

THE WALL STREET JOURNAL

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DOWJONES TUESDAY, DECEMBER 2, 2003 - VOL. CCXLII NO. 108 - ★★★★★ \$1.00 WSJ.com

Mutual Discord

A Fight at Invesco Spotlights the Toll Of 'Market Timers'

Some Fund Managers Fumed That Special Deals Hurt Their Ordinary Investors

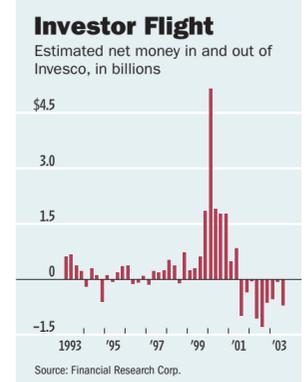
Firm Hoped to Control Traders

By SUSAN PULLIAM
And TOM LAURICELLA

In 1998, stock prices were surging and mutual-fund companies were thriving. But inside Invesco Funds Group, a clash was looming between fund managers and the company's senior management.

Portfolio managers at the prominent mutual-fund company were angry about a new breed of fast-moving traders who were quietly changing the rules of the mutual-fund business. These investors, many of them big hedge funds, were quickly moving tens of millions of dollars in and out of Invesco funds. Their goal was to profit from fleeting discrepancies between the fund's official price, set each day at 4 p.m., and the shifting prices of the stocks the mutual funds held.

The "market timers," as they were known, were creating havoc for portfolio



managers' carefully plotted strategies—and cutting into returns for ordinary long-term investors. All the rapid trading rang up higher transaction costs, which fund companies spread evenly across all shareholders. Moreover, the trading prevented fund managers from buying all the stocks they wanted, because they needed plenty of cash on hand to settle the traders' sales.

Today, market timers are at the center of a massive probe that is rocking the mutual-fund industry and calling into question its fundamental fairness. Many funds now face allegations that they banned market-timing for ordinary investors but permitted it for big-money players.

The story of the market timers who came to Denver-based Invesco shows how one big company not only permitted them, but eventually encouraged them by making special deals with large hedge funds. In a stormy internal debate, some Invesco fund managers argued that the timers should be banned because of the toll they took on ordinary shareholders. They believed that their bosses were willing to accommodate the timers in order to stem the flow of money away from their funds during a down market. The portfolio managers watched helplessly as the timers played a cat-and-mouse game to move their money in and out of Invesco funds.

Invesco insists it played by the rules, but government investigators who have been probing the company are close to making a case against it. New York Attorney General Eliot Spitzer and the Securities and Exchange Commission are expected to file civil securities fraud charges in the next few days against Invesco and are contemplating charges against one or more company officials, according to people familiar with the probe. About two dozen hedge funds and roughly \$1 billion in assets were involved in the alleged wrongdoing.
Please Turn to Page A15, Column 2

What's News—

Business and Finance World-Wide

BOEING'S PHILIP CONDIT resigned as chairman and chief executive in the wake of scandals that tainted the aerospace giant's relationship with the government. The company named Harry Stonecipher, the former head of McDonnell Douglas, as its president and CEO.
(Articles in Column 5 and on Pages B1 and C1)

Eliot Spitzer and the SEC plan to file civil securities-fraud charges against Invesco and at least one company official as part of a probe of mutual fund market-timing.
(Article in Column 1)

Viacom is close to a decision to divest itself of a 82% stake in Blockbuster, most likely by selling to a group of private-equity firms.
(Article in Column 4)

Disney director Stanley Gold joined Roy Disney in resigning from the firm's board and castigating Michael Eisner's leadership.
(Article on Page A3)

Yukos's controlling shareholders are willing to cede top management posts in an effort to salvage a merger with oil rival Sibneft.
(Article on Page A3)

Levi replaced its finance chief and retained turnaround firm Alvarez & Marsal in a move to help generate cash and restructure.
(Article on Page A3)

Manufacturing activity last month showed its strongest gains in two decades, lifting employment in the sector to a three-year high.
(Article on Page A2)

The dollar briefly hit new lows against the euro and other currencies. Its weakness may hamper a rebound in Europe and Japan.
(Article on Page C1)

