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Tangled Paths

A Sprawling Probe Of Terror Funding Centers in Virginia

U.S. Tries to Tie Maze of Firms, Charities Based in Herndon Into a Global Network

Bin Laden's 'Golden Chain'

By GLENN R. SIMPSON

HERNDON, Va.—On a cloudy March day two years ago, scores of heavily armed federal agents raided the homes and businesses of numerous Muslim residents in this Washington suburb. Guns drawn and clad in black, the agents scooped up computers, address books and correspondence, handcuffing some of the startled targets of the sweep.

The government says the massive search has been one of the most productive forays in a 2½-year investigation into the financing of international terrorism. The targets of the raid say it amounted to law-enforcement overkill.

The man who has done more than any other investigator to chart the course of the probe is a little-known customs agent named David Kane. The 34-year-old former financial planner drafted the 99-page affidavit justifying the March 2002 raid and helped carry it out. He continues to spearhead an investigation that since the attacks of Sept. 11, 2001, has taken him from a chicken farm in rural Georgia to the Swiss Alps estate of a leading figure in the Muslim Brotherhood, the forefather of Islamic fundamentalist groups.



David Kane

The cast of characters Mr. Kane has tracked includes a leader of the Palestinian terrorist organization Hamas, a loquacious Egyptian banker and the equally talkative wife the banker left behind in Virginia. Earlier this month, U.S. officials confirmed that a Muslim activist who formerly worked with some of the people targeted in the raid—and who is now in custody—is suspected of involvement in a plot to assassinate the ruler of Saudi Arabia, Crown Prince Abdullah. Nancy Luque, a lawyer representing members of the Herndon group, says the Muslim activist, Abdulrahman Alamoudi, has no connection with her clients and last worked for a Herndon entity in 1990.

As it expands into Europe and the Middle East, the probe is shedding new light on what one government witness called the "Golden Chain": a purported list of Osama bin Laden's earliest financial supporters.

The Kane investigation shows that disrupting the flow of money allegedly used to fuel terrorism and extremism is extraordinarily difficult. Funds move around the world along convoluted paths, tended to by a vast array of players. The line between legitimate and illegitimate activities is often blurry, making it all the more difficult to distinguish the criminals from mere activists and bankers.

At the center of Mr. Kane's probe is a cluster of more than 100 charities and companies based in and around Herndon, a town of 21,000 whose middle-class houses sit on quiet streets with names like Rock Ridge Road and Marjorie Lane. Following the establishment there in the early 1980s of a research organization called the International Institute of Islamic Thought, Herndon attracted a stream of Muslim immigrants. A group of elders help run, in addition to the institute, a mosque, an Islamic graduate school and a mutual fund that follows Islamic investing principles, such as avoiding interest payments.

Today, it's a close-knit Muslim community under siege. In addition to the activist suspected of trying to finance the killing of the Saudi crown prince, another man with alleged ties to the community has been convicted of immigration fraud and has been indicted again for making false statements to the government. A team of Justice Department prosecutors in the eastern district of Virginia have

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What's News—

Business and Finance World-Wide

WACHOVIA IS IN TALKS to buy Alabama-based SouthTrust, in a bank acquisition that would strengthen Wachovia's southern base and give it a toehold in the Texas market. Wachovia's offering price is believed to be in the \$13.8 billion range. A deal could be announced as soon as today. (Article on Page A3)

UAL will scale back its request for federal aid and offer to seek some \$500 million in equity investment in a bid to reverse the denial of a \$1.6 billion loan guarantee. (Article on Page A2)

Many health-care premiums are rising more slowly than expected as the Blue Cross and Blue Shield companies trim increases. (Article in Column 6)

Halliburton cut ties with an executive for allegedly receiving personal benefits from a Nigerian project amid a widening probe. (Article on Page A3)

GM plans to turn over responsibility for engineering the basics of its midsize passenger vehicles to its German operations. (Article on Page A6)

