid had chewed holes almost to the reactor. The SEC started an informal investigation in September 2003. The plant reopened in April.

Marsh reaches agreement on credit lines

Marsh & McLennan reached a deal with banks Wednesday to keep open four revolving credit lines totaling \$2.8 billion, allowing the company to continue commercial paper borrowings while the scandal over insurance sales practices widens. Marsh also suspended a fifth brokerage executive in response to a lawsuit filed last week by New York Attorney General Eliot Spitzer. California Insurance Commissioner John Garamendi plans to file his own lawsuits against "multiple" insurance firms, which may include life, health, auto and home insurance providers. "We have opened the first couple of pages in a very long and sordid book," Garamendi said.

3 Citigroup execs ousted in Japan scandal

Citigroup confirmed Wednesday that three executives are leaving after Japanese regulators said employees there failed to prevent transactions that might have been linked to money laundering, extended loans used to manipulate publicly traded stock and misled customers about the risk of some products. Departing are Deryck Maughan, a vice chairman and head of Citigroup International; Thomas Jones, chairman and CEO of the global investment management division; and Peter Scaturro, head of Citigroup's private bank.

XM Satellite to broadcast MLB for \$650M

XM Satellite Radio signed a \$650 million deal to broadcast Major League Baseball games for 11 years starting in 2005, countering Sirius' high-profile deals with the National Football League (\$230 million, seven years) and shock jock Howard Stern (\$500 million, five years). XM's 2.5 million subscribers will have access to games from every MLB team and the post-season.

Markets: Huffy files for Chapter 11

Bicycle maker known for banana seats and tassels cites cash crunch and losses from Canadian units. 3B

Retailing: Disney to sell its stores

But catalog and Web site will still sell products. 3B
▶ Trial over Michael Ovitz's severance begins. 3B

Airlines: Dark clouds gather

Bankruptcy filing may be near for ATA. 3B

Compiled from staff and wire reports

Get business news and market data updated 24 hours a day, 7 days a week at money.usatoday.com

USA TODAY Snapshots™

Taking it outside
Projected spending on billboards, transit displays, sports arenas and other outdoor advertising:

Total in billions/percentage change from previous year.	2004	2005	2006
	\$5.9	\$6.3	\$6.6
	6%	7%	6%

Source: PricewaterhouseCoopers Global Entertainment and Media Outlook: 2004-2008
By Darryl Haralson and Web Bryant, USA TODAY

Personal technology

Every Thursday



Pocket-size PC by OOO has big potential

OOO swings for the fences and almost makes it with tiny PC. Ed Baig's column, 3B.



PUSH YOUR EXPECTATIONS.

Get more done with Push Power™ and the new i860. Take pictures, text message or connect instantly with the built-in walkie-talkie at the push of a button.

800-NEXTEL9
NEXTEL.COM

NEXTEL. Done.™

American Airlines to cut operations

5% reduction will lead to some layoffs by January

By Dan Reed
USA TODAY

Faced with deepening losses, American Airlines will shrink its U.S. operations by 5%, and lay off an undetermined number of workers by January.

In an analysts conference call Wednesday, CEO Gerard Arpey blamed spreading competition from discounters, and a "growing disconnect" between a modestly growing national economy and rapid Airlines expansion of capacity by airlines needing quick cash. Arpey expressed hope that rivals will follow American's lead and reduce domestic capacity.

In addition to trimming its 89,000-member workforce, American, the world's No. 1 airline, plans to:

- ▶ Ground 15 narrow-body planes, most of them McDonnell Douglas MD-80s.
- ▶ Cancel orders for 18 50-seat Embraer regional jets that would have been flown by its American Eagle affiliate.
- ▶ Reduce or eliminate service in non-hub markets where it is losing money. It has stopped, or will stop,

flying some transcontinental routes served by discounters. It is considering cutting some routes between the Northeast and Florida.

Industry overcapacity and the growth of competition from discounters have driven average fare prices to low levels, and have offset huge operating cost cuts, Arpey said.

