

nat's Jews—
World-Wide

■ **SET ASIDE** the fraudsters who lost AOL merger, one of the Internet disasters. Creation will go to suit. Creation Time 21 million loss. (A3)

■ **strong sales** world-wide, fell 6.9% in 1 boosted in strong demand. (A3 and D1)

■ **that it has** Reebok for officials ion ahead. (A3 on Page B3)

■ **from a year** but the com- stic outlook. (A3)

■ **ector contin-** ly, even as reased. is inched up ds rose on r-year bond. (C1 and C3)

■ **as expanded** ssor to Fed 1. Lawrence sidered. (A2)

■ **sell the De-** ly held Me- the Detroit ent Rader. (A1)

■ **FOURTEEN MARINES DIED** in the Iraq war's worst IED attack yet. The huge bomb destroyed an amphibious assault vehicle, whose light armor has drawn complaints, during an anti-infiltration operation outside Haditha, near Syria's border. It was the area where six snipers from the same Cleveland-area reserve unit died on Monday. Bush said the losses were a "grim reminder" of enemy ruthlessness, and said setting a withdrawal timetable would embolden insurgents. Separately, a free-lance U.S. reporter investigating Shiite militias in Basra was abducted and killed. (Page A11)

■ **An Democratic Iraq-war veteran nar-** rously lost Tuesday's special House election in an Ohio Republican stronghold. He received national attention criticizing Bush handling of the war.

■ **An astronaut** tugged dangling cloth filler from between heat tiles on the space shuttle in what turned out to be an easy job. But a new worry, a torn cockpit-window thermal blanket, may require another spacewalk tomorrow.

■ **Officials in Toronto** said the airport was under a lightning alert but pilots weren't being waved off when an Air France jet crashed on landing Tuesday. Evacuation of the 309 aboard the flaming craft took under two minutes.

■ **Iran may have blinked** in the nuclear showdown as it put off restarting of an enrichment process to next week, a move that drew U.S. praise.

■ **North Korea** talks awaited Pyongyang's decision on whether to give up nuclear programs. The U.S. turned to China to apply pressure. (Page A10)

■ **Zambia will** send Britain a London bombing suspect also sought by the U.S. Charges of denying information were filed against a July 21 suspect.

■ **Islamic Jihad** said it will stop firing rockets in the run-up to Israel's Gaza pullout. Israel is being pressed to ease crossings at Egypt's border.

Sniffing Out Crooks
Is a Matter of Survival

Mr. Kugelman Gets Scammed
By a Web-Site Customer;
A \$3,077 Platinum Chain

By MITCHELL PACELLE

LYNBROOK, N.Y.—Six years ago, Neil Kugelman found himself puzzling over the very first customer to arrive at the Web site he had launched to sell jewelry online.

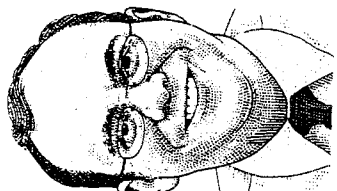
The order: a \$496 men's diamond ring. The North Carolina address didn't match the address tied to the credit card. The shipping address was different still. Mr. Kugelman tried to telephone the customer, but the number didn't work. His email bounced back. He was no expert on fraud, but neither was he born yesterday. He spiked the order.

"Our first order—order No. 1—was fraudulent," he marvels.

Since then, as family-controlled Goldspeed.com Inc. grew from a basement start-up to a 10-person operation that fills

more than 50,000 orders a year, Mr. Kugelman has taught himself to regard each and every customer as a potential online crook—and with good reason. He says fraudulent orders have risen to a staggering 30% of the total, up from just 5% when he started.

Over the years, Mr. Kugelman, 44 years old, got so good at sniffing out the cons that just 0.5% of his sales were lost to fraud. But a run-in he had seven months ago with a cagey crook who ordered \$8,384 of flashy jewelry—and stuck him with his largest fraud loss ever—has left him worried that the bad guys are gaining the upper hand. The tale of Mr. Kugelman's unsuccessful effort to dis-



Neil Kugelman

For Adidas, Reebok Deal Caps
Push to Broaden Urban Appeal

Known for Its Engineering,
German Company Takes On
Nike in Lifestyle Market

Teaming Up With Missy Elliott

On the same day that sporting-goods maker Adidas opened its new multimillion-dollar store in downtown New York in May, Kenneth Webb walked out of Niketown, a few miles away, with his 40th pair of Nike sneakers.

The youth counselor in his mid-20s, rarely plays sports in these shoes, which is one reason he doesn't wear Adidas. "Adidas, it's good for runners...but not to

By Matthew Karnitschnig in Herzogenaurach, Germany, and Stephanie Kang in Los Angeles

profile in," he says. "People wear Jordans to look cool."

A pioneer of the sporting-goods industry, Adidas built its reputation on engineering athletic shoes that everyone from Jesse Owens to Muhammad Ali considered the world's finest. But as Nike Inc. has come to dominate the global sneaker market over the past two decades, by appealing to both athletes and fashion-conscious consumers, Adidas's serious sportsman's image has turned into its Achilles heel.

