

LEADING THE NEWS

Boeing Is Punished in Rocket Case

U.S. Redirects \$1 Billion In Contracts to Lockheed After Espionage Inquiry

By ANNE MARIE SQUEO
And ANDY PASZTOR

The Air Force hit Boeing Co. with the stiffest punishment imposed on any major Pentagon contractor in decades, taking away \$1 billion in government rocket business after determining the company illegally acquired tens of thousands of pages of proprietary documents from rival Lockheed Martin Corp.

The penalties deal a potentially devastating blow to Boeing's rocket hopes and present new strategic challenges for a company increasingly reliant on military-

related businesses to weather a steep falloff in orders for its commercial jetliners.

Boeing "committed serious and substantial violations of federal law," said Peter Teets, the Air Force's top space official. He blasted the Chicago aerospace company for collecting an "extraordinary" volume of sensitive Lockheed documents that gave Boeing an edge in winning a 1998 competition that made it the nation's largest rocket maker. "I've never heard of a case of this scale," he added.

The Air Force transferred to Lockheed seven satellite launches previously awarded to Boeing and also awarded Lockheed three additional launches without competitive bidding. Three Boeing rocket-launch units were suspended from receiving new business, although those sanctions could be lifted as early as summer's end. Also, in a move that is likely to reshape the entire rocket business,

Lockheed will end up with a new California launch pad that will reinstate it as a full-fledged competitor in boosting all types of government satellites into space.

Anxious to quell a debate that recently spread to Capitol Hill and embroiled other Boeing projects, Boeing Chairman Phil Condit apologized for the company's actions and said "we will continue to work with the Air Force to address the issues" raised by the investigation.

In 4 p.m. New York Stock Exchange composite trading, Boeing fell 49 cents, or 1.5%, to \$32.20. In after-hours trading, the stock fell to \$31.54.

The decision follows a five-month investigation by Air Force officials, high-level maneuvering by both companies and a growing controversy over what the transgressions indicate about Boeing's internal controls and corporate ethics.

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Sept. 11 Report Faults U.S. Intelligence

WASHINGTON—A number of important clues were ignored and information about al Qaeda's domestic threat wasn't shared, making the U.S. vulnerable to the Sept. 11, 2001, terror attacks, a joint congressional panel said in a long-awaited report on U.S. intelligence handling.

The 10-month investigation by the House and Senate intelligence committees found U.S. intelligence agencies re-

By Gary Fields and David Rogers
in Washington and Scot Paltrow in New York

ceived no single lead or piece of evidence that pointed specifically to the impending attacks, and thus could have been used to head off the worst attack on the U.S. since Pearl Harbor.

But the report also concluded that signs were missed and inadequate attention was paid to the likelihood of a major domestic terrorist attack, to the extent that the outcome could have been different.

"The Intelligence Community failed to capitalize on both the individual and collective significance of available information that appears relevant to the events of Sept. 11," the report concludes. "No one will ever know what might have happened had more connections been drawn between these disparate pieces of information." The panel said it found evidence of "specific sources of foreign support for some of the September 11 hijackers," but the information, much of which officials said concerns Saudi Arabia, was withheld for security reasons.

The investigation was launched in Feb-

Sensing Danger

Part of the previously unreleased July 2001 "Phoenix Memo," in which an FBI agent urged an investigation of known Osama bin Laden supporters attending U.S. flight schools. Excerpt uses FBI spelling; black bar indicates redacted portion of text.

"The purpose of this communication is to advise the Bureau and New York of the possibility of a coordinated effort by Usama bin Laden (UBL) to send students to the United States to attend civil aviation universities and colleges. Phoenix has observed an inordinate number of individuals of investigative interest who are attending or who have attended civil aviation universities and colleges in the State of Arizona. The inordinate number of these individuals attending these types of schools and fatwas [redacted] gives reason to believe that a coordinated effort is underway to establish a cadre of individuals who will one day be working in the civil aviation community around the world. These individuals will be in a position in the future to conduct terror activity against civil aviation targets."

bruary 2002, and its major findings began to emerge in recent weeks to paint a disturbing portrait of uncommunicative and unresponsive intelligence agencies. Its final release, however, provides a wealth of details on the depth of the problem.