American's unit revenue fell 4.8% to 11.07 cents per passenger mile flown in the quarter ended Sept. 30. That wiped out its 4.9% decline in non-fuel costs.

Low fares and high fuel prices produced a \$214 million third-quarter loss at Fort Worth-based AMR, American's parent. That loss, equal to \$1.33 a share, compares with a tiny \$1 million profit in the year-ago quarter.

Two other major network airlines also announced big quarterly losses on Wednesday. (Story, 2B.) Delta Air Lines said it lost \$651 million. That confirmed last week's pre-announcement of a loss in that range, and increased expectations of a reorganization filing.

By Eileen Blass, USA TODAY
Two hats: Pilot Chad Pensiero started a newspaper.

▶ Airline workers look at second careers, 1A, 4B

Northwest reported a \$46 million loss for the quarter.

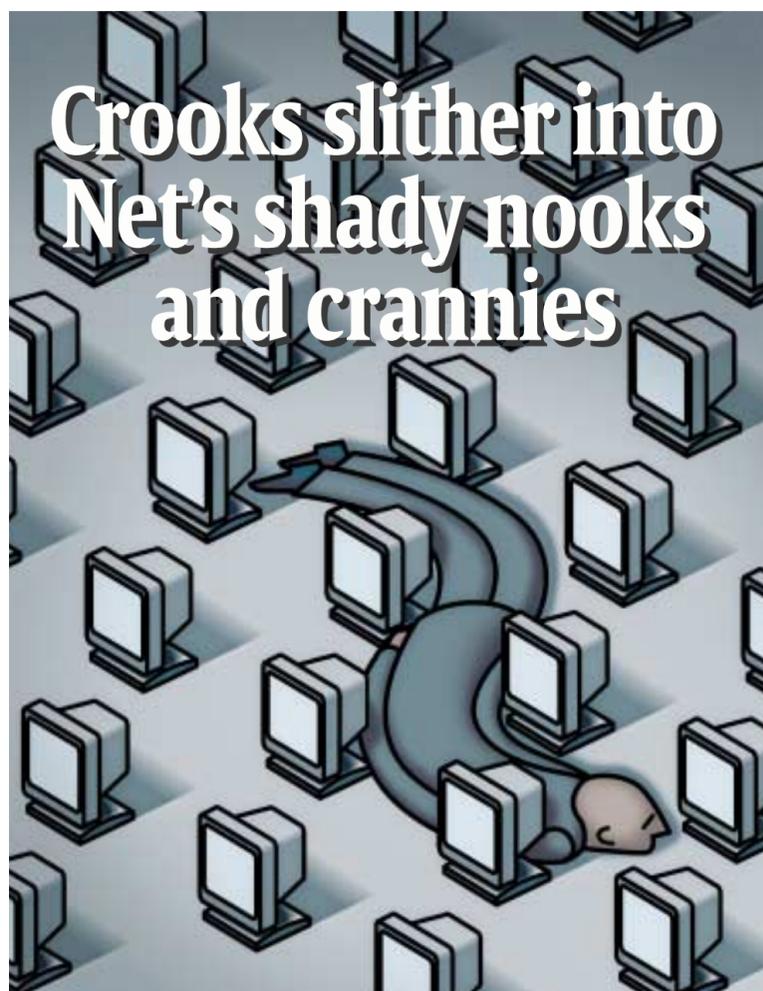
At American, Arpey noted that industry capacity this year has grown by more than 6%, vs. domestic economic growth of about 3.5%.

He criticized the "competitive behavior of some carriers either in, or on the verge of, bankruptcy." He said they have had to cut prices to low levels to generate much-needed operating cash. American, he said, has to match those fares.

Ironically, American will add a bit of capacity even as it's cutting back overall. The airline is bringing back some of the seats it removed from its planes in 2000 with its "More Room Throughout Coach" marketing effort.

It plans to return one of the two rows of seats it removed from its Boeing 737s and McDonnell Douglas MD-80s, plus two more first-class seats to its MD-80s.

