

# THE WALL STREET JOURNAL

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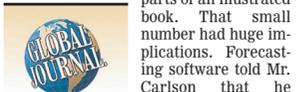
## Stocking Feat

### Technology Changes Game for Toymakers During the Holidays

#### LeapFrog Scrambles to Meet Demand With New Data, Flexible Chinese Workshop

#### Baby-Drool-Resistant Paper

Early in the morning of Monday, Aug. 11, toy executive Kevin Carlson checked his nationwide weekend sales numbers and got a surprising glimpse of Christmas future.



Stores had sold 360 of his company's LittleTouch LeapPads in the product's introductory weekend. Parents hunting for an educational toy for infants and toddlers were reaching for the new gadget, which makes noises when a child touches parts of an illustrated book.

That small number had huge implications. Forecasting software told Mr. Carlson that he would need about 700,000 units to meet projected holiday demand—twice as many as he had planned to ship.

So his company, LeapFrog Enterprises Inc., did something unusual. At a time when other toy companies were unloading their final Christmas shipments from cargo ships out of China, LeapFrog began placing what would turn into a huge new order for LeapPads. Its factory, privately held Capable Toys Ltd. of Zhongshan, China, scrambled for extra plastic molds, custom-designed electronics and scarce baby-drool-proof paper, and pumped out LeapPads around the clock.

The LeapPad's frantic race against the holiday deadline shows how technology and global supply chains are transforming a great business challenge. For years, toy makers would place their entire holiday orders in January and February, blindly betting on demand for their products. By Christmas, they'd have shortages of their hit products and huge stockpiles of their duds.

In 1983, parents camped outside stores for Cabbage Patch Dolls, followed

### Waaah!

Major toy-supply shortages in recent history

- 1983: Cabbage Patch Dolls
- 1988: Teenage Mutant Ninja Turtles
- 1989: Little Mermaid
- 1993: Mighty Morphin Power Rangers
- 1996: Tickle Me Elmo

by Teenage Mutant Ninja Turtles in 1988 and the Little Mermaid in 1989. In 1993, executives at Bandai Inc. were slow to react to the popularity of Mighty Morphin Power Rangers. Only 600,000 of an estimated demand for 12 million made it to stores by Christmas. In 1996, Tyco Toys Inc. was also caught short on Tickle Me Elmo. The company rolled out about one million units of the giggly plush toy but could have sold almost a million more.

Despite the industry's better forecasting and factory-response systems today there are still a few shortages this holiday season. Among the hard-to-find are certain items in Mattel Inc.'s Swan Lake Barbie and Bandai Ltd.'s Strawberry Shortcake lines. LeapFrog, too, it seems, could sell lots more of its newly introduced Leapster, a \$80 portable learning system that plays like a video game.

Mr. Carlson, 44 years old, is LeapFrog's director of sales and systems analysis. He worked for Mattel Inc. in the 1980s, when the biggest U.S. toy company would send staffers into stores each week

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## What's News—

Business and Finance World-Wide

**SIX FRENCH BUSINESSMEN** were indicted and billionaire Francois Pinault and three others agreed to cooperate and pay fines in exchange for criminal immunity in the Executive Life case. Credit Lyonnais's ex-chairman and the others were charged with a fraud conspiracy to hide the bank's role in the acquisition of the insurer's junk-bond portfolio. (Article on Page A3)

**Boeing could face civil damages** to cover the government's cost of switching satellite-launch providers due to Boeing's acquisition of Lockheed documents. (Article on Page A3)

**FedEx's profit tumbled 63%**, hurt by retirement and severance costs. Growth in packages shipped was lower than expected. (Article on Page A3)

**Oil and natural-gas prices** are climbing due to a strong economy and recent cold snap, raising fears inventories are too low. **Yukos confirmed** that it and Sibneft are discussing terms to unwind their \$13 billion merger. (Articles on Page B2)

