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Fancy Footwork

How Impresario Of Fighting Events Evades Regulation

Toughman Boxing's Mr. Dore Shuffles Formats to Keep State Officials Off Balance

A Fatal Bout for Mrs. Young

By JOSEPH T. HALLINAN

On what turned out to be the last night of her life, Stacy Young thought she would do something fun. The 30-year-old mother of four drove to the Sarasota, Fla., fairgrounds, laced on a pair of boxing gloves and entered a Toughman fighting contest.

"She really surprised me," Chuck Young says of his wife, who stood 5-foot-6 and weighed 235 pounds. He watched from the stands as she lasted one round, then another. But in the third, a punch from her female opponent dropped her to the canvas, ending the bout and leaving her woozy.

"All of a sudden, she just fell back and started having seizures," says Mr. Young. "And that was it." His wife lapsed into a coma and never recovered.

Some 1,500 people paid \$15 each to watch the fight that killed Mrs. Young, even though Florida has been trying since 1988 to ban Toughman tournaments. But the impresario of this popular form of combat entertainment, Arthur P. Dore, has built a business, now called AdoreAble Promotions Inc., by deftly evading state regulation.

Twenty-four years ago, Mr. Dore founded the boxing equivalent of karaoke: Toughman contestants—often out of shape and in poor medical condition—climb into the ring and slug it out. Mr. Dore's skill in ducking oversight has been critical to the success of his brutal fight shows, which take place in cities and towns around the country and can gross \$20,000 or more in an evening.

States, rather than the federal government, are the main regulators of professional boxing. But Mr. Dore says that avoiding state supervision is sometimes as simple as labeling Toughman contests "amateur" events. "Then we don't have the jurisdiction of the boxing commission," he says.

Amateur boxing is governed by USA Boxing, based in Colorado Springs, Colo. But that private organization takes no responsibility for Toughman, either. In fact, USA Boxing bans Toughman participants from its sanctioned amateur bouts.

Florida bans fighting matches involving "a combination of skills." So Toughman events in that state, including the one in which Mrs. Young fought, allow only standard boxing punches—no kicking or karate chops. That is enough to dodge the ban, says Florida's boxing commissioner, Chris Meffert. His agency oversees conventional professional fights in the state but doesn't regulate Toughman.

In other states, including Illinois, Toughman contestants are specifically told to kick their opponents. This transforms the event into "kick-boxing," which most state boxing commissions consider outside their purview.

In some states, Toughman simply holds bouts without informing the boxing commission. Idaho Athletic Commissioner Jon Vestal says he knows this, but lacks the resources to go after Mr. Dore. "We're run by a group of volunteers," says Mr. Vestal. "Myself, I'm a full-time Realtor and appraiser." Other states report similar manpower problems.

Mr. Dore's latest strategy in Michigan and elsewhere is to hold fights at Indian casinos, where states typically have no authority to regulate fights. At least eight states, including Florida, have tried to outlaw Toughman and its imitators, without much effect.

Mr. Dore, 67, has gone from running a struggling contracting company in his

INDEX

Abreast of the Market.....C1	Health.....B5
Agency Issues.....C2	Heard on the Street.....C1
Amex Stocks.....C9	Index Options.....C10
Bond Data Bank.....C7	International News.....A9
Commodities.....C10	Listed Options.....C10
Corrections.....A2	Media & Marketing.....B4
Credit Markets.....C11	Markets Lineup.....C2
Currency Trading.....C14	Money Rates.....C11
Deals & Deal Makers.....C5	Mutual Funds.....C11
Directory of Services.....B5	Nasdaq Stocks.....C6
Dividend News.....C9	NYSE Stocks.....C3
DJ Country Indexes.....C14	Politics & Policy.....C4
Earnings Digest.....C11	Small-Stock Focus.....A8
Economy.....A10	Technology.....B5
Editorials.....A10.11	Treasury Issues.....C2
	World Stock Markets.....C14
Index to Businesses.....B2	
What's News Online.....B2	
Global Business Briefs.....B5	
Classifieds.....B6.B7	

What's News—

Business and Finance World-Wide

INTEL RAISED its revenue forecast, citing demand for computers from U.S. consumers and buyers in Asia. But most corporate customers are refraining from major purchases or upgrades, suggesting that a broad-based tech-sector recovery may be months or quarters away.