American spent an extra \$342 million because of higher fuel prices in the quarter even though its planes burned about the same amount as in the third quarter of 2003.



Crooks slither into Net's shady nooks and crannies

Crime explodes as legions of strong-arm thugs, sneaky thieves log on

By Jon Swartz
USA TODAY

SAN FRANCISCO — Organized crime rings and petty thieves are flocking to the Internet like start-ups in the go-go '90s, federal authorities say — establishing a multibillion-dollar underground economy in just a few years.

"Willie Sutton used to say he robbed banks because that's where the money is," says FBI Agent Keith Lourdeau, an expert on cybercrime. "The same applies today to crooks and the Internet."

The Internet's growth as an economic engine, particularly for financial transactions, is feeding the felonious frenzy.

Lured by shoddy computer security and the ability to commit crimes from far-flung coun-

tries, the Russian mafia and other Eastern European gangs are plunging into spam, phishing schemes, cyberextortion and the trafficking of stolen goods online, authorities say. Many hire hackers in economically depressed countries, but a growing number are becoming computer savvy to do the dirty work themselves.

Crime syndicates and the Internet are a natural fit, security experts say. Both are global, thrive on flexible networks and require specialization. The Net has allowed offshore gangs to branch into other ventures while devising new ways to commit old crimes, such as money laundering and counterfeiting.

Criminals shop on illicit computer bulletin boards for stolen credit card numbers as they would for books on Amazon.com. They threaten devastating electronic attacks on Web sites unless they are paid. Online bank accounts are under siege. And millions of hijacked computers, or zombies — infected with malicious code under

Please see COVER STORY next page ▶

Cover story

Vaccine shortage may not hit most workplaces hard

Many don't get shots, even if free

By Stephanie Armour
USA TODAY

The flu vaccine shortage might not be as costly as some employers fear.

The majority of employees don't get flu shots even when they're offered free by employers, and many companies already have plans in place to handle worker absences. Recent studies also suggest that employer-provided flu shots aren't always cost effective. While this flu season is expected to take a heavier toll, the economic impact on employers might be limited.

▶ While most companies have canceled

flu vaccinations this year, the majority of employees typically don't get shots even when they're available. When clients offer flu shots, about 5% to 15% of employees get them, according to benefits consulting firm Towers Perrin.

About a fourth of people over 5 months old got flu shots last year, says the Centers for Disease Control and Prevention.

▶ Research on the cost-effectiveness of company-provided flu shots is contradictory. A 2000 study on flu shots for employees published in the *Journal of the American Medical Association* concluded that "vaccination may not provide overall economic benefits in most years."

"Employers shouldn't be worried," says Alan Spiro, a doctor who leads the national clinical practice of Towers Perrin. "It's really iffy as to whether there is even a cost benefit to flu shots."

▶ Even before this year's shortage, rising health care costs and fickle interest from employees had prompted employers to curb flu vaccination programs. Sixty percent of companies offered vaccination clinics last year, down from 66% in 2000, according to the Society for Human Resource Management.

▶ Many large employers say they are able to cope with an increase in absences related to the flu.

"I'm not overly concerned about this year, in terms of handling this," says Nick Jacobs, CEO at Windber Medical Center, a hospital in Windber, Pa. "We know vaccination is never a guarantee. We have plans to deal with absences."

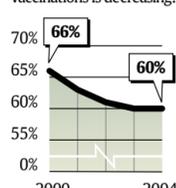
Typically, flu-related absences are two to three days. "It's not like people will be out for weeks and weeks, which is another reason employers aren't alarmed," says Kathleen Strukoff, a vice president at human resources consulting firm Aon Consulting.

Many medical experts believe the vaccine shortage will have some impact on employers, especially small companies that are less able to rebound from absences.

Demographics also favor employers: The elderly, who are among those at highest risk of flu complications, are often not in the workforce. The CDC says only about 5% to 20% of the entire U.S. population gets the flu.