The industrials climbed 1.2% to an 18-month high of 9899.05; stocks in Japan and Europe also rallied. Gold surged above \$400.
Natural-gas futures rose sharply in New York, boosted in part by forecasts for cold weather.
(Articles on Pages C1, C14 and C16)

U.S. Steel and Nucor said dropping tariffs on imported steel could hurt the domestic industry and weaken trade policy.
(Article on Page A2)

OPEC oil ministers suggested that they expect to leave output targets unchanged when the group meets Thursday in Vienna.
(Article on Page A2)

Investor Kirk Kerkorian is expected to testify today that Daimler-Benz defrauded investors in its 1998 merger with Chrysler.
(Article on Page C11)

DuPont plans to cut costs by \$900 million and intensify its overseas focus in a bid to become a smaller and more profitable firm.
(Article on Page D7)

China's bank regulator unveiled a plan to overhaul the banking system that gives foreign lenders greater scope to operate.
Chinese investors have deposited \$2.44 billion in the six foreign mutual funds working in China.
(Articles on Pages A16 and D9)

Google will stop running ads from online pharmacies that sell drugs in violation of U.S. laws.
(Article on Page D6)

Sony is selling up to \$2.29 billion in convertible bonds to finance investment in key technologies.
(Article on Page B6)

Markets—

Stocks: NYSE vol. 1,352,656,360 shares, Nasdaq vol. 1,787,002,199. DJ Industrials 9899.05, ▲ +116.59; Nasdaq composite 1989.82, ▲ +29.56; S&P 500 index 1070.12, ▲ +11.92.
Bonds (4 p.m.): 10-yr Treasury ▼ -17/32, yld 4.402%; 30-yr Treasury ▼ -21/32, yld 5.177%.
Dollar: 109.34 yen, -0.27; euro \$1.1975, -0.16 cent against the dollar.
Commodities: Oil futures \$29.95 a barrel, ▼ -\$0.46; Dow Jones-AIG futures 129,039, ▲ +2.952; DJ-AIG spot 165.871, ▲ +3.795.

IRAQ DEPLOYMENT IS RAISING issues of readiness for the Pentagon. The Army has decided to let returning units temporarily fall to a level below war-ready in order to give soldiers time to be with families and to conserve equipment and ammunition for the combat forces. That's a calculated gamble that a second major conflict won't erupt suddenly, and has some in Congress wondering if more troops aren't needed. In the 2000 campaign, Bush made readiness a major element of his critique of Clinton-era military policies. (Pages A8 and A17)

In Iraq, a U.S. soldier was killed in an ambush west of Baghdad. Commanders see a worrying level of coordination in Samarra ambushes Sunday, and residents disputed the U.S. claim that 54 insurgents were killed.

The Supreme Court agreed to decide the legality of overseas capture of suspects by U.S. agents. It also let stand a ruling that the Second Amendment confers no individual right to own guns, agreed to clarify whether its ban on judge-imposed death sentences is retroactive, and refused to hear an appeal of a patent ruling favoring generic drug firms. (Page A6)

Colorado's top court rejected a Republican remapping of election districts. Eyes now turn to the higher-profile such case in Texas. (Page A8)

An unofficial peace pact was laid out by Israeli and Palestinian negotiators in Geneva. Israeli troops killed four Palestinians on the West Bank.

Turkey drew its clearest links yet between the recent Istanbul bombings and al Qaeda. The prime minister faces a political test. (Page A16)

Homeland Security scrapped a program requiring male foreigners, most from Mideast nations, to register periodically during U.S. visits. (Page A6)

A Texas Tech professor was convicted of export violations but acquitted of pulling a hoax by reporting plague samples missing from his lab.

John Muhammad refuses to testify at the trial of protégé Lee Malvo, accused of being the triggerman in the Washington-area sniper killings.