New information revealed included:

■ A Federal Bureau of Investigation agent in Phoenix may have come far closer to uncovering the Sept. 11 plot than previously known. The agent wrote a memo to FBI headquarters regarding a possible plot involving hijacked airliners, but the warning wasn't acted on. The

panel revealed that an unnamed individual under scrutiny by the agent, who has since left the country, had links to hijacker Hani Hanjour and may have had knowledge of the plot.

The unnamed person was "an experienced flight instructor who was certified to fly Boeing 737s," and the FBI theorizes that this person, evidently still being sought, helped "either to evaluate Hanjour's flying skills, or to provide Hanjour with his final training on the flight simulator before the September 11 attacks," the

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EBay Once Again Reports Gains; Stock Split Is Set

By NICK WINGFIELD

EBay Inc., showing continued strong growth, said its second-quarter profit and revenue roughly doubled, and announced a two-for-one split of its high-flying stock.

The San Jose, Calif., company, which is growing beyond its original business in online auctions, also raised its financial forecasts for the year, on the strength of overseas expansion and its electronic-payments businesses.

EBay's decision to split its stock, a move not seen much from Internet companies since the bursting of dot-com bubble three years ago, is symbolic of the company's emergence as an electronic-commerce giant and a flourishing survivor of the technology boom and bust. The company's shares are up 71% since the beginning of the year, rising \$1.60 to \$115.74 in 4 p.m. Nasdaq Stock Market trading yesterday, before the announcements. In after-hours trading, the stock slid back to \$110.09, according to Island ECN.

EBay said net income jumped to \$109.7 million, or 33 cents a share, from \$54.3 million, or 19 cents a share, a year ago. That exceeds the 30 cents a share the company had told Wall Street to expect. Revenue rose to \$509.3 million from \$266.3 million a year ago, slightly better than the \$500 million EBay had forecast for the period.

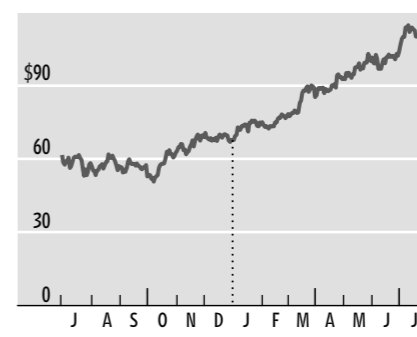
Part of the increase in revenue resulted from EBay's acquisition late last year of PayPal, a provider of electronic-payment services, whose results weren't included in last year's second-quarter results. EBay said revenue from electronic payments, used primarily by buyers to send money quickly over the Internet to sellers, was \$99.4 million in the latest second quarter.

EBay raised its full-year profit forecast by five cents a share to \$1.31 a share. It said it now expects revenue to reach as much as \$2.08 billion, or \$25 million higher than it had previously anticipated. The increased figure was a bit below analysts' bullish consensus of \$2.1 billion, according to Thomson First Call. "At first blush, it seems to have been yet another strong quarter for eBay, perhaps not offering as much upside as we have seen in recent quarters," said Derek Brown, an analyst at Pacific Growth Equities LLC.

Meg Whitman, eBay's chief executive, said the company didn't beat Wall Street expectations by as big a margin as in recent quarters, in large part because its results for the holiday season and first quarter were so exceptional. "We're back to being able to forecast this business with a little more accuracy than we were able to"

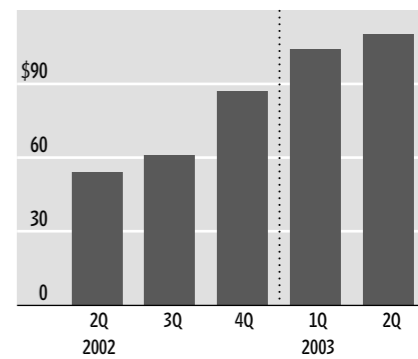
Bigger Than Ever

Stock performance
EBay's daily closing stock price



Sources: Thomson Datastream; the company

Net income, in millions



in the fourth quarter of last year and the first quarter of this year, Ms. Whitman said in a call with analysts.