Workplace shots down

The percentage of employers offering on-site vaccinations is decreasing:



Source: Society for Human Resource Management 2004 benefits survey of 459 human resource professionals.

By Bob Laird, USA TODAY

▶ 2005's vaccine supply may run short, 1A

eBay says hurra after 77% bounce in quarterly profit

By Jon Swartz
USA TODAY

SAN FRANCISCO — Online auctioneer eBay, reaping the benefits of aggressive international expansion and the growing influence of its electronic payment unit, reported a 77% jump in quarterly profit.

The Silicon Valley company reported third-quarter earnings of \$182 million, or 27 cents per share, exceeding Wall Street's expectations. Revenue soared 52% to \$806 million, topping estimates.

The company, whose new low-key holiday ads encourage its fiercely loyal 125 million users to shop more, also raised its fourth-quarter sales forecast by \$29 million to about \$915 million.

eBay makes most of its money by getting a cut of sales.

The company reported results after stock markets closed Wednesday. Shares of eBay rose 3% to \$94.35 in after-hours trading. Fueling the bang-up quarter:

▶ **International sales.** Revenue soared 82% to \$282 million.

Sales in the 28 countries where eBay has operations went gangbusters through acquisitions of dominant auction sites in China and India, sites it has launched in the United Kingdom and elsewhere, and joint ventures with on-line auctioneers in Australia, among other countries.

▶ **Back-to-school sales.** A spike in computer and book sales during August and September sparked a 29% jump in

U.S. revenue to \$331 million. "Those two categories were more than we expected," Rajiv Dutta, eBay's chief financial officer, said in an interview.

▶ **PayPal.** Revenue at eBay's payment-transaction division improved 59% to \$172 million. Its number of accounts worldwide jumped 61% to 57 million.

The division's growth didn't come without problems. It endured several days of intermittent outages this month after technicians tried to upgrade software, prompting an apology from eBay CEO Meg Whitman.

▶ **Lower administrative costs.** Expenses for general and administrative purposes, a concern among financial analysts, were 13% of eBay's revenue in the quarter, down from 14% a year ago.

The costs had steadily increased for more than a year.

At the same time, analysts say eBay could benefit from a blah economy and steep gas prices during the holiday shopping season.

Some consumers will eschew paying more money for gas and shop online instead of at malls, says Bruce Hudson of Meta Group.

Cost-conscious shoppers might also be more likely to look for bargains on the auction site because of restrictive budgets, he says.

"eBay customers like a good deal," Hudson says.

Dutta agreed that eBay customers hunt for bargains during tight times. But he said they also shop for luxury items during economic booms.

Net's global reach gives criminals an open door

Continued from 1B

the control of a hacker without the owner's knowledge — perpetrate the schemes without a trail.

Consumers and businesses, as a consequence, lost at least \$14 billion to digital thieves last year, although most of the crimes went undetected or unreported, experts say. Spam alone accounted for \$10 billion, Ferris Research says. Fraud cost online merchants \$2 billion more, Gartner Research says. And phishing — fraudulent e-mail messages and Web sites designed to trick consumers into divulging personal information — gouged consumers by \$2 billion in the 12-month period ended in April, Gartner says.

The surge in cybercrime has triggered changes not only in criminal behavior but also in law enforcement.

The FBI, in the midst of beefing up its cyberdivision, is investigating 2,700 cybercrime-related cases nationwide, two-thirds of them opened in the past year. Of those cases, 346 individuals have been convicted.

"This is more sophisticated stuff than purse snatching," FBI Agent Tom Grasso says.

Crime.com

Computer crime has never been so lucrative. With the Internet as ubiquitous as cable TV, there are millions of potential victims banking and shopping online. Contributing to the chaos: security flaws in business, home and university computers, and few effective cybercrime laws in the USA and abroad.

What is more, homeland-security measures designed to tighten U.S. borders and fortify physical infrastructures may have drawn crime syndicates to technology, which is relatively invisible, security experts say. "Crooks like the Internet because it is less violent and carries lighter penalties than loan sharking and drugs," Grasso says.