**The SEC approved** governance changes at the NYSE and pledged to consider broad regulatory and market-structure changes. (Article on Page C1)

**Five new stocks hit** the market, including the U.S. portion of the \$3 billion China Life IPO and online travel concern Orbitz. **The industrials edged up** 15.70 points in a late rebound to 10145.26, another 19-month high. (Articles on Pages C1 and C5)

**The White House reached** a free-trade deal with four Central American countries, but the pact faces opposition in Congress. (Article in Column 5)

**ECB chief Trichet reaffirmed** that Europe is pursuing a strong euro, even as the currency trades at record highs against the dollar. (Article on Page C1)

**Lehman and Bear Stearns** posted strong quarterly results, boosted by bond-trading revenue. **Lehman plans to continue** outsourcing computer tasks to India despite help-desk problems. (Articles on Page A16 and C5)

**The Midwest grid operator** is taking steps to avert another blackout, including expanding the volume of data it monitors. (Article on Page A2)

**Parmalat skirted** default as investors agreed to negotiate a possible postponement of a \$400 million payment due yesterday. (Article on Page A6)

**Solutia filed** for Chapter 11, saying it is hobbled by liabilities from former parent Monsanto and by chemical-industry woes. (Article on Page B2)

**New Hampshire and other states** are trying to make it easier to buy cheap drugs from Canada. (Article on Page B1)

**Microsoft and Spitzer** are joining forces to attack spam, taking action against three companies. (Article on Page B5)

**Google has begun testing** a service that allows users to search for excerpts from books. (Article on Page B5)

**Intel plans to unveil** a chip for large-screen TVs that could make the sets more affordable. (Article on Page B5)

**Markets—**  
Stocks: NYSE vol. 1,406,166,530 shares, Nasdaq vol. 1,441,515,962. DJ industrials 10145.26, ▲ +15.70; Nasdaq composite 1921.33, ▼ -2.96; S&P 500 index 1076.48, ▲ +1.35.  
Bonds (4 p.m.): 10-yr Treasury ▲ +13/32, yld 4.180%; 30-yr Treasury ▲ +26/32, yld 5.020%.  
Dollar: 107.42 yen, -0.10; euro \$1.2403, +0.80 cent against the dollar.  
Commodities: Oil futures \$33.35 a barrel, ▲ +\$0.46; Dow Jones-AIG futures 136.791, ▲ +1.024; DJ-AIG spot 174.225, ▲ +1.303.

**U.S. TROOPS MADE** a show of heavy force against Iraq insurgents. Hundreds participated in house-to-house searches in Samarra, a town that had become a particular thorn in the Americans' side and the site of two large-scale guerrilla assaults that left dozens dead recently. A fuel truck exploded in a crash at an intersection in Baghdad, killing at least 10 Iraqis. The blast was initially reported as a suicide bombing. South Korea agreed to send 3,000 troops to Iraq in 2004. It already has 375 engineering and medical personnel there. Occupation officials are giving Iraq's oil ministry \$600 million. (Page A4)

**Baker continued his Iraq debt-relief tour of Paris Club nations**, receiving support from Italy's Berlusconi for the U.S. burden-easing proposal. (Article on Page A4)

**John Hinckley can make** unsupervised visits to his parents for the first time since being institutionalized for shooting President Reagan in 1982, a federal judge decided. The Reagan family had opposed the move. (Article on Page A4)

**The State Department urged** non-essential staff and families to leave Saudi Arabia because of a deepening but unspecified terrorism threat. Private citizens should also get out, it warned, or register with a consulate. (Article on Page A4)

**Israel's Sharon gives** a major address today expected to lay out a unilateral map to resolve territorial disputes with the Palestinians in the absence of a negotiated accord. Some settlers made plans to fight eviction. (Article on Page A4)