EBay's core transaction business, which mostly consists of the commissions it makes on sales, increased 45% to \$242 million in the U.S. from \$167 million a year ago. The company's international business is outstripping the growth in its domestic market, more than doubling to \$155 million from \$63 million a year ago. EBay operates auction sites in Europe and several Asian countries, most recently expanding into China through the \$150 million acquisition

of Shanghai-based auction site EachNet.

Some analysts lately have questioned whether eBay's European business will suffer because of a value-added tax on Internet auctions and other digital services that went into effect on July 1. EBay executives said it was too soon to gauge what the impact will be. The tax applies to the fees that eBay charges its sellers, and most merchants haven't yet received invoices from the company that include the taxes.

The company said its merchants sold \$1.58 billion of vehicles through eBay, \$500 million more than in the same period last year.

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AIG Net Rose 26% in Period; Dividend Is Increased by 25%

By THEO FRANCIS

American International Group Inc. said second-quarter net income rose 26% on strong premium-growth from general insurance, despite slower growth in life-insurance premium revenue.

The New York insurer reported net of \$2.3 billion, or 87 cents a share, up from \$1.8 billion, or 68 cents a share, in the year-earlier period.

AIG also announced a 25% increase in the quarterly dividend, to 6.5 cents a share from 5.2 cents, citing the quarter's \$6 billion increase in shareholders' equity and noting the federal government's reduction of taxes on dividends. Including an increase announced in May, the company said its dividend has increased 38% since June 2002.

"Across the board, results looked pretty good," said Brian R. Meredith, an insurance analyst with Banc of America Securities. AIG reported operating earnings—which exclude realized capital losses—of 96 cents a share, two cents higher than the 94 cents a share Mr. Meredith and other analysts predicted.

The company saw its strongest pre-

mium growth in general insurance, where written premiums rose 30% over the prior-year quarter to \$8.8 billion; operating income rose 29% to \$1.2 billion. The company's combined ratio—or the percentage of premiums that it paid out in claims and administrative expenses—for general insurance fell to 92% from 94% a year ago.

Growth in life premiums slowed to 6.1% from second-quarter 2002, reaching \$5.5 billion, although operating income from life insurance rose 28%, the company said. In the first quarter, life-insurance premiums grew 18% over first-quarter 2002.

Financial services posted a 15% increase in operating income for the second quarter.

Chairman and Chief Executive Maurice R. Greenberg said results from life-insurance operations were "distorted" by a reduced emphasis on sales of guaranteed investment contracts in a low-interest-rate environment; lower demand in Asia related to SARS; and the decline of surrender-fee income from a Japanese subsidiary.

"On all cylinders, I would say the com-

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DIGEST OF CORPORATE EARNINGS REPORTS

Table with columns: COMPANY, PERIOD, REV (M), CHG, INC CT, NET (M), CHG, PER SHARE, CURR, PREV, CHG. Lists earnings for companies like AGCO, Advanced Mktg Svcs, Airgas Inc, etc.

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AOL Bulk Sales May Have Boosted Subscribers

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it had during the 1990s.
That rate slowed last year after the Securities and Exchange Commission began investigating America Online's advertising revenue—some of which included one-time payments, stock sales and "round trip" deals in which money flowed both ways between AOL and the advertiser.

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tions for their employees for a rate of as low as \$1 to \$3 a month per subscriber.
That way AOL could report an increase in subscribers during the life of the deal—usually a year. United had the opportunity to resell these limited-usage subscriptions to its employees, which it did at \$8.83 per month.