The Kenneth Lay criminal probe has intensified recently, raising anticipation that the former Enron CEO will be indicted soon. (Article on Page C4)

The government proposed slim tariffs on Chinese furniture factories, a blow to U.S. companies pushing the dumping case. (Article on Page A2)

The U.S. trade gap widened to a record \$144.9 billion in the first quarter as a stronger economy spurred a surge in imports. (Article on Page A12)

The Dow industrials finished last week up a scant 6.31 points at 10416.41 in light trading after a 38.89-point advance on Friday. (Article on Page C1)

Chicago Sun-Times officials used various methods to inflate circulation. The disclosure follows reported discrepancies at Newsday. (Article on Page B3)

A HealthSouth ex-finance chief was sentenced to six months' home detention and ordered to forfeit \$2.4 million for fraud. (Article on Page C4)

Janus is planning to overhaul its pay formula for portfolio managers to put more emphasis on mutual-fund performance. (Article on Page C1)

Japanese regulators told UFJ Bank to fix internal controls and may weigh criminal charges for allegedly understating bad loans. (Article on Page C3)

Software sellers are willing to cut their prices much more than expected, according to testimony in the Oracle antitrust trial. (Article on Page B1)

Blockbuster will pay a special dividend of \$905 million to shareholders later this summer, right before Viacom sheds its 81% stake. (Article on Page C4)

Disney's Miramax is considering layoffs, having already spent most of its annual budget on film production and marketing. (Article on Page B3)

Cablevision will offer unlimited phone calls, digital cable-TV and high-speed Internet for \$90 a month. (Article on Page B5)

—Markets—

Stocks: NYSE vol. 1,437,076,990 shares, Nasdaq vol. 1,594,926,372. DJ Industrials 10416.41, ▲ +38.89; Nasdaq composite 1986.73, ▲ +3.06; S&P 500 index 1135.02, ▲ +2.97.
Bonds (4 p.m.): 10-yr Treasury ▼ -7/32, yld 4.710%; 30-yr Treasury ▼ -11/32, yld 5.378%.
Dollar: 108.81 yen, -0.78; euro \$1.2140, +0.84 cent against the dollar.
Commodities: Oil futures \$38.75 a barrel, ▲ +\$0.29; Gold (Comex) \$395.10 per troy ounce, ▲ +6.20; Dow Jones-AIG futures 147.216, ▼ -0.001.

THE SAUDIS FOUGHT to avoid being swamped by a terrorist wave. Reacting swiftly after Friday's beheading of an American, Riyadh said its police killed al Qaeda's local chief, who had claimed responsibility, and three comrades. Raids continued, but the Saudis were forced to defend anti-terror efforts and deny militant allegations that police were complicit in the butchering of Johnson, whose body still hasn't been found. In Iraq, Zarqawi's group displayed a Korean hostage and threatened a similar fate if Seoul doesn't pull troops. South Korea refused to consider it. Zarqawi's group was target of a U.S. airstrike in Fallujah that killed at least 16 Saturday. U.S. generals have been told training of Iraqi security forces now takes priority, even over battling insurgents. (Column 1, Pages A3, A14)

Wrangling continued in Washington over how meaningful Iraqi contacts with al Qaeda were, with Cheney insisting links were strong. The Sept. 11 panel's Kean said Iran and Pakistan had more of such ties than Iraq.

The Pentagon is preparing a process for detainees at Guantanamo to plead annually for freedom if the Supreme Court rules they aren't entitled to full court challenges. That decision is due any day now. (Page B1)

The U.N.'s Annan urged the Security Council not to renew U.S. peacekeepers' immunity from war-crimes prosecution, citing prisoner abuses.

A key senator wants to boost fees paid by nuclear-power customers in a bid to hurry the Nevada waste repository. That may hold political risk for Bush. Frist set a mid-July debate on the gay-marriage ban. (Page B2)

Algeria said it killed the head of the Salafists, who sought to link his Algerian insurgency to bin Laden's terror network, and three lieutenants.