**Turkish officials said** interrogations of bombing suspects indicated al Qaeda turned to synagogues and British targets after a base used by the U.S. military proved too tough, and the Muslim toll upset bin Laden. **Pakistan's leader** sees al Qaeda's hand in Sunday's failed assassination bid. Aides say an electronic jammer in his car delayed a bomb detonation. (Article on Page A4)

**The last sentence was handed out** in the so-called Lackawanna Six al Qaeda case in New York. The prison terms ranged from seven to 10 years. (Article on Page A4)

**Afghan delegates began** to bicker over a new constitution, with presidential powers and a greater role for women among the sources of friction. (Article on Page A4)

**Iran, after a delay, is set** to sign today a nuclear accord allowing more frequent and intrusive inspections, the chief U.N. atomic inspector said. (Article on Page A4)

**French President Chirac** angered Muslims by calling for a law barring religious symbols like headscarves from the public schools. (Page A15)

**Former Illinois Gov. Ryan** was indicted on federal corruption charges. Word of the probe cut short a career marked by an execution moratorium. (Article on Page A4)

**Snowmobilers sought** a stay of a federal judge's decision to reject a Bush plan and curb use of the vehicles in Yellowstone and Grand Teton. (Article on Page A4)

**A federal appeals court upheld** an Ohio law barring certain late abortions with a narrow exception only when a mother's health is in danger. (Article on Page A4)

**Singapore ordered** 70 people quarantined after a recent Taiwanese visitor tested positive for SARS. A study assessed infection risks. (Page D5)

**Flu experts predict** this year's outbreak will exceed the average number of deaths of children, and in the West may be the worst since 1968-69. (Article on Page A4)

**Prostate researchers found** Pfizer's Cardura and Merck's Proscar are much more powerful in combination than when used separately. (Page D5)

**Motherhood is being put off** later by U.S. women, with average first-child age at a record 25.1 years, up from 21.4 in 1970, the CDC reported. (Article on Page A4)

**Airport security waits** are longest in Los Angeles and Miami, shortest at Chicago O'Hare, Washington Dulles and in Dallas-Fort Worth. (Page D1)

**Bush attended** ceremonies to mark the 100th anniversary of the Wright brothers' flight, but a replica flying machine failed to get off the ground. (Article on Page A4)

## Two Novice Gumshoes Charted the Capture Of Saddam Hussein

Their Mission: Make a List Of People With Links; On It Was 'The Source'

By FARNAZ FASSIHI

TIKRIT, Iraq—The capture of Saddam Hussein began with four names Maj. Stan Murphy scribbled on three pieces of paper and ripped from a small green notebook.

The 41-year-old intelligence officer with the First Brigade of the Fourth Infantry Division knew these names were just a small part of a much larger web of names and families likely to be hiding Mr. Hussein.

He handed the names to two junior U.S. military-intelligence analysts in Tikrit: Lt. Angela Santana, 31, and Cpl. Harold Engstrom, 36, both with Alpha Company, 104th Military Intelligence Battalion.

The unit's job in Tikrit was to support the Fourth Infantry Division with intelligence data, helping the troops break up the resistance cells threatening the postwar stability of Iraq—and ultimately to arrest Mr. Hussein.

The two officers say Maj. Murphy's orders to them were: "Figure it out, draw the lines, make me a chart and find every crucial person connected to Saddam."

Their first thought: "Is he joking? This is impossible. We can't even pronounce these names," says Lt. Santana.

But soon Lt. Santana, a former executive secretary in Ohio and Cpl. Engstrom, a former high-school English teacher in Phoenix, started poring over about 9,000 other names.

By mid-September, after many sleepless nights spent sifting through tens of thousands of pages of information, Lt. Santana and Cpl. Engstrom had narrowed their list to 300 names.

The two say the task of creating Mr. Hussein's Who's Who chart was beyond the scope of their training. "Completely surreal," is how Lt. Santana describes the job. "Like we are detectives suddenly."