What makes online endeavors particularly attractive is that crooks and their accomplices don't have to meet. They can collaborate across continents and exploit the computers of innocent bystanders to carry out their crimes. U.S. Rep. Mac Thornberry, R-Texas, chairman of the Homeland Security Committee's cybersecurity subcommittee, compares the problem to the rise of street gangs in the 1920s and 1930s.

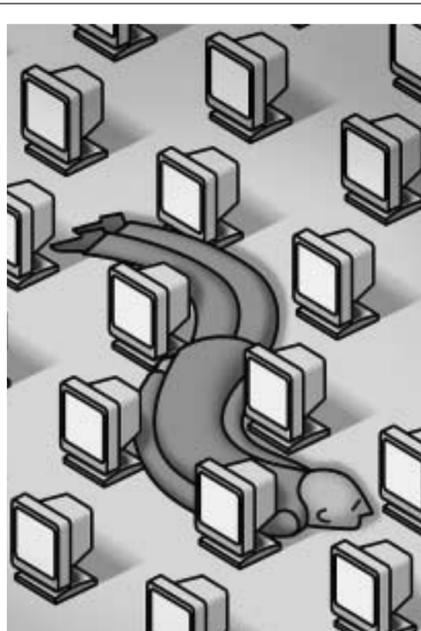
Cybercrooks are focusing on:

► **Extortion.** What started out as a digital shake-down of gambling Web sites has expanded, federal authorities say. Nearly one-fifth of 100 small and midsize companies polled this summer say they have been targets of cyberextortion threats, according to a survey by Carnegie Mellon University's H. John Heinz III School of Public Policy and Management and *InformationWeek* magazine.

Banks and companies planning initial public stock offerings are the latest targets of shadowy hackers, who demand \$20,000 to \$50,000 for protection from distributed denial-of-service attacks, which bombard and paralyze a Web site with data. Often, the e-mail threats are issued shortly before an attack, demanding that cash be sent to a Western Union office overseas.

In July, young Russian hackers were arrested for operating an extortion ring that for nearly a year cost British banks as much as \$73 million in lost business and damages, government officials in Russia told *Itar-Tass* news agency.

In an attack in the USA last month, the Web site of Authorize.Net, a processor of credit card transactions for thousands of small and midsize businesses, was hit for several days, disrupting service. Authorize.Net rejected several e-mails demanding a "significant amount" of money, says David Schwartz, a spokesman. An unknown number of zombie computers were



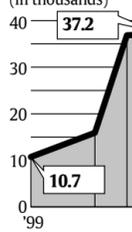
By Sam Ward, USA TODAY

Cybercrime wave

Criminals are flocking to the Internet, fueling a sharp rise in reports of online fraud. Most cases go undetected or unreported, security experts say.

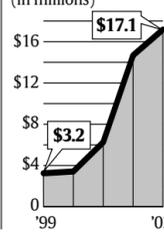
Reports of fraud

(in thousands)



Total monetary loss¹

(in millions)



Average consumer loss

(in dollars)



Sources: National Fraud Information Center, National Consumers League

Safeguard yourself

- Know whom you're dealing with. If the Web site of a seller or charity is unfamiliar, check with your state or local consumer protection agency and the Better Business Bureau. Get the physical address and phone number in case there is a problem.
- Don't believe in easy money. If a Web site or e-mail claims you can earn money with little or no work, get a loan or credit card even if you have bad credit, or make money on an investment with little risk, it's probably a scam.
- Think twice before entering contests operated by unfamiliar companies. Fraudulent marketers sometimes use contest entry forms to identify potential victims.
- Guard your personal information. Don't provide your credit card or bank account data unless you are paying for something. Your Social Security number should not be necessary unless you are applying for credit. Be especially suspicious if someone claiming to be from a company with whom you have an account asks for information that the business already has.
- Avoid downloading programs from unfamiliar Web sites. Illicit sites contain viruses that destroy computer files or connect your modem to a foreign telephone number, resulting in expensive phone charges.