Freddie Mac is likely to come under pressure to revamp its board and alter its business model as it searches for a new CEO to succeed Greg Parseghian.

The FBI and computer experts shut down servers linked to the SoBig virus. An Internet company was subpoenaed for information.

The electric-power industry is set to launch a campaign aimed at helping raise \$100 billion to upgrade the nation's power grids.

GE sent a letter to Vivendi detailing plans for merging NBC with Vivendi's film and TV businesses, following days of talks.

DaimlerChrysler agreed to pay \$300 million to settle a class-action suit by institutional investors over its 1998 merger.

China's central bank will order banks to set aside more capital and curtail loan growth.

The Dow Jones industrials eked out a 0.3% gain last week, while the Nasdaq climbed 3.7%.

KB, Staples and Hayward joined environmentalists in opposing a Bush plan to open an Alaskan rainforest to new roads.

Regulators launched a probe into whether Biovail has been paying kickbacks to doctors who prescribe its heart medication.

Coke and Pepsi face hurdles to win back sales in India despite government tests showing that pesticide levels meet norms.

KPMG blasted a court-appointed examiner's criticism of its auditing work for Polaroid as biased and "unfounded."

Utilities and refineries will be allowed to upgrade plants without installing new pollution-control equipment under new rules.

An appeals court again struck down a \$5 billion punitive-damages award against Exxon Mobil for the 1989 Exxon Valdez oil spill.

Gasoline prices could hit record levels in the next two weeks, though they are expected to ease modestly in September.

WPP's net slid 17% and sales fell 2.5% in the first half, hurt by the advertising downturn.

The Navy is seeking bids for a new breed of small ships from outside its usual circle of contractors.

Stocks: NYSE vol. 1,305,100,480 shares, Nasdaq vol. 1,673,633,077. DJ Industrials 9348.87, ▼ -74.81; Nasdaq composite 1765.32, ▼ -12.23; S&P 500 index 993.06, ▼ -10.21.
Bonds (4 p.m.): 10-yr Treasury ▲ +8/32, yld 4.465%; 30-yr Treasury ▲ +15/32, yld 5.263%.
Dollar: 117.58 yen, -0.19; euro \$1.0891, -0.30 cent against the dollar.
Commodities: Oil futures \$31.84 a barrel, ▼ -\$0.04; Dow Jones-AIG futures 121.322, ▲ +0.482; DJ-AIG spot 153.668, ▲ +0.610.

DANGER SIGNS CONTINUED to flash in Iraq, with attacks unabated. A bomb went off at the Najaf home of top Shiite cleric al Hakim, killing three of his guards and injuring him. Three British soldiers died in an ambush Saturday in Basra. In the north, Kurd-Turkmen ethnic fighting in Kirkuk left 10 dead, drew in U.S. forces and touched off a violent protest in Turkey. Bush Saturday called Iraq a "continuing battle" in the war on terrorism, but said the answer is more allied help. Annan said the U.S. must be willing to share some occupation authority to get it. Unexploded U.S. munitions are a problem. (Page A4)

Britain's Blair appears Thursday on an inquiry on the suicide of an expert on Iraqi arms and alleged intelligence manipulation. Documents submitted to the inquiry were made public on Saturday, fueling a furor.

Israel made good on vows of what the army chief called "liquidation" of militants. Helicopter missiles killed four men in Gaza, all of whom were identified as Hamas fighters. Three Al Qaeda men were shot and one killed in a West Bank hospital Friday. Palestinian leaders struggled for control of security forces. Bush Friday froze Hamas-linked assets. (Page A4)

The U.S. withdrew 150 Marines to ships off the Liberian coast, saying they will return if needed. Civilians fled fresh clashes outside Buchanan.

Taliban fighters ambushed a truck full of government troops in southern Afghanistan. Five soldiers and three guerrillas died in the clash.

Iran has extradited a number of al Qaeda suspects it had been holding to Saudi Arabia, Tehran's news agency said. They weren't identified.

Iran cut some ties to Argentina after last week's arrest in Britain of an ex-envoy accused of a role in 1994's Buenos Aires Jewish-center bombing.

The U.S. and North Korea head into the six-way nuclear-crisis talks in China Wednesday with both vowing to hew to a hard line. (Page A9)

Most crimes declined in 2002 to the lowest level since federal record-keeping began in 1973, the Justice Department said. But murders appear up.