Indeed, this was the pair's first field experience in military intelligence. Their formal training included making charts and putting together intelligence data. But making sense of complicated Arab tribal culture and Mr. Hussein's strange ties wasn't part of it.

The duo read through sheaves of interrogation reports from detainees and interviews with local Iraqis. They plumbed a huge database provided by central military intelligence, they created what they nicknamed "Mongo Link," a four-page, 46-by-42-inch color-coded chart with their 300 names on it. It was basically a family tree, with Mr. Hussein's picture at the center, and lines connecting his tribal and blood ties to the six main tribes of the Sunni triangle: the Husseins, al-Douris, Hadouthis, Masliyahs, Hassans and Harimiths. The military believed members of these clans shielded Saddam for eight months, financed the resistance, and planned assassinations and attacks against Iraqis and coalition forces.

Next to each of the names, Lt. Santana and Cpl. Engstrom scribbled down bits of information they were able to gather about individuals: their ages, home village, spouses and children, where the names came from, whether people on the list were in custody and how they got there.

Lt. Santana and Cpl. Engstrom's chart, the contents of which are classified, Please Turn to Page A6, Column 3

Harold Engstrom

Angela Santana

## Missed Connection How Two Officials Got Caught By Pentagon's Revolving Door

Amid Lease Deal, Ms. Druyun At Air Force Talked Jobs With Boeing's Mr. Sears

'Mom' Plans for Retirement

By ANNE MARIE SQUEO And J. LYNN LUNSFORD

Darleen Druyun was a hot prospect when she retired from the Department of the Air Force in November 2002.

In three decades in various acquisition roles there, the lanky, no-nonsense civilian administrator had negotiated billion-dollar weapons contracts and amassed valuable insights into Pentagon policy and the strengths and weaknesses of defense contractors. At a retirement lunch at an Italian restaurant in northern Virginia near the Pentagon, more than a hundred industry executives and government officials gathered, some anxiously scanning the room for clues as to where she might land next.

By that Nov. 21 fete, Ms. Druyun had quietly talked about job opportunities with three of the nation's largest defense contractors—Boeing Co., Lockheed Martin Corp. and Raytheon Co. Lockheed President Robert Stevens attended. So did Boeing Chief Financial Officer Michael Sears

and James Albaugh, the head of the company's space and defense businesses. When Mr. Sears sat down at Ms. Druyun's table to chat with her family, other executives in the room took note.

A year later, the winner in the race to land Ms. Druyun—Boeing—turned out to be the big loser. Actions related to Ms. Druyun's hiring in January 2003 are now the subject of Pentagon and Justice Department probes as well as Congressional scrutiny into the nation's No. 2 defense contractor. Boeing fired both Mr. Sears and Ms. Druyun for what it called "unethical" conduct in late November. Their dealings were a major factor in the resignation a week later of the company's chairman and chief executive, Phil Condit.

Talk of a job at Boeing for Ms. Druyun began as early as Sept. 3, 2002, more than two months before she recused herself from overseeing Boeing contracts, according to people familiar with the investigation. While those job negotiations were under way, she was also continuing to push a controversial \$21 billion plan to have the government lease and later buy 100 Boeing-made airplanes. Separately, Pentagon investigators are looking into whether Ms. Druyun broke the law by sharing a rival company's information with Boeing.

Federal law bars government acquisition officers from discussing jobs with outside companies unless they disqualify themselves from Boeing decisions, retires mid-month. (Please Turn to Page A14, Column 3)

## U.S. Reaches a Trade Agreement With 4 Central American Nations

By NEIL KING JR.

WASHINGTON—The Bush administration reached agreement on a free-trade deal with four Central American countries but now faces an election-year fight that could mirror the brawl in the early 1990s over opening up trade with Mexico.

Free-trade skeptics in Congress say the agreement must overcome stiff opposition amid rising anxiety in the U.S. over the flight of jobs overseas and the merits of trade liberalization.