Source: National Consumers League's Internet Fraud Watch



- How do hackers take over and use your PC? Get an animated look at money.usatoday.com.
- Read USA TODAY's special two-day report on PCs under attack at money.usatoday.com

Top 10 instances of Internet fraud²:



1 - For reported fraud 2 - For the period January through June

By Marcy E. Mullins, USA TODAY

used in the attack, he said. The FBI is investigating.

Authorize.Net downplayed the attacks, but some of its customers said the withering assaults were costly. "I lost \$15,000," says David Hoekje, president of Parts-Guy.com, an online retailer of heating and air-conditioning parts.

As cyberextortion grows, attacks are becoming more sophisticated. Some extortionists monitor how their targets defend themselves, so they can alter attacks. They enlist new zombie computers unfamiliar to the company under siege or change the type of data used in an electronic assault.

► **Fraud.** The most fertile online territory for crooks runs the gamut from credit card theft and phishing to electronic burglary schemes.

In one of the largest Internet fraud investigations, the FBI and international law-enforcement authorities in August obtained a federal grand-jury indictment of a suspected Romanian computer hacker and five Americans on charges they conspired to steal more than \$10 million in computer equipment from distributor Ingram Micro in Santa Ana, Calif.

The indictment charges that Calin Mateias, 24, using the alias Dr. Mengele, hacked into Ingram's online ordering system and placed fraudulent orders for computer equipment. The order directed the equipment be sent to dozens of addresses throughout the USA.

Mateias may be extradited to the USA from Romania. The American suspects are awaiting trial.

Big banks and credit card companies are bearing the brunt of Internet-related fraud. More than 60% of computer hacks targeted financial institutions last year, says market researcher IDC. About 30 million credit card numbers have been stolen through computer-security breaches since 1999, resulting in \$15 billion in losses, according to the FBI.

"It's like picking someone's pocket before they enter the bank," says Bill Burnham, managing partner at venture firm Softbank Capital Partners.

Banks are loath to discuss break-ins out of fear of spooking customers and are willing to quietly eat losses from fraud, says security consultant John Frazzini, a former U.S. Secret Service agent.

Federal authorities in the USA and Great Britain also

note a sharp rise in phishing by organized crime as it recognizes how much money can be made with little or no overhead.

A three-year investigation by the FBI and England's National Hi-Tech Crime Unit has led to the arrest of 30 members of an Eastern European crime ring accused of dabbling in phishing and ID theft. The most recent bust was of a high-level member on June 4 who is allegedly in charge of the ring's money laundering, the Department of Justice says.

Another popular scam entails an elaborate shipping network for expensive goods purchased online with stolen credit cards. Fraudulent online buyers in West Africa have goods shipped to Europe, where an accomplice or legitimate delivery service re-ships the items to West Africa, FBI agents say. Re-shippers are recruited in chat rooms, online job postings and over the phone. They are either paid with counterfeit cashier's checks or allowed to keep some merchandise. Though the scheme requires a cash outlay, it is an inexpensive way to move stolen products without revealing the identity of the original buyer, agents say.

Working with the FBI, Nigerian officials recently seized more than \$340,000 in illegally obtained online merchandise and recovered \$115,000 in fraudulent cashier's checks issued against U.S. financial institutions. Nearly 20 people were arrested.

A legislative fix?

The computer-crime epidemic has set off a reorganization by agencies such as the FBI and Secret Service, as well as a flurry of activity in Congress. Nearly a year after the first federal anti-spam law, bills wending through the House and Senate would give cybercrime fighters more heft and would outlaw phishing and ban spyware, the irritating software that quietly monitors the activities of Internet users.

An anti-phishing bill recently introduced by Sen. Patrick Leahy, D-Vt., would make it a crime to phish. It carries a \$250,000 fine and up to five years in jail.

On Oct. 7, the House passed the second bill in three days that would outlaw spyware. It carries a penalty of up to five years in prison for people convicted of installing such programs without a computer user's permission.