The California recall's focus grew a bit sharper for Republicans with the exit of Simon and a poll showing Schwarzenegger trailing. (Page A8)

A fellow prison inmate killed defrocked priest John Geoghan, convicted in the sex-abuse scandal that has rocked Boston's Catholic Church.

A Brazil rocket explosion killed 21 at a northeast launch site Saturday, thwarting the nation's space plans for a third time. It vows to try again.

Greece detained former Russian media tycoon Gusinsky on a Russian fraud warrant. He moved to Israel in 2001 after a clash with Putin.

Romania said the low level of the Danube and high temperature of the water is forcing it to shut a nuclear plant that powers 10% of the country.

Rwanda votes for president today in a test of whether wounds are healing since the 1994 genocide. Incumbent Paul Kagame is favored to win.

Religious protesters got set to fight a Ten Commandments monument's removal after its sponsor, Alabama's senior judge, was suspended Friday.

Eight firefighters died in Oregon as their van hit a tractor-trailer. They were returning from fighting a wildfire in Idaho for a private contractor.

California car dealers boosted security after environmental militants took credit for burning or defacing SUVs on suburban Los Angeles lots.

Bush intends to put Homeland Security deputy England back in his former post of Navy secretary following the suicide of nominee McMillan.

Bosnia has finished rebuilding the Ottoman bridge in Mostar, a symbol of the Balkan wars' savagery when destroyed by Croat tank fire in 1993.

At Elite Prep School, Parents Do the Math: Rector Gets \$524,000

Mr. Anderson's Pay Package Riles Some at St. Paul's; A Yearly Trip to Cannes

By JULIET CHUNG AND DANIEL GOLDEN

CONCORD, N.H.—In discussing his pay as headmaster of the elite St. Paul's prep school, Bishop Craig Anderson is fond of invoking a biblical maxim: Of those to whom much is given, much is expected.

The Episcopal clergyman has been given much. Last year Mr. Anderson, whose official title is "rector," made \$524,000 in salary, benefits and deferred compensation—more than most college presidents. That doesn't include the seven-bedroom, 14,062-square-foot mansion that St. Paul's provides for him or the \$32,000 stipend for his wife to assist in his official duties.

That compensation package has sparked an ugly fight at this genteel boarding school, where gossip usually revolves around the crew team's chances in the Royal Henley Regatta and who will get into Harvard. Some alumni, parents and donors, outraged at Mr. Anderson's salary, are campaigning for his ouster. They are also pushing for new faces on the 24-member board of trustees, which sets his pay.

Mr. Anderson "is an overcompensated, underwhelming bishop," says Albert F. Gordon, a former trustee who has donated more than \$500,000 to the school. The headmaster, he says, "has got to go."

The complaints don't stop there. Critics have attacked the school's vice rector, Sharon Hennessy, for her \$316,400 in total compensation and the perks of her position, including a stipend for her spouse, membership in the upscale Canyon Ranch spa and an annual two-week summer sojourn on the French Riviera. Other critics have accused the trustees of improperly investing school funds.

The turmoil within the neo-Gothic halls of St. Paul's resembles recent battles over executive pay at big corporations. Rancor has marked both sides, with the rector's defenders implying that critics should withdraw their children from the school, and dissidents suggesting that Mr. Anderson's hefty compensation is unseemly for a man of the cloth.

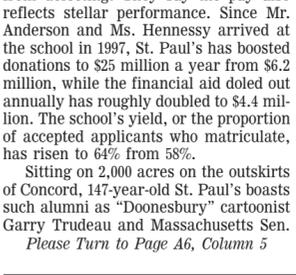
"It's going to be a frosty parents' weekend this fall," predicts John Messervey, a past president of the Parents Association, who supports Mr. Anderson.

The 61-year-old rector says he's "baffled" by the complaints. In a letter to St. Paul's parents posted online last week, he described the school's "financial, educational and administrative practices" as "exemplary." As for his own pay, he says in an interview, "I feel that I'm fairly compensated."

Ms. Hennessy, 54, declines to comment on her own compensation, but Mr. Anderson, who sets her salary, says she does the work of the three vice rectors she replaced.

