

Coming Tomorrow in **WEEKEND EDITION**: Italy's Greatest Tomb Raider

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Raw Deals

In Clubby Japan, A Brash Raider Takes a Big Fall

Prosecutors Suspect Mr. Horie Of Livedoor Cooked Books; 30 Acquisitions in 5 Years

Flaunting His Ferrari on TV

TOKYO—Takafumi Horie's rapid rise to fame shocked Japan, where businesses historically have been built on careful development of products and factories. The 33-year-old entrepreneur assembled a

company with a market value of \$7 billion in just 10 years through more than 30 acquisitions, in businesses ranging from Internet advertising to online dating to used cars.

"My personal assets are now equivalent to the national budget of Mongolia," he bragged in a book called "Making Money for Beginners," published in March 2005.

Split Personality

Livedoor's daily closing share price since its debut in 2000, in yen



Note: Adjusted for stock splits. Source: Thomson Datastream

Mr. Horie's ambitions may have driven him too far. Prosecutors, according to their written allegations, suspect his company, Livedoor Co., carried out accounting tricks, such as inflating earnings to boost a subsidiary's share price—the same kind of fraud that brought down WorldCom Inc. Since Jan. 23, Mr. Horie (pronounced "HO-ree-eh") has been held in a tiny cell in a Tokyo detention center.

Mr. Horie, who hasn't been charged, couldn't be reached for this article, and his lawyer, Yasuyuki Takai, wasn't available for comment. Before his arrest, Mr. Horie said on his blog that he was "not guilty of the things that I am suspected of."



Takafumi Horie

Mr. Horie personifies a style of raw capitalism that is new in Japan. The spiky-haired entrepreneur became most famous for trying to buy up established companies that never dreamed they would become takeover targets—including one of Japan's 12 professional baseball teams and the country's biggest publicly traded television station. While old-style Japanese capitalism focused on increasing corporate revenue, Mr. Horie kept his eye on increasing his company's market capitalization. His long-term ambition was for Livedoor to have the world's biggest market capitalization, he said in a book published the day before his company was raided on Jan. 16.

Many Japanese recognize that, to grow in the future, the country could benefit from an injection of this fast, rough way of doing business. During Japan's decade or so of economic slump in the 1990s and early 2000s, large, plodding corporations were criticized for

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What's News—

Business and Finance World-Wide

MAZON'S PROFIT FELL 43%, hurt by lower tax benefits than a year earlier. Revenue climbed 17% but fell short of analysts' forecasts amid increased online competition and weak international sales. The results sent the Internet retailer's shares tumbling in after-hours trading. (Article on Page A3)

U.S. retailers posted stronger-than-expected sales in January, buoyed by gift-card redemptions and unusually warm weather, but warned that growth could slow. (Article on Page A2)

AIG and Berkshire saw legal twists mount with indictments announced in Virginia and a restraining order extended in New York. (Article on Page A3)

Shell's profit fell 4.4% as big year-earlier gains and softer refining margins offset the high prices for oil and natural gas. (Article on Page A3)

Tyco said earnings slid 22%, hurt in part by problems in its health-care operations, and forecast a weak current quarter. (Article on Page A3)

The SEC will disclose hedge-fund advisers' past legal skirmishes, as well as the amount of money under management. (Article on Page C1)

The Dow industrials sagged 101.97 to 10851.98, a drop blamed on lower productivity and higher labor costs. Oil fell to \$64.68. (Article on Page C1)

U.S. productivity fell 0.6% in the fourth quarter, reflecting the economy's tepid growth rate, but rose 2.7% for the full year. (Article on Page A2)

Lay and Skilling were involved in providing false information about Enron's biggest unit and about a loss, an ex-official said. (Article on Page C3)

UBS offered \$2 billion of convertible notes in a deal expected to give Carl Icahn more influence over Time Warner's fate. (Articles on Page C4)

Matsushita posted a 38% profit increase. The company also said it will sell its remaining Universal stake to Vivendi for \$1.15 billion. (Article on Page B6)

GM plans to spend about \$15 billion on technology over five years, doling out half of that sum to a number of IT suppliers. (Article on Page A2)

Google's earnings shortfall may not have been as attributable to a higher tax rate as the search-engine company claimed. (Article on Page C3)

Loral chose Michael Targoff to succeed Bernard Schwartz as CEO and also named Mark Ratchesky nonexecutive chairman. (Article on Page B7)

The U.S. surveillance program for mad-cow disease may be unable to accurately determine its prevalence, investigators said. (Article on Page A10)

ConAgra plans to sell much of its refrigerated-meats business as it seeks to streamline its portfolio. (Article on Page A11)

—Markets—

Stocks: NYSE vol. 1,897,989,480 shares, Nasdaq vol. 2,225,220,683. DJ Industrials 10851.98, ▼ -101.97; Nasdaq composite 2281.57, ▼ -28.99; S&P 500 index 1270.84, ▼ -11.62. Bonds (4 p.m.): 10-yr Treasury unch, yld 4.565%; 30-yr Treasury ▲ +7/32, yld 4.698%. Dollar: 118.50 yen, +0.48; euro \$1.2098, +0.37 cent against the dollar. Commodities: Oil futures \$64.68 a barrel, ▼ -\$1.88; Gold (Comex) \$572.50 per troy ounce, ▲ +3.10; DJ-AIG Commodity 170.830, ▼ -0.579.