U.S. Trade Representative Robert Zoellick, scrambling to end a year of contentious trade negotiations on a high note, said the agreement with El Salvador, Guatemala, Honduras and Nicaragua would give immediate duty-free access in the region to half of all U.S. farm exports, and more than 80% of all consumer goods.

The pact is expected to be presented to Congress for approval in the spring. In the interim, trade officials hope to wrap up agreements that would include two more nations in the deal: Costa Rica and the Dominican Republic, which is in the Caribbean. U.S. trade with all six countries last year was \$30 billion, or more than the total of goods and services traded with Russia and India combined.

All countries would then gain duty-free access to one another's markets for nearly all products over coming years.

Costa Rica, the largest economy among the Central American countries, walked out of the talks Tuesday citing what it called excessive U.S. demands for opening its telecommunications and insurance industries to foreign competi-

tion. The impasse isn't necessarily fatal to the pact, however, as Costa Rican officials said they hope to resume discussions next month. The Central American Free Trade Agreement, known as Cafta, will stir controversy in Congress because of what opponents describe as its weak provisions on labor and environmental rules, and tough patent protections that could limit access by Central Americans to important medicines. Many lawmakers also are concerned that increasing trade with Latin America could lead to

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## INSIDE TODAY'S JOURNAL

**Not Enough Craft at Kraft**  
Behind the ouster of co-CEO Betsy Holden was a stale marketing strategy. Too many Oreos, too little innovation. PAGE B1

**A Full-Time Job**  
The woman charged with finding employment for millions of Iraqis has her work cut out for her, as the jobless grow angrier. A16

**Hard Sell for Software**  
Companies that once bought applications to handle finance or human resources now often outsource the work. Some software makers are worried. TECHNOLOGY JOURNAL, B4

**Opera: It's Just Supply and Demand**  
And it's out of whack, with a dearth of great singers, a rash of slogs through "Bohème" and a lot of empty seats. PIANGI! LEISURE & ARTS, D6

**Prosperity Paradox**  
They were communists. Now they're burghers. So why doesn't Russia's new middle class vote for the fast-track capitalists? The answer will affect the nation's fate. A15

**A Budget Calculus**  
David Wessel considers whether President Bush can cut the deficit in half in five years—and how much it matters. CAPITAL, A2

Darleen Druyun's recent ties to Boeing

**Late 2001:** Ms. Druyun, a senior Air Force acquisition officer, begins negotiating controversial plan to lease Boeing jets as refueling tankers.

**Sept. 2002:** Her daughter, a Boeing employee, e-mails Boeing CFO Michael Sears about her mother's retirement and job search.

**Oct. 2002:** Ms. Druyun negotiates a NATO aircraft order that went to Boeing. Two days later, she and Mr. Sears meet to discuss employment. She agrees to sell her house to a Boeing attorney working on tanker deal.

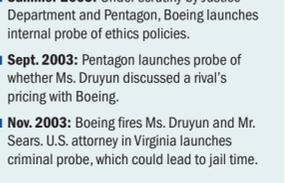
**Nov. 2002:** Ms. Druyun officially recuses herself from Boeing decisions, retires mid-month.

**Jan. 2003:** Boeing announces Ms. Druyun joined its missile-defense operation.

**Summer 2003:** Under scrutiny by Justice Department and Pentagon, Boeing launches internal probe of ethics policies.

**Sept. 2003:** Pentagon launches probe of whether Ms. Druyun discussed a rival's pricing with Boeing.

**Nov. 2003:** Boeing fires Ms. Druyun and Mr. Sears. U.S. attorney in Virginia launches criminal probe, which could lead to jail time.