The school acknowledges Mr. Anderson's compensation is at or near the top of headmasters at comparable prep schools. But trustees say a simple fact underlies the hefty salaries: Mr. Anderson and Ms. Hennessy have received overtures from other schools, and generous rewards are needed to keep them from defecting. They say the pay also reflects stellar performance. Since Mr. Anderson and Ms. Hennessy arrived at the school in 1997, St. Paul's has boosted donations to \$25 million a year from \$6.2 million, while the financial aid doled out annually has roughly doubled to \$4.4 million. The school's yield, or the proportion of accepted applicants who matriculate, has risen to 64% from 58%.

Sitting on 2,000 acres on the outskirts of Concord, 147-year-old St. Paul's boasts such alumni as "Doonesbury" cartoonist Garry Trudeau and Massachusetts Sen. Please Turn to Page A6, Column 5



Craig Anderson

Rocket Science

Boeing's Plan to Smooth Bumps Of Jet Market Hits Turbulence

Space and Defense Division, Beseled by Technical Woes, Takes Charge, Faces Probe

Mr. Albaugh's Rough Ride

In mid-July, officials at Boeing Co. headquarters in Chicago summoned the head of Boeing's vast space and defense division, James Albaugh, for an emergency meeting.

The problem: Internal auditors, trying to close the books on the company's

second quarter, discovered that the division had overestimated how much revenue would flow in from commercial satellites and rocket launches.

The gap, at first appearing to be \$200 million, "kept getting bigger and bigger" during several days of tense meetings—including a shouting match between Mr. Albaugh and Boeing's chief financial officer, Michael Sears—according to people familiar with the situation. When the meetings ended, Boeing announced it would take a \$1.1 billion charge to reflect the much-weakened commercial space market. It

meant a Boeing loss for the quarter and maybe for all of 2003, officials said.

During a conference call to announce the charge in mid-July, Chief Executive Phil Condit expressed "surprise" at the magnitude of the charge. The financial hit came just six weeks after an investor conference at which Mr. Albaugh had assured investors that problems with the space operations were under control. After announcing the charge, Mr. Condit ordered a member of his Office of the Chairman to oversee daily operations of the space and defense operation.

Days later, the division suffered another blow when the Air Force stripped away about \$1 billion in current and potential rocket business. Boeing had been caught holding thousands of pages of a rival's proprietary documents during competition for a big military contract. The rival, Lockheed Martin Corp., is suing Boeing in Federal District Court in Orlando, Fla., and a federal criminal investigation has led to two indictments of former Boeing managers.

On top of all this, delays and cost overruns continue to plague Boeing's satellite business. And a commission studying the February space-shuttle disaster is expected tomorrow to criticize the company, which has a major role in operating the shuttle.

The gaffes expose fault lines in Boeing's ambitious plan to become a defense Please Turn to Page A6, Column 1

System Troubles

For Boeing's space and defense division, a new focus on network systems and satellites has yet to pay off.

While revenue is up...

Revenue breakdown* for first six months of each period, by unit, in billions

Unit	2003	2002
Aircraft and weapons systems	\$5.22	\$4.84
Network systems	\$4.19	\$3.55
Support systems	\$1.98	\$1.63
Launch and orbital systems	\$1.43	\$1.42

Key units still lag in profits

Earnings* for first six months of each period, by unit, in millions

Unit	2003	2002
Aircraft and weapons systems	\$753	\$659
Network systems	\$235	\$254
Support systems	\$216	\$144
Launch and orbital systems	-\$1,602	-\$13

*Pro forma results based on unit financials prior to mid-2002 internal merger. Source: the company

Signs Point to Tech Turnaround, But So Far It's Narrowly Based

A bullish forecast from Intel Corp., along with other indicators, underlines that the nascent turnaround in the technology sector is being fueled by U.S. consumers and buyers in Asia, not by the big U.S. corporate customers that would be needed for a broad-based recovery.