"We need to act quickly before this spirals even more out of control," says Rep. Thornberry, co-author of a bill to create a high-ranking position in the Department of Homeland Security. The assistant secretary of cybersecurity would coordinate cybercrime busting with private industry and state and local governments. (Amit Yoran, the nation's cybersecurity chief, abruptly resigned Oct. 1, after a year. He quit, industry observers said, over what he considered a lack of attention paid to cybersecurity within the department.)

And it shouldn't stop there, says Thornberry, who advocates tax incentives and liability protection for corporations that "beef up" cybersecurity. "Threats and vulnerabilities change in a matter of seconds," he says. "Defenses are obsolete unless they're constantly improved."

Whether any of the bills make a dent as law is debatable, given the mixed results of the national Can-Spam law. About three-fourths of e-mail monitored in September by e-mail-security company Postini was spam. The law has had another unintended result: Spam operators have fled the USA for China and Korea, where they continue to inundate Americans with e-mail for porn and "miracle" drugs.

"The reality is we are just the U.S., and there are nearly 200 countries connected to the Internet. Our laws stop at the border," says Jody Westby, a managing director of PricewaterhouseCoopers' security and privacy practice.

Northwest, AMR blame fuel costs for losses; Delta on the edge

J.P. Morgan says trading, merger lowered profit

From wire reports

Wall Street got more bad news on the airline industry Wednesday when Northwest Airlines posted a third-quarter loss and said the Securities and Exchange Commission has requested information on its pension accounting.

Blaming high fuel costs, the No. 4 carrier said its third-quarter loss amounted to \$46 million, or 54 cents a share. A year earlier, it posted a profit of \$42 million, or 49 cents a share.

CEO Doug Steenland said in a conference call that his company's accounting methods were in line with established practices and that the airline is cooperating with an informal request from the SEC. "We believe our accounting practices are sound," he said.

The SEC is reviewing pension accounting at six companies. Before Northwest, Ford Motor, General Motors and Delphi had said they had received similar requests from the SEC. Two other companies were unnamed. At the heart of the SEC probes is whether companies are tweaking assumptions on the costs of pension benefits down the road with an eye toward affecting their balance sheets or reserves.

Northwest was one of three airlines reporting earnings. **Delta Air Lines** reported a wide third-quarter loss despite an increase in revenue, missing already reduced expectations. The No. 3 carrier, which said Friday it was weeks away from being forced to file for bankruptcy protection, lost \$651 million, or \$5.16 a share, for the three months ended Sept. 30. Excluding one-time items, Delta lost \$592 million, or \$4.73 a share. Analysts surveyed by Thomson First Call had expected a loss of \$4.38 a share, an estimate that was reduced after Delta warned of its loss on Friday.

AMR, the parent of American Airlines, said it lost \$214 million as it struggled with rising fuel costs and competition from low-fare carriers, and it predicted an even bigger fourth-quarter loss (story, 1B).

Northwest stock fell 20 cents to \$7.72, Delta shares lost 6 cents to \$2.93, and AMR stock dropped 20 cents to \$6.49.

J.P. Morgan Chase: The USA's No. 2 bank said third-quarter profit

fell 13%, mainly because of weakness in trading operations and costs related to its merger with Bank One. The results fell well shy of expectations, and even J.P. Morgan executives labeled the performance "disappointing."

J.P. Morgan said net income totaled \$1.4 billion, or 39 cents a share, down from \$1.6 billion, or 78 cents, a year earlier.

Excluding charges related to its July 1 merger with Bank One and changes in accounting, earnings were \$2.2 billion, or 60 cents a share. Analysts surveyed by Thomson First Call had projected earnings of 74 cents for the quarter.

The news sent J.P. Morgan shares down 73 cents to \$37.25.

CEO William Harrison Jr. said in a statement that results were below expectations "primarily due to weak trading results in the investment bank." In a press conference, CFO Dina Dublin said, "The results in fixed-income trading are disappointing to us and to the Street," adding, "We obviously are disappointed with the results this quarter."