U.S. exports to	Imports from
Dominican Republic	\$4.25
Costa Rica	3.12
Honduras	2.57
Guatemala	2.04
El Salvador	1.67
Nicaragua	.44

Source: U.S. Census Bureau

Total 2002 trade with the six countries that the U.S. hopes to include in a Central American free-trade deal, in billions

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## How Two Officials Got Caught by Pentagon's Revolving Door

*Continued From First Page*  
 themselves from contract decisions connected to those companies. The law also bans contractors from having job talks with an official if they know that he or she still has authority over contracts linked to them. The criminal part of the probe, which could result in jail time, centers on obstruction of justice charges related to alleged efforts in recent months by Mr. Sears and Ms. Druyun to cover up their early discussions.

Ms. Druyun's attorney didn't respond to repeated phone calls for this article. In an October interview that predated Ms. Druyun's firing, her attorney defended her career as beyond reproach. Mr. Sears's attorney also declined to comment; after the firing, Mr. Sears in a statement said he had done nothing wrong.

The ethics scandals at Boeing, the world's largest aerospace company, are sending tremors through the industry as other companies fear intensified scrutiny over the revolving door between the Pentagon and the industry. The Boeing-Druyun relationship highlights the longstanding coziness between military contractors and their No. 1 customer and major overseer: the Pentagon. In 1961, President Dwight Eisenhower warned of a military-

industrial complex and its "potential for the disastrous rise of misplaced power." In the 1980s, the military came under fire for such things as paying \$435 for hammers and sharing internal, often classified, documents with industry executives vying for Pentagon work.

Now critics say the situation is worse than ever. Post-Cold War consolidation melded dozens of smaller defense contractors into a handful of giants. As the government modernizes its armed forces, it has become increasingly reliant on contractors such as Boeing to pull together sophisticated weapons systems with products and services from different companies; military officials admit they lack the technical expertise for the job. And because weapons programs cost billions and can take a decade to come to fruition, their official overseers often find their interests closely aligned with the companies they are supposed to police.

Mr. Sears and Ms. Druyun, now both 57 years old, entered the military-procurement world around 1970. With the U.S. deep into a losing war in Vietnam and facing mounting fears about Soviet military power, the military and defense industry were under pressure to modernize. Both executives climbed the career ladder, Ms. Druyun as a civilian at the

Air Force and Mr. Sears as an avionics engineer at McDonnell Douglas Corp., later purchased by Boeing.

Throughout her career, Ms. Druyun stood out in the nearly all-male world of defense acquisition. The industry is dominated by swaggering, cigar-smoking men who are members of a secretive, all-male group of senior aerospace executives called the Conquistadores del Cielo (Conquerors of the Sky). But Ms. Druyun, with her short brown hair, navy-blue suits and plain style, had immense power over their fates. As the Air Force's senior acquisition officer, she evaluated competing bids for contracts and had great influence in deciding winners.

If Ms. Druyun saw problems in a program, she didn't mince words. If she didn't like a person assigned to work on a program under her charge, she'd pressure the company to replace him. In September 1999, when Lockheed was experiencing financial setbacks and problems managing its weapons programs, Ms. Druyun met with the then-head of Lockheed's aerospace unit, James "Mickey" Blackwell. In a memo on the meeting that turned up shortly afterward on the Internet, Mr. Blackwell wrote that Ms. Druyun said Lockheed had lost one major satellite contract because of "crappy design" and warned she better not "detect B.S." on another bid or Lockheed "would go to the bottom of the chart." Mr. Blackwell has confirmed the memo was his.

Mr. Sears, meanwhile, moved up from engineer to manager to high-level executive. A brawny man with an iron-grip handshake, he became known as someone who could size up any situation and turn it to his advantage. When McDonnell Douglas brought in Harry Stonecipher, a former General Electric Co. executive, as its CEO in 1994, Mr. Sears became his protegee and confidant, keeping his new boss informed about developments around the company, according to people who know both men.