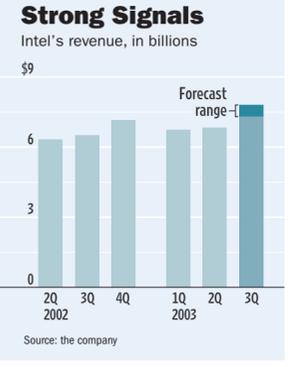
Intel, whose semiconductor chips provide the calculating engines for most per-

sonal computers, on Friday boosted its forecast range for third-quarter revenue, with a midpoint that is 16% above the year-earlier quarter and 11% higher than the period ending in June. The Silicon Valley company's upbeat outlook dovetails with recent remarks from computer makers such as Dell Inc., and comments from other industry executives and technology buyers. The broad mood: Business conditions are improving significantly. Indeed, world-wide shipments of PCs rose 7.6% last quarter, the fastest pace since the downturn of 2000.

But most U.S. corporations appear for now to be sticking to the sidelines, waiting for stronger economic signals before moving to upgrade their desktop computers, or making major purchases of new business software. That trend suggests the current turnaround is so far narrower than the technology boom that peaked in 2000. Companies that rely on sales to large customers—such as Cisco Systems Inc., Sun Microsystems Inc. and Oracle Corp.—may be months or quarters away from a notice-

able upturn in sales.

The absence of a broad-based recovery hasn't deterred many investors, who have driven up technology stocks and provided Wall Street with a taste of the tech-stock craze of the late 1990s. Some industry experts question that market enthusi-



asm, noting that the technology business isn't likely to grow at anywhere near the pace it did in its heyday. Moreover, with consumers leading the charge in the U.S., recent sharp increases in interest rates could damp spending on computers and other items.

U.S. consumers have been snapping up digital cameras, cellphones, and DVD players and recorders, in addition to PCs and printers, said Michael Marks, chief Please Turn to Page A2, Column 2

Webbed Feat: Rebound For Online Ad Sales

New formats are fueling the revival, and teen consumers are a primary target. But the picture isn't entirely rosy. PAGE B1

Freer Trade, Eventually

Many U.S. manufacturers want trade liberalization, but progress is likely to be slow. Washington is expected to keep pushing bilateral and regional free-trade pacts. OUTLOOK, A2

Uncorking Reform

A winemaker in the hills west of Tokyo shows how some Japanese businesses can benefit from the Koizumi government's small steps to loosen regulations. A9

Carlyle Group's Rainmaker

A Baltimore postman's son, David Rubenstein is the self-effacing driving force behind this private equity fund, despite its roster of powerful ex-politico advisers. C1

Spam Sizzles; Now, Let's Fry It

We spend millions to battle spam. But it can be likened to a disease and could die out if we all shunned it like the plague. PORTALS, B1

Alabama Judge Speaks Out

The fight over the Ten Commandments monument is not about politics or religion, but about the rule of law, says Chief Justice Roy S. Moore. OPINION, A10



Boeing Plan to Smooth Bumps Hits Turbulence

Continued From First Page
 and space powerhouse. Investors and some inside Boeing have questioned whether the company, in its quest for an antidote to the vicious cycles of commercial aviation, has moved too aggressively to embrace defense and commercial satellites as its main growth engines.

The setbacks also complicate Boeing's succession plan. Mr. Condit has said he plans to retire in 2007 when he turns 65. Mr. Albaugh, 53, considered a contender for Mr. Condit's job, now appears to be struggling to keep his own, according to investors, Wall Street analysts and industry executives.

Capital Research & Management Co., one of Boeing's biggest shareholders, which more than doubled its stake by adding 15.7 million shares during the second quarter, grilled CFO Mr. Sears last month about the problems plaguing Mr. Albaugh's business, people familiar with that conversation said. A spokeswoman for Capital Research declined to comment; a spokesman for Boeing said it doesn't talk about conversations with individual investors.

Mr. Condit was furious with Mr. Albaugh for failing to alert him about the potential for a major charge against earnings, according to people familiar with the situation. In an interview, Mr. Condit acknowledged his unhappiness at having to surprise his board and Boeing's investors, but he said that Mr. Albaugh has his "full" support. "The easiest thing to do here is to replace Jim. I'm not going down the easy road. I'm going down the road that creates the most value for the company," he said. Ultimately, Mr. Condit said, blame for the

division's problems must be spread around. "That includes me and that includes Jim," he said.

