

Global

Don't Write Off Airbus

In the epic race between Boeing and Airbus, the plane maker owned by European consortium EADS, Boeing seems to have the tailwind right now. Airbus announced in June that its new A380 superjumbo jet would be late to market. EADS stock plummeted 26 percent, and management went haywire. By early September, Airbus's CEO had bailed out, and two other top executives had been ejected. Boeing boosters crowded with glee.

But Boeing has problems of its own. The company just lost the head of its commercial airplane division, Alan Mulally, who went to bail out Ford Motor (see page 6). And fortunes can turn quickly in this business. Less than two years ago, Boeing was breathing Airbus's exhaust. The Europeans owned more than half the market and were way ahead in innovation. The Americans grouched that Airbus owed its lead to European Union subsidies. Airbus countered, accurately, that Boeing receives de facto subsidies from Washington, in the form of tax breaks and automatic contracts.

The real story is one of healthy competition between two proven contenders. Airbus's A380 represents a gamble on growing traffic between major hubs. Boeing is betting fuel efficiency with the midsize 7E7 Dreamliner, scheduled to debut in 2008. Once the two planes are in the sky, the airlines will decide who was right. May the best jet win. —JW

A Last-Minute Merger



Alcatel CEO Serge Tchuruk with Lucent CEO Patricia Russo

The nail-biting runup to the Alcatel-Lucent merger finally ended on Sept. 7. Both companies

held shareholder meetings that day, and the vote's positive outcome was uncertain until the bitter end. Many Lucent stockholders were convinced their shares would lose value if the deal went through, and two class actions to delay the vote weren't settled until the day before.

Intense opposition to the deal also came from Proxinvest, the French shareholder advisory firm, on the grounds that Alcatel overpaid for its 60 percent control in the new company. (Its U.S. counterpart, Institutional Shareholder Services, approved it.) But Alcatel CEO Serge Tchuruk prevailed. He will shell

out nearly \$11 billion.

Shareholders hate the idea so much that the stock prices of both companies have fallen since the merger announcement in April. But management is predicting cost savings of \$1.7 billion within three years.

Lucent chief Patricia Russo will be CEO of the new company; Tchuruk will become chairman. That could lead to conflicts. In the U.S., CEOs do the managing, but European board chairmen are very hands-on. The two leaders may have to get used to vast differences in management style. Stay tuned.

—By Joan Warner

Deutsche Gets a Governance Lesson

A young American money manager recently proved that in dealing with global financial institutions, the squeaky wheel gets the grease. Jonathan Bergman, chief investment officer of Palisades Hudson Asset Management, got angry when DWS Scudder, Deutsche Bank's U.S. mutual fund arm, proposed tripling fees on a fund in which Bergman had some \$30 million invested. He wrote a respectful but straightforward letter of protest to the board of trustees. The outcome? After Bergman stepped up his complaints, DWS agreed to waive the fee increase indefinitely. Bergman estimates his clients alone will save about \$50,000 a year.

DWS's board had proposed the fee increase and put it to a shareholder vote in early May. Despite Bergman's opposition, shareholders approved it by a wide majority.

So he started calling individual board members, who were mostly unresponsive. "One director in particular said 'Leave me alone,' even though he's representing me," fumes Bergman. Frustrated, he rang up Gretchen Morgenson of *The New York Times*, who wrote a prominent story commending Bergman's activism. The pressure paid off.

Calls to Deutsche Bank and DWS Scudder for comment were not returned. But in point of fact, Bergman probably did the company a favor. Managing a fund like the one his shareholders own—an equity portfolio indexed to the S&P 500—is known as "passive investing"; it takes about as much effort as falling off a bicycle. So there's little excuse for charging 0.27%, especially since index funds offered by Fidelity, Vanguard and other fund families come much

cheaper. Eventually, Bergman believes, other big investors were bound to notice and put their money elsewhere.

Why did DWS propose such a high fee, and why did shareholders accept it? About 22 percent of the fund is owned by Deutsche Bank's pension plan. No surprise there. But Charles Schwab customers account for nearly 15 percent of the fund in question, and they seemed indifferent. "The proxy book was 270 pages long," says Bergman. "You could count on one hand how many people read it."

His victory may send a signal to other mutual fund companies that their investors won't be as docile in the future as they have been in the past. At Palisades Hudson, "we're passionate about our fiduciary duty," says Bergman. Mutual fund trustees had better be, too. —JW