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**Suspicious profits sit uncollected
Airline investors seem to be lying low**

Christian Berthelsen, Scott Winokur, Chronicle Staff Writers

Profiting from a loss

The stocks of United and American were down after the Sept. 11 terrorist attacks. But unknown investors made a \$1 million profit by buying options on the airline stocks.

United Airlines
 Daily closing



Investors have yet to collect more than \$2.5 million in profits they made trading options in the stock of United Airlines before the Sept. 11 terrorist attacks, according to a source familiar with the trades and market data.

The uncollected money raises suspicions that the investors -- whose identities and nationalities have not been made public -- had advance knowledge of the strikes.

"Usually, if someone has a windfall like that, you take the money and run," said the source, who spoke on condition of anonymity. "Whoever did this thought the exchange would not be closed for four days."

"This smells real bad."

The source and others in the financial industry speculate that the purchaser or purchasers -- having initially assumed the money could be picked up without detection -- now fear exposure, or that the account has been frozen.

The markets were closed for four days after the attack, giving investigators time to notice the anomalous trades.

Securities regulators and law-enforcement agents throughout the United States and Europe are investigating unusual patterns in short sales and the purchase of "put" options, both of which are financial-market bets that the price of a given stock will fall. Authorities here and abroad have not publicly disclosed any conclusions they have reached and refuse to discuss the case.

There was an unusually large jump in purchases of put options on the stocks of

Saturday, September 29, 2001

San Francisco Chronicle**CHRONICLE SECTIONS**

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UAL Corp. and AMR Corp. in the three business days before the attack on major options exchanges in the United States. On one day, UAL put option purchases were 25 times greater than the year-to-date average. In the month before the attacks, short sales jumped by 40 percent for UAL and 20 percent for American.

A put option gives the buyer a right to sell the underlying security at a certain price on a certain date; the purchaser profits when the share price drops lower than the agreed sale price. In a short sale, an investor borrows stock from a broker and sells it, hoping to buy it back at a lower price.

October series options for UAL Corp. were purchased in highly unusual volumes three trading days before the terrorist attacks for a total outlay of \$2,070; investors bought the option contracts, each representing 100 shares, for 90 cents each. Those options are now selling at more than \$12 each. There are still 2,313 so-called "put" options outstanding, according to the Options Clearinghouse Corp.

Other financial professionals have told The Chronicle that an estimated \$5 million to \$10 million in all could have been made on the trades, including trading on other days and purchases of options on the parent company of American, AMR Corp. Four United and American aircraft crashed in the attacks.

BIN LADEN'S FINANCES

Meanwhile, in Herzliya, Israel, a group headed by former Israeli intelligence officials -- the Interdisciplinary Center, a counter-terrorism think tank -- has issued a report on Osama bin Laden's finances ("Black Tuesday: The World's Largest Insider Trading Scam?") saying insiders profited by nearly \$16 million.

The money was made on Sept. 6, 7 and 10 in transactions involving United, American, Morgan Stanley Dean Witter & Co. and Merrill Lynch & Co., the center said. Morgan Stanley occupied 22 floors of the World Trade Center; Merrill Lynch's headquarters offices were nearby.

The figure excluded other unusual trades involving insurance companies with significant exposure to damage claims resulting from the attacks. These include Munich Re of Germany,

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On the Beautiful Cental Coast
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ENGINEERING

which expects to pay out more than \$1.5 billion, and the AXA Group, a French firm, which could be on the hook for \$550 million.

A spokesman for the Securities and Exchange Commission declined to comment on a New York Times report yesterday that the SEC had found "benign" explanations for the trading activity.

But the spokesman, John Heine, said the commission stands by a statement made eight days after the attack by Stephen M. Cutler, acting SEC enforcement director. The statement -- reiterated in substance Wednesday by SEC Chairman Harvey Pitt -- said the commission was "pursuing all credible leads."

SHORT-SELLING OF INSURANCE

Spokesmen for British securities regulators and the AXA Group also confirmed yesterday that investigations are continuing.

The source familiar with the United trades identified Deutsche Banc Alex. Brown, the American investment banking arm of German giant Deutsche Bank, as the investment bank used to purchase at least some of the options. Rohini Pragasam, a bank spokeswoman, declined comment.

Investigators' attentions previously had been drawn to Germany because of the residence there earlier in the year of some of the principal suspects in the Sept. 11 attacks and unusual patterns in the short-selling of insurance, airline and other financial company stocks there prior to the attacks.

Last weekend, German central bank president Ernst Welteke said a study pointed to "terrorism insider trading" in those stocks.

There are many reasons the bets against United and American could have been innocent, in view of the tough time the airline industry has had this year and heavy losses experienced by both airlines in particular. But the trades were not replicated in the stocks or options of any of the airlines' competitors.

CANDIDATES LIVE IN ARAB NATIONS

While the identities of possible beneficiaries of advance knowledge of the attacks were not known publicly, experts were quick to point to possible candidates -- all presumed to be

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affluent residents of Arab nations.

The former chairman of the State Department's National Commission on Terrorism, L. Paul Bremer, said he obtained classified government analyses early last year of bin Laden's finances confirming the assistance of affluent Middle Easterners.

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