Mr. Albaugh's "Integrated Defense Systems" division—formed in 2002 when Boeing lumped together military aircraft, missiles, commercial satellites and rockets—is a behemoth the size of a Lockheed or a Northrop Grumman Corp. But it lacks those companies' well-established management infrastructure, sometimes resulting in confusion, people both inside and outside the company say. As an example, Mr. Albaugh designated individual managers to be in charge of the division's dealings with each military service and government agency. Previously, the head of each Boeing program had dealt directly with the agency that funded the program. Still, some customers and Boeing managers have continued to deal with each other instead of through the newly appointed agency liaisons.

"Any time you make a change, you have some folks who don't understand the rules of engagement," Mr. Albaugh said in an interview. He acknowledged that his division faced hurdles its first year, including management confusion and financial surprises. "Are we where we need to be? No. But taking two businesses and putting

them together" isn't easy, he said. He stressed that the unit is on the right track. Even though the defense unit will provide more than half of Boeing's \$49 billion in revenue this year for the first time, the company's commercial jet operation is expected to be the one that turns a profit. Nonetheless, company leaders say cash flow from the defense business remains critical to keeping the rest of Boeing running, including funding a new, more fuel-efficient commercial jetliner. "Otherwise," says Mr. Condit, it would be "an impossible situation."

Boeing first began shifting attention to defense and space in the late 1990s, even before its jetliner business was plunged into its current slump by a weak economy, terrorism and competition from Europe's Airbus. By contrast with jetliners, demand for satellites for telecommunications seemed poised to explode. In addition, U.S. defense budgets were recovering from their post-Cold War drop-off. Mr. Condit vowed Boeing would become "the biggest and most-profitable space company in the world."

To execute the vision, he tapped Mr. Albaugh. The executive had come aboard from Rockwell International when Boeing bought that company's aerospace and defense assets in 1996. A trained rocket scientist, Mr. Albaugh moved up the ranks quickly. His new status enabled him to avoid the partisan battles inside Boeing after its 1997 takeover of bitter rival McDonnell Douglas Corp.

Named head of Boeing's space and communications unit in 1998, he started off strong. That year Boeing beat out Lockheed for the majority of federal rocket or-

ders, and defeated its rival again in 1999 for a deal to build next-generation spy satellites. Mr. Albaugh orchestrated Boeing's acquisition of Hughes Electronics Corp.'s commercial-satellite business in 2000. He signed up numerous commercial customers for Boeing's Delta IV rocket.

He also pushed to make Boeing the government's leading "systems integrator"—the company that develops software that links military weapons systems so they can zap information around today's high-tech battlefield. Boeing became lead integrator for the multibillion-dollar national missile-defense system, and won a leading role in overseeing the development of the Army's next-generation weapons and communications systems.

To emphasize this new focus on systems integration, Mr. Albaugh ordered that all the military aircraft models and pictures be removed from the defense unit's St. Louis headquarters. But many of Mr. Albaugh's initiatives haven't worked as expected. Since mid-2001, Boeing has failed to win a single competition for its top-of-the-line commercial satellite, obtained through the Hughes acquisition in 2000. The company has now written off \$2.4 billion of the \$3.75 billion price of the Hughes acquisition. Boeing's classified spy-satellite program has been scaled back because of development problems—delaying the replacement of the aging system now in place.

Of the \$1.1 billion second-quarter charge just taken, nearly \$900 million is related to losses associated with Boeing's Delta IV rocket program. Mr. Albaugh's unit had set its prices for each launch based on the assumption that the company could amortize its development costs for the new rocket over a large number of launches. But when the market for commercial satellites collapsed after the telecom meltdown, commercial customers canceled many of their launch orders.

With only a handful of government launches on order, it became apparent to the company's auditors that Boeing couldn't recover its costs unless the market picked up significantly. Under accounting rules, the company was forced to take the charge during the quarter that the situation was discovered.

Mr. Albaugh says the need for a second-quarter charge wasn't a surprise, but "the magnitude of the number" was. Both he and Mr. Condit say the dispatching of a member of the chairman's office, David Swain, to be chief operating officer of Mr. Albaugh's division wasn't a rebuke of Mr. Albaugh, just an acknowledgment he was spread too thin. Mr. Swain now runs the division's day-to-day operations, and Mr. Albaugh focuses on strategy.

For the space business, the charge was the latest in a string of charges and write-offs related to the eroding commercial space business. Since 2000, those charges have totaled more than \$3.5 billion, offsetting considerable profits from defense operations.