HOUSE REPUBLICANS PICKED Boehner over Blunt for DeLay's job; Bush set huge new military outlays. Reflecting a yearning to put lobbying scandals to rest, the Republican caucus veered away from a majority-leader candidate closely linked to the sharp-elbowed Texan. But Democrats say Boehner is no champion of tough ethics reforms. Meanwhile, Bush told Congress he'll seek \$120 billion more in war funds, putting the emergency-request total at \$440 billion since 2001, as well as a \$439.3 billion Pentagon budget 5% bigger than this year and heavy on new weapons spending. The president also asks \$18 billion more in off-budget hurricane aid. The Senate, 66-31, passed a \$70 billion tax-cut bill. Republicans hope to extend investor relief in conference talks. (Column 6)

Medicare's chief slashed projections of drug-benefit costs, crediting competition among insurers, but senators said seniors report myriad problems. Republicans blocked a sign-up deadline extension. Budget cuts will mean higher out-of-pocket costs for 13 million Medicaid patients, the CBO said.

Hussein's trial sputtered to a new halt amid the ex-dictator's boycott of the chief judge, resuming on Feb. 13. U.S. officials sought to spur talks on forming a government. Attacks killed at least 11 Iraqis and five U.S. troops.

The U.S. atomic agency convened to weigh referral of Iran to the Security Council as Tehran threatened retaliation. The U.S. has the option of airstrikes, but has to factor in reprisals in Iraq and elsewhere. (Page A4)

The Palestinian Authority deferred employee salaries amid a budget crisis set to deepen following the Hamas victory. Israel said it is considering evicting two more illegal West Bank settlements before March 28 elections.

Al Qaeda remains top terror threat, followed by Iran and North Korea, intelligence czar Negroponte told Congress. CIA chief Goss wants a grand jury to subpoena reporters to find out who leaked word of Bush's wiretaps.

Greece said dozens of phones were tapped before the 2004 Olympics, including the premier's and U.S. Embassy's, but doesn't know who ordered it.

Three Afghan soldiers were killed along with two others when a suicide bomber shrouded under a woman's burqa blew up at an army checkpoint.

EU nations face Muslim ire, reminiscent of that aroused by reports of U.S. Quran desecration, over Danish caricatures of Muhammad. (Page A6)

France expelled a Malian youth for involvement in last year's rioting, its first such action. Six other foreigners are due to follow in quick order.

The U.S. and South Korea plan to seek lifting of trade barriers in negotiations expected to take a year. It would be the largest deal since Nafta.

Venezuela's Chávez ordered the expulsion of the U.S. naval attaché, accused of giving the Pentagon secrets from disgruntled Venezuelan officers.

Serbia's military admitted that it has helped hide Bosnian war-crimes fugitive Mladic in the past, but claims that it doesn't know where he is now.

The Supreme Court appears set to rule on procedures to challenge lethal injection as cruel and unusual, staying three executions in the past week.

A judge refused immunity for ex-EPA chief Whitman from a Sept. 11 toxic-exposure suit, blasting her assurances that New York air was safe.

An oil tanker broke free of moorings during loading at Alaska's Cook Inlet, spilling some oil before grounding. Tanks aren't believed breached.

Tornadoes struck Katrina-damaged parts of New Orleans, adding to the toll of destruction but injuring no one in the largely empty neighborhoods.

The Treasury is switching to white envelopes from the familiar brown to aid mail-sorting. Affected are Social Security, tax-refund and other checks.

—Online Today—
WSJ.com/OnlineToday

Trading Shots: NYSE chief John Thain is flirting with expanding trading hours—and making some traders pretty grumpy in the process. Medicare Diary: A Wisconsin senator, concerned about glitches, is holding off on enrolling in the new drug benefit. The Expat Life: How a die-hard Steelers fan, 6,800 miles from Pittsburgh, makes it through the playoffs.

Elephant in the Room

Budget Wish Lists Come and Go, But 'Entitlements' Outweigh All

They Cost \$3 Billion a Day, Rise 8% a Year, Leave Bush Little Room to Maneuver

Coming Soon: Baby Boomers

By JACKIE CALMES

President Bush on Monday will tell the nation what he wants done with the budget next fiscal year. But the significance of his proposals and Congress's response is dwarfed by one daunting fact: Some 84 cents of every dollar the government spends is essentially committed before he and the legislators even have at it.

