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Chester Higgins Jr./The New York Times

Behind the Breakup Of the Kings of Tort

Fighting Fraud, and Now Each Other

By TIMOTHY L. O'BRIEN

FROM a snug study in his home in an affluent San Diego suburb, William S. Lerach can gaze past documents piled on his desk into an airy hallway and living room adorned with expensive, carefully selected African masks and statuettes. The study, filled with nonfiction books, reference works, videos and photographs, has the feeling of a cocoon, a refuge where a busy lawyer comes to gather his thoughts.

But one wall is dominated by a large, framed illustration that is anything but serene. A gift from a friend, it depicts Mr. Lerach wrestling with his former law partner, Melvyn I. Weiss. The two are caricatured like bulls in profile, their heads bent toward each other, small lightning bolts filling the air around them.

Although the illustration begs for comment, Mr. Lerach offers none, other than to shake his head and smile slightly. Yet it is a measure of the significance of his relationship with Mr. Weiss, a man he describes as his mentor, that he chose to hang the work in this most private of spaces.

When told later of the illustration, Mr. Weiss paused momentarily in his office atop One Penn Plaza in Midtown Manhattan, with a view of the Empire State Building and the East River. "I'd rather have Picassos on my wall," he said, smiling subversively.

For almost three decades, the law firm of Milberg, Weiss, Bershad, Hynes & Lerach, as it was known before Mr. Lerach and Mr. Weiss parted ways acrimoniously in May, towered like no other over the combative business of suing corporations — from Enron to Adelphia — or their advisers for fraud. Over the years, the firm's lawyers, ultimately numbering about 225, held an array of publicly traded companies in their sights, winning increasingly large court settlements as the legal system tried to keep pace with the elusive, complex world of white-collar crime.

Milberg, Weiss's practice grew in tandem with securities laws that evolved to rein in corporate malfeasance, but the firm also be-

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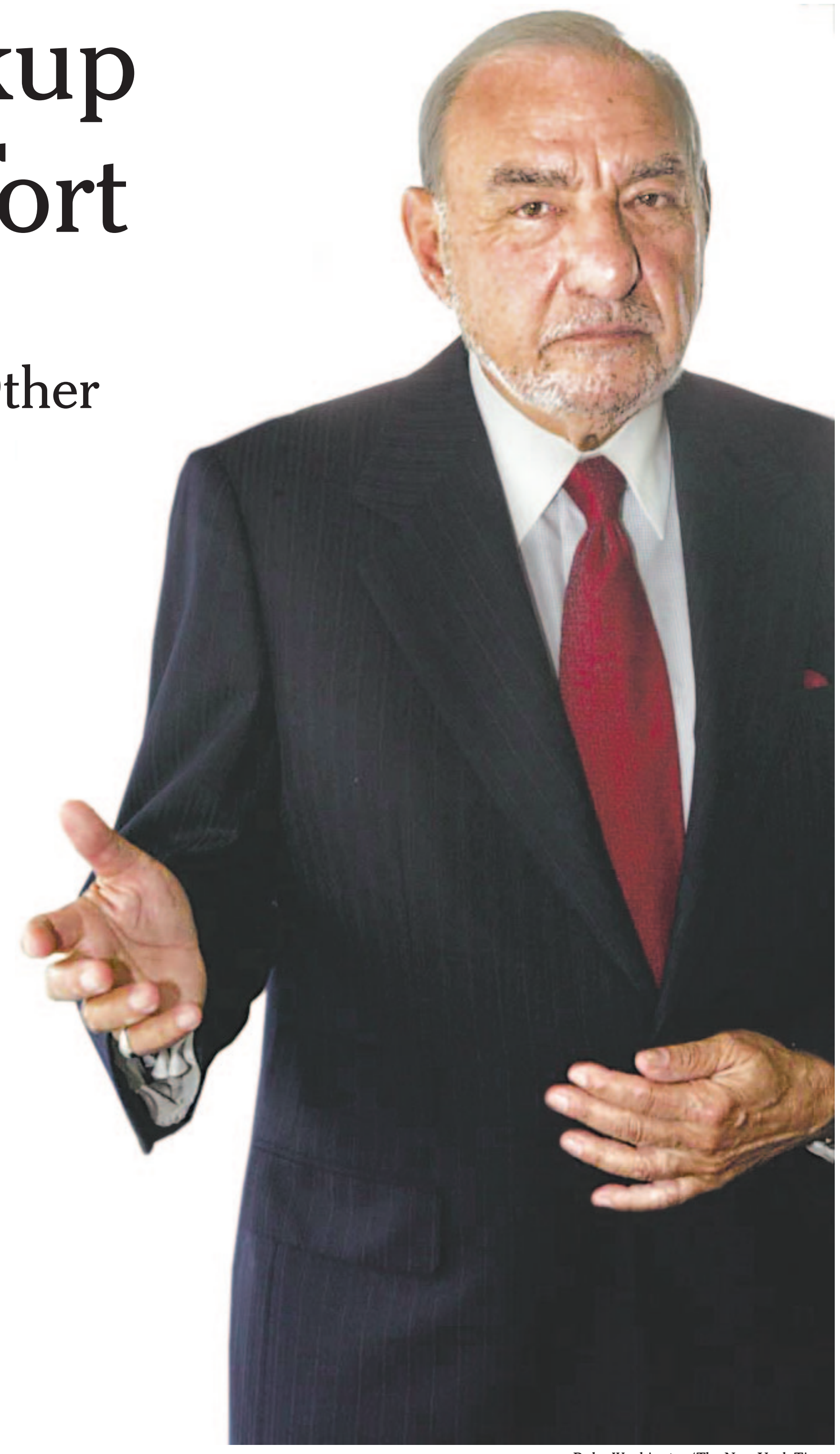
William Lerach, left, and Melvyn Weiss were a powerful team until a dispute sundered their law firm and their relationship.