"Virtual" colonoscopies work as well as the traditional kind, a study says, but the invasive method is still needed to remove polyps. (Page D1)

Women smokers run twice the risk of developing lung cancer as do men, a study designed to define the role of annual CT scans found. (Page D6)

Researchers identified at least 57 instances of complications among 335 gastric-bypass patients tracked for six months after surgery. (Page D6)

Obesity screening should be part of a doctor's assessment, with counseling and therapy prescribed, a federal task force is urging. (Page D7)

India and Pakistan will restore airliner overflight and landing rights after a two-year break. Musharraf proposed a mutual Kashmir withdrawal.

An earthquake in China killed at least 11 people, injured 34 and tumbled houses in the western province of Xinjiang. Its magnitude was 6.1.

Ivory Coast protesters attacked the French military base in Abidjan, demanding departure of soldiers enforcing a power-sharing deal with rebels.

Lithuanian President Paksas faces impeachment after a parliamentary inquiry linked his office to Russian mobsters. He rejected calls to resign.

Black leaders criticized the videotaped fatal police beating of a man in Cincinnati, site of 2001 riots. Police argued that it was self-defense.

Jury selection began in the manslaughter trial of Rep. Janklow (R., S.D.) for an August highway crash. He may face up to 10 years in prison.

Died: Clark Kerr, 92, president who expanded the University of California, ousted by Reagan in 1967 as being soft on protesters, in Berkeley.

Online Today—

Fund Fiend: Eliot Spitzer has attributed the fund scandal to democratized investing and mega-mergers. Ian McDonald adds one more cause: firms' willingness to treat individual investors like patsies.
Gold Rush: A look at why gold prices have risen, what's next and how to invest in the precious metal.
Portability Woes: Glitches plague the process of switching wireless carriers, a new irritation for consumers.

Ready, Aim, Bake: Army Field Cooks Shoot for Honors

Showdown at Dragon Café Features the Good, The Bland and the Gravy

By FASHI AHMED

FORT BRAGG, N.C.—To prepare for the big day, a team of 26 enlisted men and women drilled every morning before dawn for a month. They went over their tactics and polished their gear.

Sgt. Denise M. Felton, an expert sharpshooter from Virginia Beach, Va., who served in Afghanistan until January, made particularly elaborate preparations. She arranged slices of oranges atop a pile of reconstituted scrambled eggs and cooked up "something special": spice cake with blueberry sauce.

Here in Area Delta, a piney woods where the U.S. Army wages war games, a team from Fort Bragg's Fourth Battalion, 159th Aviation Support Unit, was shooting for the base's second straight win in the coveted Philip A. Connelly Awards Program for Excellence in Army Food. The Army and the International Food Service Executives Association have run the annual contest since 1968 to honor the best in Army cooking. (Mr. Connelly is a former president of the association.)

The Fort Bragg team of 26 enlisted men and women from I Company (motto: "I of the Dragon") was one of six finalists in the category "active field kitchens." For the prize, to be announced in January, the Fort Bragg team is competing against Army active field kitchen teams based in California, Germany, Hawaii, Japan and South Korea.

A trio of judges was expected to arrive at their mobile cooking trailer adjacent to their dining hall, the Dragon Café, for an extensive evaluation.

They would be judged on layout of the field kitchen site—always on high ground with appropriate cover for security. The judges would be looking at "eye appeal" and garnishment of the dishes, as well as homelier criteria such as "leftover utilization" and "plate waste," or how much food is left on the segmented paper plates.

Piped-in music would have to be of the "easy listening variety format," according to the Connelly Award hand-

Please Turn to Page A12, Column 4



Denise M. Felton

Course Correction Boeing CEO Condit Resigns In Shake-Up at Aerospace Titan

Stonecipher Signs On as Chief, With Mission to Win Back The Government's Trust

A Feeler to 3M Chairman

By J. LYNN LUNSFORD
And ANNE MARIE SQUEO

The escalating crisis at Boeing Co. reached the top of the aerospace giant, as Chairman and Chief Executive Philip Condit resigned.

Moving swiftly just a week after ousting its chief financial officer and another senior executive for allegedly unethical conduct, Boeing tapped 67-year-old Harry Stonecipher as president and CEO. Mr. Stonecipher, the former head of McDonnell Douglas Corp., helped Mr. Condit, 62, run Boeing for five years after the two companies merged in 1997 and then remained a powerhouse on the board. Boeing director Lewis E. Platt, the former chairman and chief executive of Hewlett Packard Co., was named as nonexecutive chairman. (Please see related articles on pages B1 and C1.)