Kinko's Inc., Home Depot Inc., Hewlett-Packard Co. and Philips Electronics NV, among others, according to people familiar with the deals. It wasn't immediately clear how many of the companies participated.
Of course, the idea of bulk sales isn't new. Magazines and newspapers routinely sell their publications in bulk to hotels or airports that resell the copies to their customers.

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According to a former AOL executive, the bulk-sales initiative was launched in 2000 as a way to find new sources of subscribers by targeting corporations that wanted to improve communications with their large base of employees.
AOL executives moved on the project after watching the success of a November 2000 deal in which DaimlerChrysler Corp. and General Motors Corp. agreed to offer America Online to their employees for \$3 a month, the former employee says. In that deal, people familiar with the situation say, AOL counted as subscribers only those employees who signed up for the service. Those arrangements are still in effect.

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which had been the pre-eminent rocket supplier for the government, walked away with just seven of 28 launches and gave up its California launch capability. In assessing the value of the huge volume of internal Lockheed documents Boeing has turned over to the government, Mr. Teets said the material "was sufficient to provide great insight into Lockheed's cost and pricing." Including the latest development, Lockheed has firm orders for 17 launches while Boeing has only 14 firm orders.

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After prodding the Air Force to take action, Lockheed had a lukewarm reaction. A spokesman for the Bethesda, Md., company said, "the Air Force reached its decision using its own best judgment, and we acknowledge that decision." Lockheed officials have said they plan to press ahead with a private lawsuit against Boeing, alleging a conspiracy to steal trade secrets. That suit, which seeks damages that weren't specified, is likely to get a boost from the Air Force's findings of the egregious nature of Boeing's violations.

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The bulk-sales deals were a bit different, though. In these deals, companies such as UAL Corp.'s United Airlines would buy a bulk quantity of subscrip-

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EBay Posts Strong Net, Revenue

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million in consumer electronics and \$500 million in computers. EBay receives a cut off those sales. EBay said it reached a settlement with the U.S. attorney for the Eastern District of Missouri, who had alleged that the company's PayPal business violated part of the USA Patriot Act by facilitating illegal online gambling. EBay said it paid \$10 million to settle the matter. EBay discontinued PayPal's business serving gambling sites after it acquired PayPal.
The immediate reaction of investors to the announcement of eBay's stock split

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seemed to be in stark contrast to the frenzy that used to greet such news during the early days of the Internet boom. Several years ago, investors would bid up dot-com shares after the announcement of stock splits on the false assumption that they were getting a bigger stake in the company.
Paul Cook, portfolio manager of the Munder Net Fund, which holds eBay shares, said he was glad investors responded differently this time. A stock split "is kind of a dubious achievement," Mr. Cook said.

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quarter and predicted its profit margin would grow in the current period, but said it hasn't seen signs of recovery in corporate computer demand. Microsoft Inc. last week posted a 26% jump in net income for its latest period. But others have fared less well, including computer maker Sun Microsystems Inc., which posted a slight profit during its latest quarter but said revenue declined 13%.
Mr. Chang said Taiwan Semiconductor saw strong growth in chips for personal computers and consumer electronics products last quarter. He said sales of communications chips are looking stronger, although personal-computer chip demand is faltering. Taiwan Semiconductor kept an average of 88% of its manufacturing capacity in use during the second quarter, compared with 66% late last year, and Mr. Chang said that would rise to more than 90% in the current period. He said Taiwan Semiconductor will spend about US\$1.25 billion on new plants and equipment this year, in the middle of the range it set earlier this year.
Bhavin Shah, head of Asian technology research for J.P. Morgan Chase & Co., said Taiwan Semiconductor's results should allay fears that the recent tech upturn will fizzle in the second half, as it has in recent years. "I think this will convince many skeptics," he said. "I believe there is a recovery, it's just not a mega-recovery that will lift all boats."

Taiwan Chip Maker Sees 26% Rise in Net

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