Over the years, the paths of Mr. Sears and Ms. Druyun crossed frequently. Both worked on a program to develop the F-15 Eagle fighter jet in the 1970s. Ms. Druyun proclaimed herself "the godmother" of McDonnell Douglas's C-17 military cargo plane, whose development program she was overseeing in the late 1980s. A 1993 report released by the Pentagon named Ms. Druyun as one of five Air Force officials who secretly funneled \$500 million to a near-bankrupt McDonnell Douglas in 1990 to stave off a cash crisis; at the time, the company was behind schedule and over budget on its C-17 cargo plane. The Air Force and the company denied any wrongdoing, but then-Defense Secretary Les Aspin fired one Air Force general and disciplined two others over the matter. Ms. Druyun was later exonerated.

Ms. Druyun and Mr. Sears had something else in common. While being steadily promoted in their respective organizations, both failed to snare top spots. In 2001, Ms. Druyun was passed over for the top civilian acquisition job at the Air Force even though she had held that role in an acting capacity. For his part, Mr. Sears had been positioning himself to be Mr. Condit's successor. Despite lobbying Mr. Condit for more responsibility and building a base of allies within the company, it had become clear by this year that Mr. Sears would be unlikely to succeed Mr. Condit.

Ms. Druyun remained a high-profile champion of the defense industry during the 1990s cutbacks in military spending. In the wake of the Sept. 11 terrorist attacks and the subsequent slump in the aviation industry, Ms. Druyun became an active promoter of a plan to have the Air Force lease 100 modified Boeing jets as air-refueling tankers. Critics of the plan said it was merely a bailout for Boeing and would cost taxpayers billions more than buying the planes outright. Top Air Force officials, including Ms. Druyun, contended the tankers were urgently needed to replace an aging fleet and that leasing would get them into service sooner.

On Sept. 3, 2002, an e-mail arrived in Mr. Sears's inbox. The sender, a 26-year-old employee in Boeing's St. Louis operation named Heather McKee, wrote that "mom" was making post-retirement plans. In a tone described by people familiar with it as a "friendly heads-up," the note told Mr. Sears that the woman was negotiating with other companies but would rather "live in Chicago," where Boeing is based.

The mom was Ms. Druyun. Ms. McKee is her daughter, who started working in Boeing's human-resources department in 2000. Mr. Sears tapped out a quick response, asking her to keep him informed. Over the next six weeks, Ms. McKee and the Boeing senior executive exchanged several more e-mails.

People familiar with the company's continuing internal probe into the Druyun-Sears relationship say Ms. McKee's role is still being reviewed. The investigation is trying to determine whether Ms. Druyun used her daughter as an intermediary rather than approaching Mr. Sears directly, in an attempt to sidestep the law. The daughter's hiring by Boeing had been cleared, at Ms. Druyun's request, by Air Force ethics officials. Ms. McKee declined to comment.

On Oct. 15, Ms. Druyun wrapped up negotiations on a \$278 million NATO aircraft contract that was awarded to Boeing. Two days later, Mr. Sears and Ms. Druyun met at a restaurant in Orlando, Fla. Both were in town for a meeting of the Air Force Association, a civilian nonprofit that promotes aerospace interests. The two discussed a possible job for Ms. Druyun, according to people familiar with the investigation.

The following week, on Oct. 21, Ms. Druyun and her husband William, a mid-level manager at military contractor General Dynamics Corp., signed a contract to sell their four-bedroom house in Dunn Loring, Va., to Boeing attorney John Judy and his wife for \$692,000. They'd purchased the house 14 months earlier for \$614,523, according to real-estate records. At the time, Mr. Judy, who'd been overseeing legal aspects of the aircraft tanker lease, was relocating to Boeing's Washington office.

On Nov. 5, two months after her daughter's first e-mail to Mr. Sears, Ms. Druyun submitted a letter to the Air Force ethics office, recusing herself from further negotiations with Boeing. Pentagon and federal investigators now are examining all conversations between Ms. Druyun and Boeing during those two months as well as contract decisions dating back several years. Ms. Druyun had submitted recusal letters on Aug. 29 covering both Lockheed and Raytheon.