Mr. Stonecipher, who is one of Boeing's biggest individual shareholders, has also been one of its most hard-nosed directors, demanding that company investments in new technology meet rigorous financial standards. He said in an interview yesterday that his "No. 1 priority is to restore our reputation with that huge customer called the U.S. government."

The turmoil at Boeing is shaking America's largest exporter, a technological giant with more than 157,700 employees in 38 states. In the months following the Sept. 11 attacks, the Chicago-based

company saw demand for its main product, commercial airplanes, implode even as it faced a heightened challenge from Europe's Airbus. To compensate, Boeing turned to the big defense businesses it acquired in the late 1990s. Boeing tried to use its then-growing reputation as a top-notch integrator of complicated technologies to make its military and space business indispensable to the government.

The company gave investors a nasty surprise over the summer by announcing that it was taking a

\$1.1 billion charge to reflect the near-collapse of its commercial space-launch business. Shortly after that, the Air Force yanked \$1 billion of space launches from Boeing after it found that the company had obtained thousands of pages of competitor Lockheed Martin Corp.'s proprietary documents during a major competition. In all, Boeing has let go or disciplined nine employees, two of whom have been indicted in the alleged scheme.

Mr. Condit, an affable engineer who rose through Boeing's Seattle-area airplane factories, repeatedly tried to assure investors, board members and the government that ethical lapses, such as the document thefts, were isolated incidents that were limited to low-level employees.

Last week, that argument went out the window when Boeing cited "unethical conduct" in its dismissal of Michael Sears, its chief financial officer and a potential successor to Mr. Condit. The

Please Turn to Page A12, Column 4



Harry Stonecipher

Navigating Turbulence

Tracing Boeing's recent history and troubles.

- 1996: Boeing acquires Rockwell's defense business. Phil Condit becomes CEO.
- 1997: Boeing merges with McDonnell Douglas. Condit named chairman, Harry Stonecipher becomes president and COO.
- 2000: Boeing buys Hughes Electronics' satellite business. Mike Sears becomes CFO.
- 2002: Boeing profits fall as commercial-jet sales tumble and write-offs climb on Hughes purchase. Stonecipher retires from executive posts.
- September 2002: Sears talks to Pentagon official Darleen Druyun about joining Boeing before she recuses herself from taking part in talks to build new airborne-refueling tankers.
- May 2003: Boeing discloses Justice Department investigation into how the company obtained sensitive Lockheed documents.
- June/July: Two ex-Boeing officials are indicted by a federal grand jury in Lockheed case. Air Force takes away \$1 billion of rocket launches after determining Boeing illegally acquired the Lockheed documents.
- November: Sears and Druyun are fired.
- Yesterday: Condit resigns. Stonecipher takes the reins.
- Phil Condit



Phil Condit

Viacom Nears Decision on Divesting Blockbuster

Video-Rental Titan, Beset By Rise of Cheap DVDs, Could Go to Equity Firms

By MARTIN PEERS

Viacom Inc. is close to a decision to shed its roughly 82% stake in video-rental giant Blockbuster Inc., most likely by selling to a group of private-equity firms, people familiar with the situation say.

The precise form of the divestment isn't yet certain, but people close to the company say there is no doubt Viacom, after years of indecision, is poised to get rid of Blockbuster. The video-rental market has been weakened under the onslaught of low-price DVDs aimed at the retail market, and investors increasingly see Viacom's exposure to Blockbuster as a liability for the entertainment powerhouse.

If successful, the prospective deal would be the second recent example of an important entertainment business imperiled by changing technologies and cast off by its media-giant parent. Time Warner Inc. recently agreed to sell its music division to a group of private-equity investors led by Edgar Bronfman Jr., with major backing from private-equity firm Thomas H. Lee Co.

The investors like the cash generated by the music business and are willing to bet that the industry can find a solution to the problems spawned by Internet technology, which has started an epidemic of piracy in the industry.