The bank said operating earnings in its investment bank totaled \$627 million in the third quarter, down 10% from the same period a year earlier. It blamed weak trading

results in fixed-income markets. Operating earnings also declined in its Treasury and securities services division. Operating earnings in that division were \$96 million, down 17% from a year ago.

Allstate: The insurer said its third-quarter earnings plummeted 92% because of heavy insurance claims from hurricanes that battered Florida and the Southeast.

Allstate, the No. 2 U.S. property casualty insurer behind State Farm and the biggest in Florida, sustained \$1.11 billion in catastrophe losses for the quarter. More than 95% of it, or \$1.06 billion, was from

the four major storms: hurricanes Charley, Frances, Ivan and Jeanne. As a result, third-quarter net income was \$56 million, or 9 cents a share, down from \$691 million, or 97 cents, a year earlier.

Operating income was 8 cents a share, as Allstate disclosed a week ago in issuing preliminary earnings numbers. Until that announcement, analysts surveyed by Thomson First Call had expected earnings of 69 cents a share. Allstate stock fell 14 cents to \$46.34.

Harrah's Entertainment: The casino operator reported a 19% gain in third-quarter earnings

thanks to its Horseshoe casino acquisition and strong Las Vegas results. But its shares fell 51 cents to \$55.62, suffering along with other companies in the sector, after rival MGM Mirage lowered earnings expectations for the fourth quarter.

Harrah's, which is buying Caesars Entertainment in a \$5 billion deal that will make it the world's largest gambling operator, reported net income of \$119 million, or \$1.06 a share, up from \$99.5 million, or 90 cents, a year earlier.

Adjusted earnings rose to \$1.09 a share from 93 cents, compared with expectations of \$1.04, according to Reuters Estimates.

Get a free Schwab Select List.

► The Mutual Fund OneSource Select List™ can help you find leading funds.

► Call today for your free Select List.

► Call 1-888-804-8320

or visit www.schwab.com/upgrade or one of our local branches.

charles SCHWAB

Past performance is no guarantee of future results. Investors should consider carefully, before investing, information disclosed in the prospectus, including investment objectives, risks, charges and expenses. Read the prospectus carefully. For a prospectus, call 1-888-804-8320.

Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost.

Schwab receives remuneration from funds participating in the Mutual Fund OneSource service for shareholder and other administrative services. Short-term redemption or live broker fees may apply. ©2004 Charles Schwab & Co., Inc. Member SIPC. (1004-10659). ADS30182PAR.

Legal Notice

Legal Notice

ATTENTION ALL PARTICIPANTS, RETIREES AND BENEFICIARIES OF THE KEMPER INSURANCE RETIREMENT PLAN

The Pension Benefit Guaranty Corporation (PBGC), a United States government agency, has determined under provisions of the Employee Retirement Income Security Act of 1974 (ERISA) that the above pension plan must terminate and that the PBGC should become statutory trustee of the pension plan.

PBGC has determined that the company's sponsorship of the pension plan will end on October 21, 2004. As of that date, participants cannot earn additional benefits under the plan. PBGC will seek to take over the plan's assets and assume responsibility for paying benefits. In the interim, **Lumbermens Mutual Casualty Co.** remains responsible for payment of plan benefits.

PBGC will guarantee benefits, according to plan provisions, up to the maximum amounts allowed by ERISA. Current retirees will experience no interruption in benefit payments. As participants become eligible for retirement under the plans and complete the required forms, PBGC will begin to pay their pension benefits. PBGC currently pays benefits to more than 450,000 individuals in over 3,200 pension plans it has previously taken over. The maximum guarantee for workers in plans that terminate in 2004 is \$3,698.86 a month (or \$44,386.32 a year) for persons retiring at age 65. Maximum guarantees are adjusted for retirees at other ages or those who elect survivor benefits.



PENSION BENEFIT GUARANTY CORPORATION
October 21, 2004