Five days after her retirement luncheon, on Nov. 26, Lockheed upped the ante and made her a written job offer, people familiar with the offer said. After several weeks of stalling, Ms. Druyun declined. On Jan. 3, 2003, Boeing announced that she was taking the post of deputy general manager for the company's missile-defense unit, which plays a lead role among contractors in assembling the Bush administration's national antimissile shield. By law, she couldn't work on Air Force programs for at least a year after her retirement. Her job wouldn't fall into that category because there is a separate missile-defense agency within the Pentagon.

That same day, Ms. Druyun finalized the sale of her home to her new colleague, Mr. Judy, making a 12.6% gross profit after 14 months of ownership. Both Mr. Judy and Ms. Druyun's attorney have previously said that his purchase of her home had nothing to do with their work relationship and was one of many shown to him by a real-estate agent. Asked about the house sale, an Air Force ethics officer says the service had no objection to it.

As she was settling into her new job, Ms. Druyun's new employer was coming under harsh scrutiny. In May, The Wall Street Journal disclosed Boeing was being investigated for having obtained thousands of pages of proprietary Lockheed documents during the course of a 1998 competition for a rocket contract.

In July, the Air Force stripped Boeing of \$1 billion in business after concluding that the documents had been improperly obtained. The same month, Boeing launched a sweeping internal probe of its ethics policies.

The revelations about the documents buttressed the arguments of Arizona Republican Sen. John McCain, a senior member of the Senate Armed Services Committee and the loudest detractor of Boeing's leasing deal. The number of planes to be leased has now been cut back to 20 from 100. This year, Mr. McCain has subpoenaed documents from Boeing, the Pentagon and the Air Force related to the tankers and held public hearings. The Pentagon has refused to turn over many documents related to the lease.

But Boeing turned over more than 8,000 e-mails, including many involving Ms. Druyun. Many of the e-mails, which Mr. McCain later made public, indicated that internal Air Force memos about the tanker negotiations were passed on to senior Boeing executives. One April 2002 e-mail from a Boeing executive working on the deal to a colleague said that Ms. Druyun had told Boeing executives about rival company bids. The e-mail said that Ms. Druyun had told the company "several times" that rival European Aeronautic Defense and Space Co.'s offering of Airbus planes "was \$5 million to \$17 million cheaper" per aircraft than Boeing's tanker bid.

Following the release of this e-mail, the Pentagon launched a formal probe in September to investigate whether Ms. Druyun violated federal procurement laws, which forbid the disclosure of bid data. Boeing officials have said the company didn't receive privileged data from Ms. Druyun or any other Air Force official.

Boeing has hired an outside law firm to investigate the events surrounding Ms. Druyun's hiring. The company gave the firm authority to look at e-mails and interview executives of their choosing. A Boeing spokesman declined to name the firm.

The company's investigators found Ms. Druyun had sent Mr. Sears a lengthy e-mail in July laying out a chronology of the employment courtship. An e-mailed response from Mr. Sears affirmed the sequence. The order of events differed from what investigators had found during their reconstruction of contacts between the two, according to people familiar with the contents.

On Nov. 24, a Monday morning—just over a year after the retirement lunch they had both attended—Mr. Sears and Mr. Druyun were fired when they arrived at work. Soon afterward, the U.S. attorney in northern Virginia launched a criminal probe into whether the two broke government procurement laws or obstructed justice.

Next March was the scheduled publishing date for a book of management tips by Mr. Sears, called "Soaring Through Turbulence." The book offered, among other things, advice on ethical conduct. As a leader, Mr. Sears wrote, "Your job is not only to tell people to be ethical, to take the high road, but also to tell them where the lane lines are." The book has since been pulled from release by its publisher.



Darleen Druyun



Michael Sears

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