Viacom Chairman and Chief Executive Sumner Redstone has in recent weeks hinted to investors that the chain would be divested, although the company hasn't yet confirmed any plans. A Viacom spokesman yesterday declined to comment.

People familiar with the matter say Viacom, the owner of CBS, MTV and Paramount Pictures, is in advanced talks to sell the video chain to a group of private-equity firms including Thomas H. Lee, Blackstone Group LP and Quadrangle Group LLC. The group is expected to keep in place Blockbuster Chairman John Antioico, who oversaw a turnaround at the company after being named to the post in 1997, the people say. Details of the deal under consideration



John Antioico

INSIDE TODAY'S JOURNAL

What's Next—Liszt And Liposuction?

The Public Broadcasting Service is famous for serving up a heady diet of symphonic strings and musing intellectuals. Now it also offers programming from an antiwrinkle master and Yanni, among others, as these gurus pitch during fund drives. PAGE B1

In Silicon Valley, the Early Bird Doesn't Make Out So Well

Venture investors who arrive later do better—and often face conflicts

Protectionism Is Protectionism

President Bush is learning that when you try on tariffs for size, you soon find yourself wearing a straitjacket. REVIEW AND OUTLOOK, A18

Welcome Aboard

Europe's new central banker faces labor unrest, a policy crisis and challenges to the bank's very identity. Fun.job. A16

PERSONAL JOURNAL.



Personal Health

Avoid Holiday Weight Gain: Eat Some Pie
Virtual Colonoscopy Gains New Support
Plus: The Invisible Kitchen

INDEX

Abreast of the Market.....C3	International News.....A16,17
Amex Stocks.....C10	Leisure & Arts.....D10
Bond Data Bank.....C15	Markets Lineup.....C2
Commodities.....C14	Money Rates.....C15
Connections.....A2	Mutual Funds.....D7
Credit Markets.....C15	Nasdaq Stocks.....C7
Currency Trading.....C15	NYSE Stocks.....C2
Deals & Deal Makers.....C15	Personal Finance.....D2,4
Directory of Services.....C11	Personal Health.....D6,7
Dividend News.....C9	Politics & Policy.....A4,6
DJ Country Indexes.....C10	Small-Stock Focus.....C8
Earnings Digest.....C11	Technology.....B6
Economy.....A18,19	Travel.....D4
Editorials.....A2,12	Treasury/Agency Issues.....C12
Enterprise.....B2	Weather Watch.....C16
Heard on the Street.....C1	Who's News.....B12
Index/Listed Options.....C12	World Stock Markets.....C16
Index to Businesses.....B2	
What's News Online.....B4	
Global Business Briefs.....C16	
Classifieds.....B10-12, C11, D6	



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Boeing's Condit Resigns Amid Crises

Continued From First Page
 company said it learned during an internal investigation that Mr. Sears had held improper discussions with former Air Force official Darleen Druyun about a job at Boeing while she was still overseeing decisions regarding Boeing, including negotiations over a controversial plan to lease 767-model aerial tankers to the government.

Although Mr. Sears has denied any wrongdoing and the company says it is confident that it got no special treatment as a result of Mr. Sears's relationship with Ms. Druyun, the Pentagon has said it is looking into the matter. At the same time, congressional critics of the \$17 billion plan have suggested that the process was tainted and have asked Defense Secretary Donald Rumsfeld to reconsider the tanker contract altogether. Yesterday, Republican Sen. Peter Fitzgerald of Illinois called the tanker deal "a backdoor bailout aimed at helping Boeing out after 9/11."

'A Job to Do'

Mr. Stonecipher is two years older than the company's mandatory retirement age of 65, but the board waived its age requirements and indicated that Mr. Stonecipher's appointment isn't temporary. "I did not come here to look for a successor. I came here because I've got a job to do," Mr. Stonecipher says.

During a conference call, Mr. Stonecipher said he still believes that the tankers are "vital" to the Air Force's ability to meet the needs of far-flung missions. He said that getting the tanker program back on track is "one of the first and foremost tasks I have." Among other things, Mr. Stonecipher said, he hopes to meet face-to-face with key players in Washington in a "matter of days and weeks, it won't be months," to reassure them that Boeing plans to fix its problems. "Each and every concern will be addressed," he said. Boeing's rocket business is still suspended from government work.