Pakistan's Musharraf said he worries the al Qaeda hunt in tribal areas could spur revenge attacks. Pakistan and India plan a nuclear hotline.

Israeli jets bombed a Hezbollah base in Lebanon from which shells were fired. Labor has set tough terms for forming a coalition with Sharon.

The Philippine Congress declared Arroyo was re-elected after a 1½-month vote tally. Her rival raised the prospect of a "people power" revolt.

Rwanda expressed alarm at what it said was Congo's massing of troops, including former Hutu rebels, on its border. Congo alleged "fabrications."

EU leaders hammered out a deal on a constitution Friday after a long struggle. The road to ratification may also prove to be arduous. (Page A15)

Bush so far has spent 70% of his \$218 million campaign fund, a filing Friday showed. Kerry proposed raising the minimum wage to \$7 an hour.

McCain joined Bush before cheering troops Friday, a show of Republican unity. Battleground states are getting good economic news. (Page A4)

Bush aides tightened AIDS advice by federally funded groups, ordering explicit discussions and an emphasis on condoms toned down. (Page B4)

A Harvard study found only 6% of women over 40 were scrupulous in getting a yearly mammogram, according to the American Cancer Society.

Cancer scientists found evidence bolstering the idea that the disease itself can impair thinking, not just factors such as chemotherapy. (Page B5)

A tale of two studies encapsulates the debate now raging over whether drug companies should be allowed to conceal negative results. (Page B5)

Space buffs awaited an attempt set for this morning by a group led by Burt Rutan to launch the first private manned rocket to travel 62 miles up.

A Northwest flight landed by mistake at Ellsworth Air Force Base instead of Rapid City, S.D., airport Saturday. The pilots were interrogated.

South Africa's Retief Goosen won the U.S. Open golf tournament, edging out Phil Mickelson by two shots.

—Online Today—

Real Time: The type of gadgets employees get can say a lot about what their boss thinks of them. Plus, regulators send the right message by shooting down the "do not e-mail" list.

Taking Stock: Are biotech taking their usual early-summer dip, or does the stock group face bigger problems this time?

Ages & Stages: The finances of buying a boat, from canoe to yacht.

Radio Daze

Inside Air America's Troubles: Optimism and Shaky Finances

In an Election Year, Talk Radio For Liberals Made Sense; A \$24 Million Shortfall

Al Franken's Kitchen Surprise

By JULIA ANGWIN
And SARAH MCBRIDE

On March 30, the night before Air America went on the air, the liberal radio network threw itself a \$70,000 party at Manhattan's hip Maritime Hotel. More than 1,000 guests, including Yoko Ono and Tim Robbins, drank red, white and blue vodka cocktails as they toasted the network's bid to challenge the dominance of conservative talk radio.

But behind the scenes, Air America was running out of money. Today several employees say they still haven't been reimbursed for the costs of attending the New York launch. "It was a fun party, until I knew I was paying for it," says Bob Visotcky, Air America's former Los Angeles market manager, who hasn't been reimbursed for his hotel room and flight.

Mr. Visotcky wasn't the only insider in the dark about the company's problems. Many of Air America's investors and executives say they thought the network had raised more than \$30 million, based on assurances from its owners, Guam-based entrepreneurs Evan M. Co-

Frequency Change

■ **September 2002:** Anita and Sheldon Drobny, a Chicago couple, decide to start a liberal radio network.

■ **November 2003:** Guam entrepreneurs Evan M. Cohen and Rex Sorensen purchase radio network concept from the Drobny's.

■ **March 30:** Air America throws itself a glitzy launch party at Manhattan's Maritime Hotel.

■ **April 12:** Air America CEO Mark Walsh resigns.

■ **April 14:** Air America is kicked off the air in Chicago and Los Angeles.