That is the amount that goes to three all-but-untouchable elements: interest on the federal debt; defense and homeland security; and, above all, "entitlements" programs such as Medicare, Medicaid and Social Security.

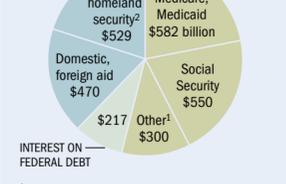
It leaves just one-sixth of spending for nearly everything else the government does domestically, from secretaries' salaries to research—what is known in budget jargon as "discretionary" spending.

Entitlements are the real elephant in the room. Formulas for spending on these social programs are set by law. Anyone eligible can collect. And the programs are growing far faster than either

Money Breakdown

Estimated federal outlays, fiscal 2006

ANNUALLY APPROPRIATED: \$999 billion ENTITLEMENTS: \$1.432 trillion



¹Includes federal employee pensions, farm subsidies, various benefits for low-income people, etc. ²Excludes supplemental funding for Iraq, Afghanistan

Source: Congressional Budget Office

inflation or the economy, some 8% a year.

Medicare, at \$391 billion this year, is close to equaling the entire discretionary slice of the budget. Add in Social Security and the federal share of the state-run Medicaid program for the poor, and the big-three entitlements total \$1.1 trillion for this year—\$3 billion a day. This spending is the big issue in the federal budget, not post-Katrina rebuilding, headline-grabbing pork like Alaska's ridiculed bridge to nowhere, or even the costly war in Iraq.

"The 2005 Pig Book" put out by the conservative Citizens Against Government Waste identified 13,997 earmarked projects costing \$27.3 billion. Yet even if Congress repealed every one of them, it would cut just 1/100th of the budget. Meanwhile, spending on the three main entitlement programs is set to rise \$93 billion in the coming fiscal year.

Similarly, Mr. Bush said in his State of the Union speech Tuesday he has identified 140 programs to cut or end. "We will save the American taxpayer another \$14 billion next year," he said. He got applause, but that is 0.005% of the budget.

With so little maneuvering room, Mr. Bush, to hold down deficits, sometimes has to rob from his own domestic initiatives to fund others. In education, he now espouses new college grants for low-income math and science students, but he hasn't pushed for increased Pell grants for poor students, as he campaigned to do. And the government has less fiscal flexibility to respond to disasters like Katrina: To help pay for hurricane aid last fall, Congress cut both domestic and defense funding 1% across the board.

To trim spending in the fiscal year ending Sept. 30, Mr. Bush and Congress essentially froze discretionary domestic programs, according to figures from the Congressional Budget Office and the liberal Center on Budget and Policy Priorities. And that doesn't account for inflation or population growth. For next fiscal year, Mr. Bush again wants to reduce such funding below a nominal freeze that doesn't allow for inflation.

The president addressed entitlements in his State of the Union speech by calling for a bipartisan commission to offer solutions. "The rising cost of entitlements is a problem that is not going away," he said. But skeptics abound in both parties. What is missing, they say, is political will and trust. Even some supporters predict Mr. Bush will end up doing what he has vowed in nearly every stump speech that he won't: Leave these problems to a future president and Congress. In that course, he would follow President Clinton, who also hoped to shore up the popular programs but who was thwarted by political paralysis.

"This will not get done in this president's term," predicts Republican Rep. Jim Kolbe of Arizona, a longtime advocate of entitlements reform. Yet presidential leadership is essential, he adds, because "Congress is never going to be willing to deal with this, because the members are always up for re-election, every two years" in the case of the House.

Few dispute the staggering dimensions of the problem. Mr. Bush and analysts in and out of government use the same word to describe the fiscal trend: unsustainable.

Social Security spending now equals

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Some Stylish Advice For Crashers: Beware The Fashion Police

As Elite Flock to the Runways, Mr. Yorio Keeps Tabs; An 'Editor' Not in Vogue

By ELLEN BYRON

Ty Yorio has heard plenty of excuses from people trying to sneak into fashion shows, but he calls the most common one "The Doubleheader."

"It's my favorite line, and it never works," says Mr. Yorio, whose company has handled security for New York's Fashion Week since 1993. "It goes: 'I'm with her, she's with me—don't you know who I am?'"

Mr. Yorio's Citadel Security Agency Inc. oversees security for prestigious antique shows, celebrity-filled galas and sensitive political meetings. Most of these assignments come with predictable headaches, including aggressive crowds, difficult celebrities and hard-to-secure entrances.