Messrs. Platt, Stonecipher and Condit said yesterday that Mr. Condit was in no way connected to the alleged unethical conduct that resulted in Mr. Sears's termination last week.

Mr. Condit said he offered to resign about a week and a half ago—at the same time that the board was considering the dismissal of Mr. Sears—because "the controversies and disturbances of the past year were obscuring the great accomplishments of this company."

Frustration among board members with Mr. Condit had been growing in recent months because Mr. Condit's efforts to shift public attention away from the ethical questions repeatedly failed. Mr. Platt said that the board had been meeting increasingly often, usually by telephone, to discuss the situation. After being informed about the allegations involving Mr. Sears, the board got together at least twice a day, sometimes without Mr. Condit present.

Mr. Platt said the board was initially reluctant to accept Mr. Condit's resignation. Last Tuesday, the day after Mr. Sears's resignation was announced, the board decided to accept Mr. Condit's offer. Mr. Stonecipher, who had bought a retirement home near a golf course in St. Petersburg, Fla., said he moved back to his condominium in Chicago on Thanksgiving to begin preparing to take over the daily operations of the company.

Mr. Platt said the board could have considered several options for replacing Mr. Condit, although he declined later to elaborate. Two people familiar with the matter said the board asked fellow board member James McNerney Jr., the former head of General Electric Co.'s engine business and now head of 3M Co., if he was interested in the job. The 53-year-old Mr. McNerney, whose name has frequently been mentioned in Boeing succession scenarios, declined right now in part because he has only been in the top job since 2001 and had made commitments to the board there that he would stay for several years, these people said. A 3M spokesman said Mr. McNerney wasn't available for comment.

Messrs. Platt and Stonecipher credit Mr. Condit with transforming the aerospace company during his seven-year tenure as chairman. When he took over in 1997, Boeing relied almost entirely on commercial airplane sales. Since then, through a string of acquisitions, the company has changed its business mix so that more than half of its \$49 billion in revenue this year is expected to come from defense and space products

and services. At the same time, despite being at the bottom of the worst aviation slump in history and producing half of the airplanes it did three years ago, the commercial airplanes unit continues to be profitable.

"The board is confident that Boeing has the right strategy," Mr. Platt said. Mr. Stonecipher said the strategic balance Mr. Condit struck between commercial aerospace and defense is right—but the company has stumbled frequently in delivering on what it has promised. "In execution, we've missed a few steps along the way," said Mr. Stonecipher. The company must "execute and pay unrelenting attention to the details" before it can win the confidence of its customers.

Mr. Stonecipher is the second-largest individual shareholder of Boeing stock behind board member John McDonnell, former chairman of McDonnell Douglas Corp., who owns slightly more than 14 million shares. According to the company's filings with the Securities and Exchange Commission earlier this year, Mr. Stonecipher owns 1.74 million shares. On Monday, Boeing shares closed down 1% at \$38.02 in 4 p.m. New York Stock Exchange composite trading.

Despite his retirement in 2002, Mr. Stonecipher has maintained a close watch on Boeing, most recently involving himself in a decision to scale back the company's plans for its commercial financing arm. He was also one of the board members to vote unanimously to dismiss Mr. Sears, his longtime protégé. An internal probe found that Mr. Sears had improperly communicated with Ms. Druyun by e-mail through her daughter—also a Boeing employee—and then later attempted to cover it up. Ms. Druyun couldn't be reached for comment.

Mr. Stonecipher said the situation involving Mr. Sears made him "absolutely ill," but "you've got to get on with it and do the right thing."

No Longer Family

For many Boeing employees, particularly those in its former hometown of Seattle who still refer to themselves as "heritage Boeing," the re-emergence of Mr. Stonecipher isn't welcome. Mr. Stonecipher angered many longtime employees after the 1997 merger between Boeing and McDonnell Douglas by criticizing Boeing's business strategies, which were often influenced by emotional attachment to airplane programs. He forced managers to develop a laser-like focus on the bottom line. He also permanently alienated many employees, particularly the company's engineers union, when he declared that Boeing was no longer going to consider its employees as "family," but rather as team members.