Throughout 2001, Mr. Albaugh told reporters and investors that manufacturing, quality-control and cost-overrun

problems at the commercial-satellite unit were largely licked. He predicted the unit would win a half-dozen commercial-satellite orders by year end. But only one actually materialized.

In mid-2002, Mr. Albaugh acknowledged that workers "had to virtually rework every satellite in the factory." Still, he again stressed that Boeing had "flushed out" most of the problems and said the commercial-satellite unit's financial results would improve. When they didn't, he forced out the unit's head, for the second time in two years.

Boeing's biggest satellite, for example, has been plagued by malfunctioning solar panels, which can reduce the satellite's useful life by nearly two-thirds. In one case, the owners of the Thuraya mobile-phone system in the Middle East had to spend hundreds of millions of dollars to launch a replacement satellite and order a spare to compensate for loss of power. In their eagerness to rack up new orders, Boeing officials now say that they didn't adequately test some new technology, such as these panels.

"We've 'brute forced' a lot of those satellites through," says Mr. Albaugh, who promises that newer ones going into production in 2005 or so won't suffer the same problems.

The overall troubles in Boeing's commercial-space initiative are "a painful thing for me, Phil [Condit] and the board," Mr. Albaugh says. He adds: "A lot of people took a swing at commercial space and struck out," including other satellite makers and companies that intended to offer services from those satellites. He stresses that Boeing's space effort includes a military component that "mitigates some of the risks."

Yet the military programs have also suffered some problems. Early last year, Mr. Albaugh repeatedly disputed Wall Street Journal reports that Boeing was suffering setbacks in developing new spy satellites called Future Imagery Architecture. But

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by the fall, the U.S. government was forced to revamp the program, scaling back some of its technical requirements, to prevent further delays and cost overruns. Boeing says it can't comment on the specifics of the program because it is classified.

While these problems were boiling, the federal probe concerning Boeing's competition with Lockheed for a 1990s rocket contract also was heating up. Boeing had solicited and obtained proprietary Lockheed documents as it vied with Lockheed to be the government's primary rocket maker, winning the competition in 1998. The Justice Department began a criminal and civil probe of the document matter in mid-2002. Boeing returned dozens of boxes of proprietary documents to Lockheed this past spring.

Boeing waited until this past April to hire consultants to examine whether any of the Lockheed data might have seeped into its winning rocket-contract bid. Boeing also didn't report the investigation to the Securities and Exchange Commission until mid-May, after the Journal wrote about the probe. Mr. Albaugh and other Boeing defense officials now say they didn't fully focus on the investigation until then.

Boeing knew the government might penalize it for having possessed the documents by taking away some rocket-launch contracts. But it didn't expect to lose more than three or four, a top Boeing defense executive said in an interview in early July. A week later, the Air Force announced it was taking away seven launches Boeing had already won and barring the company from bidding on three others—a total of at least \$1 billion in business.

Top Boeing officials now say they are reviewing ways to improve communications between headquarters and the business units, to which they granted considerable autonomy a few years ago. The company has formed an early-warning team of auditors that will be dispatched from headquarters to scrutinize programs and try to prevent unpleasant surprises.



James Albaugh

GO GETTER



UP AND COMER



LOAFER

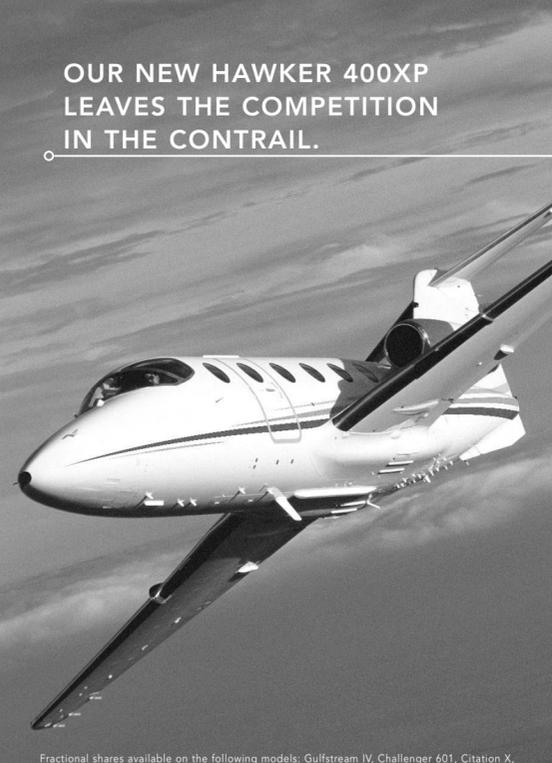


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Prep-School Pay Tops College Green

Continued From First Page

John Kerry. The senator's wife, ketchup heiress Teresa Heinz Kerry, is a former St. Paul's trustee. At the end of fiscal 2002, the 500-student school had an endowment of \$339 million, one of the highest per pupil of any private school in the U.S. More than a third of its students are accepted each year into the Ivy League.

