



December 2, 2003

PAGE ONE

Boeing CEO Condit Resigns in Shake-Up At Aerospace Titan

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

By J. LYNN LUNSFORD and ANNE MARIE SQUEO
Staff Reporters of THE WALL STREET JOURNAL

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.

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 Monday 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.

See a [chronology of events](#)⁰ leading up to Mr. Condit's resignation.

CNBC DOW JONES BUSINESS VIDEO

Outgoing Boeing CEO Philip Condit says he didn't resign over ethical breaches, but says changes are needed moving forward. **Incoming CEO Harry Stonecipher** says a "temporary caretaker" can't solve Boeing's issues.

Windows Media Player Required:

HIGH bandwidth³ (DSL, Cable)

LOW bandwidth⁴ (Dial-up)




CONFERENCE CALL

Listen to Boeing's Monday [conference call](#)⁵.

TURBULENT SKIES

- [Boeing's Upside? Not Much Downside Is Left for the Shares](#)⁶
- [Aged to Perfection? More Companies Seek Older Leaders](#)⁷
- [Senators Ask for Review of Boeing Deal](#)⁸ 12/01/03
- [Pentagon Probes Boeing Pacts](#)⁹ 11/26/03
- **Page One:** [Boeing Dismisses Finance Chief](#)¹⁰ 11/25/03
- **Page One:** [Probe Finds Druyun Had Boeing Ties](#)¹¹ 10/07/03

DOW JONES REPRINTS

 This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit: www.djreprints.com. • [See a sample reprint in PDF format](#) • [Order a reprint of this article now](#).

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 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.

PHILIP CONDIT**Phil Condit**

Tokyo.

He joined Boeing in 1965 as an aerodynamics engineer on the team developing Supersonic Transport. He holds a patent for the design of a flexible wing and was closely associated with the 757 jet-development program.

He became president in 1992, chief executive in 1996 and chairman in 1997.

He has a wife, Geda, and two grown daughters.

Mr. Condit was born Aug. 2, 1941, in Berkeley Calif., and earned his pilot's license at age 18. He holds two masters degrees, one from Princeton in aeronautical engineering and the other in management from MIT, as well as a PhD in engineering from Science University of

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. Monday, 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 Monday 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.

HARRY STONECIPHER

Mr. Stonecipher was born in 1936 in Scott County, Tenn. He holds a bachelor's degree in physics from Tennessee Technological University.



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 Monday 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.

His aerospace career spans more than 47 years, including the first 27 at General Electric Corp. In 1994, he took the reins at McDonnell Douglas Corp. and served there until the firm's merger with Boeing in 1997, when he became Boeing's vice chairman and chief operating officer, working closely with Mr. Condit.

He retired from Boeing in 2002, and has served on its board for six years.

Mr. Stonecipher has a wife, Joan, two children and two grandchildren.

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 Monday 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. Monday, 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 Monday 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 Monday 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.

Write to J. Lynn Lunsford at lynn.lunsford@wsj.com¹ and Anne Marie Squeo at annemarie.squeo@wsj.com²

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.

April: E-mail exchange between two Boeing officials reveals that Pentagon official Darleen Druyun informed Boeing that rival Airbus had underbid it on a tanker contract.

September: Druyun's daughter, Heather McKee, notifies Sears via e-mail that her mother is mulling post-government jobs. Sears talks to Druyun about joining Boeing before she recuses herself from taking part in talks to build new airborne-refueling tankers.

November: Druyun recuses herself on all Boeing-related decisions.

2003

Jan. 3: Druyun begins working for Boeing, closes on deal to sell house to Boeing attorney.

May: Boeing discloses Justice Department investigation into how the company obtained sensitive Lockheed documents.

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.

September: Air Force opts to lease some tankers instead of buying them; Pentagon launches probe into Druyun, Boeing correspondence.

Nov. 24: Sears and Druyun are fired over alleged ethical breaches during contract negotiations.

Nov. 25: Pentagon probes whether Boeing dismissals will affect government dealings with the company.

Nov. 28: Sens. John McCain and Peter Fitzgerald ask Defense Secretary Donald Rumsfeld to reconsider \$17 billion tanker pact with Boeing.

Dec. 1: Condit resigns as chairman and CEO. Stonecipher takes the reins.

URL for this article:

<http://online.wsj.com/article/0,,SB10702858258635200,00.html>

Hyperlinks in this Article:

(1) <mailto:lynn.lunsford@wsj.com>

(2) <mailto:annemarie.squeo@wsj.com>

(3)

http://commerce.theplatform.com/MSNBC/December_03/120103/wsj/asx_100/120103_1210_19443.asx

(4)

http://commerce.theplatform.com/MSNBC/December_03/120103/wsj/asx_56/120103_1210_19443.asx

(5) [http://www.corporate-ir.net/ireye/ir_site.zhtml?](http://www.corporate-ir.net/ireye/ir_site.zhtml?ticker=BA&script=1010&item_id=812572)

[ticker=BA&script=1010&item_id=812572](http://www.corporate-ir.net/ireye/ir_site.zhtml?ticker=BA&script=1010&item_id=812572)

(6) <http://online.wsj.com/article/0,,SB107033548141894300,00.html>

(7) <http://online.wsj.com/article/0,,SB107033526361788700,00.html>

(8) <http://online.wsj.com/article/0,,SB107020746732953600,00.html>

(9) <http://online.wsj.com/article/0,,SB106979031833137500,00.html>

(10) <http://online.wsj.com/article/0,,SB106968087463716900,00.html>

(11) <http://online.wsj.com/article/0,,SB106548255332094600,00.html>

Updated December 2, 2003

Copyright 2003 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com.