■ **April 27:** Acting COO David Goodfriend discovers the network hasn't fully paid Al Franken's salary and is running out of money.

■ **May 5:** Messrs. Cohen and Sorensen resign.

Source: WSJ research

hen and Rex Sorensen. In fact, Air America had raised only \$6 million, Mr. Cohen concedes. Within six weeks of the launch, those funds had been spent and the company owed creditors more than \$2 million.

When the problems came to light, "we realized that we had all been duped," says David Goodfriend, the company's acting chief operating officer. Messrs. Cohen and Sorensen say they didn't mislead anyone about the company's finances. They say they planned to invest more over time but didn't because of cultural differences with other managers. Both resigned in early May.

Five months before a presidential election, Air America should be on a roll. Instead, it's grappling with a financial crisis. Creditors are lined up at the door, and it is off the air in two big markets, Los Angeles and Chicago.

Air America's left-leaning orientation gave the fledgling network a public profile and helped lure donors, including RealNetworks Inc.'s Chief Executive Rob Glaser and New York's Durst family of real-estate developers. It also helped attract big-name talent, including comedian Al Franken. Amid the hype, however, investors and executives overlooked Air America's haphazard organization, opaque finances and flawed business strategy.

Trying to make a big political splash, Air America embarked on an ambitious and costly plan to get radio-station owners to carry the network's entire 24-hour lineup. Typically, networks allow stations to pick the shows they want, and both sides share the advertising revenue.

Air America got its way in smaller markets. In big cities, Air America agreed to pay for airtime, which ultimately cost more than it could afford.

"When you believe you're doing work for the greater good, you don't question as much," says Javier Saade, a former Air America executive vice president. "People never questioned the curves and obstacles on the road. People just said, 'We're on the road.'"

Company executives now say the business is stabilizing. They note that the network's early ratings have been positive, and its business plan has been restructured. The company has received enough cash from investors to stay afloat, and it is negotiating with its creditors. Air America is "on track" to meet its financial goals, says Doug Kreeger, Air America's current chief executive.

Air America was conceived by a wealthy Chicago couple, Anita and Sheldon Drobny. Mr. Drobny is a venture capitalist and liberal activist who writes an occasional column for a Web site that has compared Republican control of Congress and the White House to the Nazis' rise to power in Germany.

After some unsuccessful fund-raising efforts, the Drobny's met Mr. Cohen in the spring of 2003 through a meeting bro-

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Gravy Train: Investors In Hong Kong Eat Up Annual Meetings

Elderly Shareholders Will Go Where the Food Is Best; Rushing the Buffet Table

By REBECCA BUCKMAN

HONG KONG—There is such a thing as a free lunch if you're a shareholder in a big, publicly traded company in Hong Kong.

Found scarfing down fried rice at Hutchison Whampoa Ltd.'s annual shareholders' gathering last month, 70-year-old retiree Chan Chun Yuk said she hits just about any meeting called by a company in her stock portfolio if it is being held in a nice hotel and is serving food.

Mrs. Chan, dressed in sensible black slacks and flat shoes handy for racing to the chow line, said she has been disappointed by meetings staged by local utility Hong Kong & China Gas Co. because the buffet was too crowded. (The company says it has since switched to boxed lunches.) As for the elaborate, nine-course lunch laid out by conglomerate Hutchison this year at the swanky Harbour Plaza hotel, "The food is good," she said. She was slightly annoyed that she could get only orange juice, not tea, by the time her table was served.

Come annual meeting time, most big companies listed on Hong Kong's stock exchange know to expect a hungry crowd, especially of older people on fixed incomes looking for a well-stocked buffet. "It's a well-known fact that you have to lay it on, or you have angry shareholders," says Joan Wagner, a spokeswoman for phone company PCCW Ltd.

Because Hong Kong, the tiny capital-ist enclave that is now a special region of China, is so small, shareholders can easily get to most corporate meetings by bus or subway. The waste-not, want-not ethos of elderly citizens here, some of whom grew up in poverty in mainland China, means few will pass up free food.