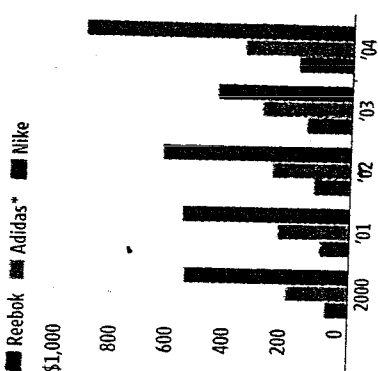
Now, Adidas is trying to claw back. The company confirmed yesterday that it has agreed to acquire Reebok International Ltd., of Canton, Mass., for \$3.8 billion. If successful, the acquisition will allow Adidas to address a key weakness: its problems marketing products to the sneaker-buying masses.

Adidas has "always made great products," says Ernest Kim, a shoe critic at "Sole Collector," a magazine for sneaker aficionados. "Where they dropped the ball was desirability."

Once associated primarily with the 1980s aerobics boom, Reebok's recent success stems from the company's recent suc-

New Competition

Adidas's acquisition of Reebok may help it challenge Nike. Net income, in millions:



* Converted from euros at current rate
Source: the companies

Association stars like Yao Ming and Allen Iverson, Reebok's emphasis on casual footwear has helped it reclaim shelf space. Recent endorsement deals with rappers 50 Cent and Jay-Z have raised the brand's cachet with the urban trendsetters Adidas has struggled to attract.

The combined company would also have more leverage to negotiate contract terms, including shelf-space and discounting practices, with big retail chains such as Foot Locker Inc. and Finish Line Inc. While Nike has in the past exhibited enormous influence with those chains, Adidas and Reebok have held far less sway.

"It's all about clout," says John Horan, president of Sporting Goods Intelligence, an athletic footwear research firm. "In this market, the bigger the better."

Adidas will pay \$59 a share for Reebok, a 34% premium over Reebok's \$43.95 close Tuesday. As of 4 p.m. yesterday, Reebok rose to \$57.14, up \$13.19, or 30% on the New York Stock Exchange.

The deal, expected to close in the first half of 2006, will be financed by a combination of debt and equity. After early declines, Adidas-Salomon AG's Frankfurt-listed shares surged 7.4%, or €10.93,

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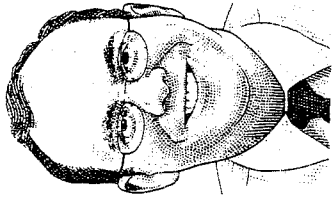
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now gaining the upper hand. The tale of
Mr. Kugelman's unsuccessful effort to dis-
cover the fraud, despite his suspicions,
shows the increasing perils faced by the
burgeoning online retail industry.

For Mr. Kugelman and other Inter-
net retailers, ferreting out bogus orders
is a matter of survival. When a crook
uses a stolen credit card in a traditional
store, and the store follows proper pro-
cedures, the card-issuing bank usually
swallows the loss. For online retailers,
the tables are turned. Credit-card associ-
ation rules dictate that merchants who
accept charges from cyberspace, a risk-
ier endeavor, must also shoulder the
risk of fraud.

When Mr. Kugelman began peddling
everything from pearl earrings to thick
gold chains over the Internet in 1998, his
biggest problem was simple credit-card
fraud: the use of stolen account num-
bers. The bogus orders were often glar-
ingly obvious. Fraudsters ordered big
and requested next-day shipping. They
left fake phone numbers. They placed
odd orders, such as for two engagement
rings. Mr. Kugelman designed a com-
puter system to screen incoming orders
for such red flags and to bounce suspi-
cious ones into human hands.

Over time, the crooks got better. More
of them stole whole identities, using pur-
loined personal information to set up on-

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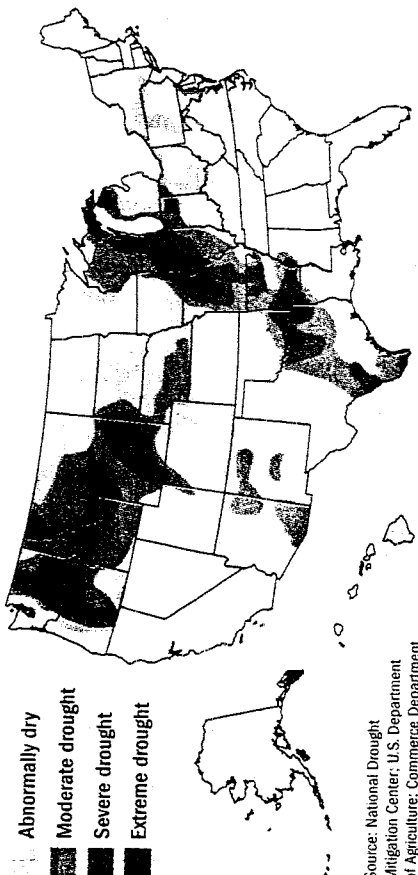
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to €158.45, or \$195.46, on the news.

The Reebok deal caps a larger offen-
sive. Please Turn to Page A6, Column 2

Dry Patches

Broad-scale drought conditions, as of July 26:

Abnormally dry
Moderate drought
Severe drought
Extreme drought



Source: National Drought
Mitigation Center; U.S. Department
of Agriculture; Commerce Department

Worst Midwest Drought in 17 Years Is Withering Crops, Slowing Cargo