Charles Bofferding, executive director of the Society of Professional Engineering Employees in Aerospace, Boeing's engineers union said yesterday that "a bunch of people are wary of Harry." With Mr. Stonecipher, he said, "everything has been about the business case, and nothing has been about respect for the employees. Harry has got to find a way to motivate the work force."

Some of Boeing's current problems trace their origins to Mr. Stonecipher's watch. He was at the helm of McDonnell Douglas when the company's Delta IV rocket team hired the Lockheed aerospace manager now implicated in the document-collecting scheme. Also, the management and financial mishaps of Boeing's Integrated Defense Systems business were due in large part to the company's acquisition of Hughes Electronic Corp.'s commercial space business in 2000, a deal Mr. Stonecipher helped to negotiate.

Mr. Stonecipher's blunt approach contrasts with that of Mr. Condit, who is known as more of a consensus builder. A concrete example came yesterday when one of Mr. Stonecipher's first acts was to slash the size of Boeing's executive council, which reports directly to the CEO, to 12 from 29. That council includes the CEOs of all of Boeing's major business units, as well as top managers from elsewhere in the company.

Mr. Stonecipher acknowledged his past rocky relationship with longtime Boeing Commercial Airplanes employees, but he attributed it to the times. "We had to do some tough things the first time around," he said. Now, he said, "My attitude has gone from 'Can't you do anything right?' to 'These guys are terrific.'"

Mr. Stonecipher went out of his way yesterday to praise Alan Mulally, the

president and chief executive of the commercial airplanes unit, for his performance since Sept. 11, 2001. He said that Mr. Mulally and his team "have done yeoman's work" and called the commercial business "stronger than it has ever been, considering the market situation."

He also said he is looking forward to the board's expected decision later this month on whether to proceed with a program to build a proposed super-efficient jetliner, dubbed the 7E7 Dreamliner. As a board member, Mr. Stonecipher made it clear to the commercial-airplanes unit that he wouldn't be in favor of going ahead with it if the costs to develop and produce it were not substantially lower than other Boeing jets. Yesterday, Mr. Stonecipher said he was enthusiastic about the program. "Everything we have seen about it says this airplane has the potential to be a game-changer," he said.

Much of Mr. Stonecipher's attention, at least in the short run, will be on rebuilding the company's image in Washington. He has plenty of experience on this front. When he joined McDonnell Douglas in 1994, the company was teetering on the brink of bankruptcy. The Air Force yesterday issued a statement calling Mr. Stonecipher "an experienced business leader" with a "stellar reputation as an executive with high standards for performance and impeccable integrity."

Document Trouble

Boeing's ethics problems first came into public view in May when The Wall Street Journal reported that the company possessed more than 25,000 pages of Lockheed proprietary documents relating to a cutthroat competition to build the nation's next-generation rocket.

Boeing knew as far back as June 1999 that some employees on its Delta rocket team had Lockheed documents in their possession. But the company returned just seven pages at the time and then began delivering the rest piecemeal over the last four years with more than a dozen boxes showing up at Lockheed attorneys' offices this year. The Justice Department is conducting a criminal investigation into the matter and already has indicted two former Boeing managers for alleged wrongdoing. Lockheed has sued Boeing for unspecified damages, and the Air Force in July stripped nearly \$1 billion in business from Boeing and suspended the company's rocket business until it is deemed ethically compliant.

So far, the service hasn't lifted the suspension, something Air Force officials attribute in part to the continuing controversies plaguing the company.

A Pentagon inspector general is investigating whether Ms. Druyun negotiated her employment with Boeing before officially recusing herself from decisions involving the company as well as whether she unlawfully provided Boeing officials with proprietary information from rival Airbus during the competition to provide the services' next-generation air-refueling tanker. An Air Force plan to lease these aircraft became a flashpoint in the Bush administration, on Capitol Hill and within the industry.