And many big Hong Kong companies

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Chan Chun Yuk



Evan M. Cohen

Health Premiums Grow More Slowly Than Expected

Blue Cross and Blue Shield, Under Pressure, Limit Hikes, Boosting Price Competition

By VANESSA FUHRMANS

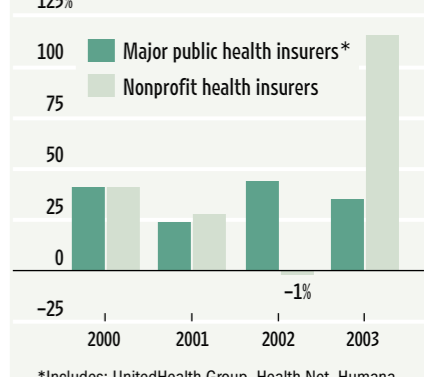
Facing political pressure over their surging profits, the nonprofit Blue Cross and Blue Shield companies have been limiting the rise in their health-care premiums this year, contributing to a wider slowdown in the rise of premiums for some consumers and employers.

The Blues have been under pressure to limit growth in premiums after a banner 2003 for the nation's health insurers, in which profits soared as the escalating price of premiums far outpaced more slowly growing medical costs. At the not-for-profit Blues, which dominate the market in 35 states and cover one in three people with health insurance in the U.S., earnings in 2003 more than doubled, thanks to a rise in premiums of anywhere from 10% to 16%, as well as stock-market gains on invested capital.

Those gains have increased political pressure on the nonprofits at a time when

Nonprofit?

Earnings at nonprofit Blue Cross and Blue Shield companies surged last year and may drive down premiums. Earnings growth at nonprofit Blues vs. for-profit companies



*Includes: UnitedHealth Group, Health Net, Humana, Oxford Health Plans, PacificCare Health Systems, Coventry Health Care, WellPoint Health Networks
Source: Company data, Goldman Sachs Research estimates

health-care costs are approaching crisis levels for many employers and squeezing the wallets of consumers. Legislators and regulators in Rhode Island, Pennsylvania, North Carolina and other states have demanded that the Blues in their states roll back premium increases or give rebates to consumers to pare their surplus reserves. Those pots of money, which insurers sock away to pay claims in a catastrophic event or to finance new products or investments, have surged in size with the profit jump. Total reserves for the nonprofit Blues increased by about a third last year, to \$31.9 billion.

Eager to deflect public criticism, many of the Blues have offered lower premium increases and, in some cases, even cut them. (Companies affiliated under the Blues name share some products and branding efforts, but act independently in setting their own premiums and product prices.) In the process, they have injected an extra dose of price competition into the health-care market. Though no single nonprofit Blue comes close to being as big as publicly traded companies like UnitedHealth Group Inc. or Aetna Inc., the Blues together are giants with their wide reach and powerful brand presence in the states in which they operate.

Blue Cross and Blue Shield of North Carolina said it has cut average premium increases for individual policies to 5%, the lowest increase in the eight-year history of the product, and sharply reduced from its roughly 14% premium increase last year. The goal is to trim the 6% profit margin it had in 2003 to 4% this year.

Plans in New Jersey and Tennessee, meanwhile, have refunded more than \$50 million each to employers and individuals, and slowed price increases for this year. Blues in Minnesota, Michigan, Kansas and other states also have moderated rate increases.

The costs of health-care coverage remain far from cheap and are still on the rise. Even with the rate of increases slow-

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Twisting ARMs More home-buyers are choosing adjustable-rate mortgages. Some economists foretell trouble if property prices fall as interest rates rise. THE OUTLOOK, A2

Assigning Risk Perhaps it's with good reason the bond market often dismisses political advice from credit-rating companies. C1

Experiments in Corporate Governance Problem of Financial Literacy The Case for Board Diversity REPORT BEGINS ON R1