Trustee James Robbins, CEO of Cox Communications Inc., says he can't fathom how the brouhaha started, given the pair's track record. "I find it incredible that people who have affection for this school would go to these kinds of levels to ... tear down its leadership," he says.

Critics contend they've conducted informal surveys of other schools that show the St. Paul's administrators aren't in high demand. They say many longtime teachers have left under the current leadership. And educators' long-cherished tu-

ition break if their kids attend St. Paul's has been cut back.

The previous rector, regarded by some students and faculty as too strict a disciplinarian, resigned in 1996 after a faculty vote of no confidence. After a nationwide search, the trustees settled on Mr. Anderson, then the head of the General Theological Seminary in New York. The trustees hoped Mr. Anderson, as a clergyman, would heal the divided school. Ms. Hennessy, a public-school principal in Wayland, Mass., was the runner-up for the job.

Since they joined St. Paul's, Mr. Anderson's total compensation has more than doubled; Ms. Hennessy's has gone up 79%. The school underwrites the rector's membership in a golf club in Maine and pays for business-class travel with his wife to raise funds from alumni in Europe and Asia. As part of his total compensation, St. Paul's also paid \$25,000 a year for his daughter to attend the University of Chicago.

In the late 1990s, the school bought Ms. Hennessy a seven-year membership to Canyon Ranch's Massachusetts spa. A former St. Paul's business-office employee estimates it cost between \$20,000 and \$30,000. The school says that figure is incorrect but couldn't provide another. Mr. Anderson, who approved the membership, says it was a "life-saving issue" because Ms. Hennessy was awaiting surgery. He won't be more specific.

St. Paul's also pays for the vice rector to raise funds overseas and attend a study-abroad program every June in Cannes. Ms. Hennessy, who occasionally teaches French at St. Paul's, says the immersion hones her skills. While other students in the program stay in dorms, Ms. Hennessy prefers a \$225-a-night hotel. She says she'd rather not be "sharing showers."

The criticisms erupted earlier this year after a chance encounter at a school squash match. Eleanor Shannon, who along with her husband David Salem headed the parents' fund-raising committee, heard concerns from a fellow parent about the school's financial management. Ms. Shannon and her husband had recently pledged \$500,000 to the school.

The next morning, Ms. Shannon pored over the school's financial filings, which were available online—and soon after fired off e-mails and letters to administrators, trustees and parents. She wrote that the rector's and vice rector's salaries were "disturbing, to say the least" and pointed out that "the Rector has stated numerous times that people are 'called to the vocation' of teaching or administering at St. Paul's" rather than being in it for the money.

She also asked how the salaries could be justified amid cuts at the school: This year, 25 support staffers have been laid off. The school says the cuts were warranted because the staff had grown beyond the school's needs.

Ms. Shannon's missives touched off a flurry of e-mails between her and the other side. At one point Mr. Anderson wrote to her that he had "deep and abiding concerns" about her behavior in the matter, and said he wanted to "clarify your future relationship to St. Paul's."

Ms. Shannon characterized the note as a threat in a later e-mail. Mr. Anderson, who says his policy is to not comment on communications with St. Paul's parents, adds that he has "never written a threatening letter to the Salem-Shannons, nor would that ever cross my mind."

In May, Ms. Shannon and Mr. Salem resigned from their posts, saying they no longer felt comfortable fund raising for an institution they questioned on legal and ethical grounds. Since then, the couple has been barraged with e-mails and phone calls from the rector's supporters. Mr. Messervey, the past president of the parents' association, echoes a common theme of loyalists: If the couple "think this is such an awful place, why are they continuing to send their children here?" Ms. Shannon has written that her issues were with the school's governance, not the education it provides.



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