As originally proposed, the \$21 billion lease would have been the first of its kind, costing billions of dollars more than if the aircraft were purchased outright. Under pressure from Arizona Republican Sen. John McCain and others, the plan was scaled back to \$17 billion. That deal included 20 leased airplanes and 80 purchased through traditional means.

The Air Force is now reviewing all of Boeing's contracts and contact with Ms. Druyun going back years, including the company's multiyear contract for C-17 aircraft, the brains of smart bombs, F-15 fighter-jet replacements and rocket orders, a senior Air Force official said.

Mr. Condit said yesterday the company expected no more investor-angering surprises. "I am trying to position it so this company can go forward," he said. "If there was another shoe to drop, we would just be hurting Harry's ability to do what needs to be done."

—Joann S. Lublin
 contributed to this article.

WSJ.com Journal Link: WSJ.com subscribers can see a video of outgoing CEO Phil Condit and incoming CEO Phil Condit and incoming chief Harry Stonecipher discussing changes at Boeing, at WSJ.com/JournalLinks.

Ready, Aim, Bake: Field Cooks Shoot for Honors

Continued From First Page
 book. "The overall décor should be similar to a first-class civilian ... cafeteria," the handbook states. "Too much décor is aesthetically undesirable."

On the morning of Nov. 5, the day of judging, the tables were set with plastic orange and brown checkered tablecloths, each adorned with a single plastic rose and a card listing the menu's nutritional content. Nearby, the pebbles around a hand-washing station were carefully spray painted.

Only two of the three judges showed up. The civilian judge was sick, leading nervous contestants to joke that he got an upset stomach from his last judging assignment. (It was actually a case of pneumonia.)

Two stove burners shorted out. There was a fuel spill near one of the power generators. The clean-up tent lost power. It rained.

"This is a good sign," said Sgt. Felton. "We won the last round in the middle of a rainstorm."

Her specialty is wedding cakes, but she is realistic about what defines good eats in an Army mess hall.

"Army food is made as bland as possible to appeal to everyone," she said from behind a curtain of ladles and strainers. The trick is to be generous with gravy

and other condiments, she explained.

Spc. William Quesnel carved tomato rosettes to garnish the breakfast buffet. As the clock ticked down to showtime, a sanitation officer popped in to check the temperature of the breakfast food—everything must be 140 degrees 10 minutes before serving time.

Troops lined up outside the Dragon Café, and at 7 a.m. the canvas doors rolled up. This day the bill of fare included pork sausage with gravy, creamed beef on toast, eggs, potatoes and turkey sausage. Most of the hot entrees had been precooked and reheated—a protocol known as "progressive cooking."

As the diners snaked in, one of the two Army judges walked around videotaping the scene. Army Sgt. Maj. Jimmy Cunningham, a judge, mused about the old days before precooked and processed food, saying, "We had to prepare things from scratch."

After breakfast, the judges toured the site, including the inventory tent, where quality control involves "rat and mouse traps everywhere," said Spc. Ramon Martinez.

There was no break between the breakfast and lunch rounds of the competition. Lunch was grilled steak or fried chicken, mashed potatoes, the

ubiquitous gravy (beef or chicken), corn, lettuce and tomato salad, fruit cocktail, a choice of breads, fresh fruit, milk, iced tea and coffee. For dessert, there was chocolate streusel and cappuccino.

Video camera rolling, Sgt. Maj. Cunningham surveyed the scene, then stopped and frowned. Some knives were left lying on a cutting board. Sgt. Felton scampered over and stowed them in their proper place. Cooks who can execute meals with military precision "can do anything," said the judge.

Pfc. Ronnisha Bush ladled butter-flavored oil on the lunch grill and slapped down two dozen steaks, with salt, pepper and steak seasoning. As the kitchen temperature rose, Pfc. Bush's forehead glistened and her glasses fogged. Too busy to mop up the sweat, she turned to her teammate Spc. Quesnel, who dabbed her forehead and wiped her lenses with the same delicacy he gave his tomato rosettes.

"The stellar performers go the extra distance," said the other judge, Chief Warrant Officer David Morton.

For Sgt. Hector Garcia, the team's sanitary officer, winning the title would be a lifetime achievement. "It will always be there," he said. "There's nothing more fulfilling than that."