Then there is Fashion Week, which kicks off today. For eight days and nights, the semiannual whirl of runway shows and parties is the hottest, celebrity-packed event in New York, with no tickets for sale. Only those with invitations, such as retail buyers, fashion press, celebrities and socialites, are ushered into the billowing vinyl tents erected in Manhattan's Bryant Park.

Each day, 15,000 people come to see and be seen. They flow through the space, as do millions of dollars of jewelry, clothing and furs—creating both security and diplomatic challenges for Mr. Yorio. There are movie stars to protect, pushy guests to resist, eccentric designers to manage and giant egos to massage.

"This is an industry where everyone thinks they're a VIP," says Fern Mallis, executive director of 7th on Sixth, the group that organizes the shows at Bryant Park. "And Ty Yorio is the nexus of

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Ty Yorio

INSIDE TODAY'S JOURNAL

Here's the Skinny On a Comeback
Designers revive '80s-style leggings in hopes that women will fall for a "mushroom" silhouette—fuller top, slim bottom. PAGE B1

Nationalism in the Pipeline?
Some foreign investors shiver as Andrés Soliz takes charge of Bolivia's energy portfolio. A10

► Tomorrow in WEEKEND EDITION: MONEY & INVESTING
New tools for deciphering mortgage jargon • The latest on 'conflict' diamonds

A Call to Action
Though Iran may be referred to the U.N. Security Council, the world isn't taking Tehran's nuclear threat seriously. REVIEW & OUTLOOK, A12

Cash Rich and Ready to Enlist
As Mittal's \$23.7 billion takeover battle for Arcelor turns ugly, an army of willing hedge funds are sitting on the sidelines. C1



Boehner Elected Majority Leader By Republicans

Choice Reflects Party's Hope Of Setting a New Direction; A Come-From-Behind Win

By DAVID ROGERS AND BRODY MULLINS

WASHINGTON—Looking for a fresh face and renewed energy, House Republicans tapped Ohio Rep. John Boehner to take them into the November elections as majority leader, the post vacated by Texas Rep. Tom DeLay.

Mr. Boehner's come-from-behind victory over Majority Whip Roy Blunt reflects Republicans' desire for change at a time when public unease has eroded poll ratings for President Bush's party. Mr. Blunt was the early front-runner but couldn't overcome his association with Mr. DeLay's reign, marked by scandal in the House.

The shift in leadership installs a tanned, telegenic Midwesterner as second-ranking House Republican in place of his sharp-edged Texan predecessor. As majority leader, he will serve as both spokesman for the party and as coordinator of the flow of legislation on the House floor. But substitutively, Mr. Boehner's election doesn't herald any sharp ideological departure in a caucus dominated by conservatives.

Rep. John Shadegg of Arizona, the dark-horse contender most identified with shaking things up, dropped out after finishing third in initial balloting. Yet Mr. Boehner (pronounced BAY-ner), a one-time small-business man who has eschewed the congressional race to the pork barrel, does advocate strict new limits on lawmakers designating, or "earmarking," billions of dollars for home-state projects written into annual spending bills.

In the near term, the end of the race may accelerate action on legislation to shore up corporate pensions that has been stalled in negotiations to resolve differences between the House and Senate versions. Mr. Boehner has been a key player on the issue as chairman of the Committee on Education and the Workforce.

On that panel, Mr. Boehner has shown the ability to work with Democrats that a politically weakened Mr. Bush called for in his State of the Union address this week. "I've worked with John, and he doesn't always say no," said Sen. Edward Kennedy (D., Mass.). Rep. George Miller, the ranking Democrat on the Education Committee, is the top adviser to House Democratic Leader Nancy Pelosi of California. "We understand each other, and we trust each other," Mr. Boehner said of Mr. Miller.

Yet Democrats seeking to ride ethics issues to victory in the November election blasted the elevation of Mr. Boehner, a skeptic of the need for new rules limiting interaction with lobbyists. "This is a vote for the special interests and the status quo—when what the American people want is change," said Rep. Rahm Emanuel of Illinois, chairman of the House Democrats' campaign arm.

According to Public Citizen, a liberal public-interest group, Mr. Boehner has accepted \$150,000 in free trips from the private sector since 2000, more than all but six other members of Congress. At the same time, two dozen of his former staffers have spun through Washington's revolving door to become lobbyists.

Mr. Blunt, a Missouri conservative who became acting majority leader after Mr. DeLay stepped aside in September, led with 110 votes on the first ballot—just six short of victory and well-ahead of Mr. Boehner, with 79 votes, and Mr. Shadegg, with 40. When Mr. Shadegg withdrew, the picture changed markedly, and as Mr. Blunt's support wavered at 109, Mr. Boehner jumped ahead with 122 votes.

The outcome reflects a hunger for new

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John Boehner

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