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Business

Lawsuits add to annual loss Keystone Financial also cites Y2K costs Bill Sulon The Patriot-News

Keystone Financial Inc., which last month set aside \$30 million to settle a class-action lawsuit, yesterday said the agreement contributed to earnings losses of \$17.9 million for the fourth quarter and \$62.6 million for the year.

In addition to the settlement, Keystone Financial, the holding company for Keystone Financial Bank, said it spent \$26.9 million in restructuring expenses in the last year, including \$4.9 million in the last quarter. It lost another \$1.5 million in bond investment securities, which were sold at a loss and restructured as a result of rising interest rates.

Harrisburg-based Keystone last month announced it would pay \$30 million to 38 Pennsylvania school districts and five municipalities to settle a class-action lawsuit filed against one of its subsidiaries, Mid-State Bank, in a case involving allegedly mishandled investments. At the time, the settlement did not resolve four other lawsuits filed by seven other school districts, including Northern Lebanon. Keystone set aside an additional \$21 million to settle those claims.

Since then, the Northern Lebanon School Board agreed to accept a \$8.36 settlement offer from Keystone.

Devon Capital Management, the investment adviser used by the school districts and local governments, is charged with mishandling investments, resulting in \$71 million in losses for 45 school districts and the five municipal governments between 1994 and 1997. Mid-State Bank provided custodial services to Devon Capital Management. Devon's owner, John Gardner Black, was indicted on 134 counts, including fraud. He pleaded innocent and is awaiting trial in federal court.

Carl L. Campbell, Keystone's chairman and chief executive officer,

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last month said the litigation would not threaten the bank's financial security. Neither he nor Donald F. Holt, Keystone's executive vice president and chief financial officer, returned calls yesterday.

The bank, in a release, said the Devon settlement, restructuring costs and disruptions associated with Year 2000 preparations "all heavily impacted 1999 performance."

Keystone's net income for the year was \$37 million, or 76 cents a share, compared with \$99.7 million, or \$1.94 a share, in 1998. With the exclusion of special charges associated with the Devon litigation and unification of Keystone's seven banks under one charter, net income for 1999 was \$83.6 million.

Shares in Keystone closed up 12 1/2 cents yesterday at \$19. The stock is down 49 percent from its 52-week high of \$37.50 last January. It reached a 52-week low of \$18.31 a week ago.

---- INDEX REFERENCES ----

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