Ruby Washington/The New York Times

Associated Press

The firm was involved in a damage suit after the Exxon Valdez oil spill. A $5 billion verdict against Exxon is on appeal.

Getty Images

Milberg, Weiss filed some of the cases that became part of a multibillion-dollar settlement with the tobacco industry.

Reuters

In the Enron shareholder suit, the firm won the coveted and potentially lucrative post of lead counsel for plaintiffs.

Associated Press

A recent suit filed against Krispy Kreme says it projected growth even though low-carb diets were cutting into sales.

Associated Press

A lawsuit against Parmalat, the Italian food giant, contends that it overstated profits and assets for a decade or more.

INSIDE

GRETCHEN MORGENSON

That High-Tech Balloon Is Going SSSSSSSSSSSSSSs

THE warnings from technology companies came fast and furious last week, cuffing investors who had bought their shares on hopes of super earnings generated in a hot economy. Individual investors and hedge funds alike had piled into tech stocks and enjoyed the ride through 2003, convinced that 2004 results would justify the shares' soaring prices.

But with software companies like **Siebel Systems** and **Veritas Software**, hardware companies like **Unisys** and computer resellers like the **CDW** Corporation and **Ingram Micro** Inc. cautioning that their businesses softened in the second quarter, the sound of air escaping a balloon is more than detectable.

Inquiring investors want to know: Is this a blip, or is the second-quarter slowdown the beginning of a longer-term malaise in tech?

Fred Hickey, editor of The High-Tech Strategist in Nashua, N.H., and a technology stock analyst who knows the industry down to its nittiest and grittiest, says the setbacks in the sector are just beginning.

Investors may have been lulled into thinking that the second-quarter results at tech companies would be sunny because reports of shortfalls had been relatively rare.

Companies typically alert investors to problems late in a quarter, but by June 30, that front was quiet. "Normally the third month in a quarter belongs to the confessors," Mr. Hickey said. But at the end of June, he added "there were more positive preannouncements than negative."

Nevertheless, two signs point to problems ahead for technology stocks, he said. First, semiconductor shares, which often lead the action in tech stocks, have gone into a nose dive. The semiconductor stock index, known as the SOX, is down 11.2 percent this year, and spot prices of computer chips are forecasting further declines.

But the biggest trouble spots on Mr. Hickey's horizon are the ballooning inventories on tech companies' balance sheets. Already rising in the first quarter, these inventories will probably show a surge for the second

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Get Out the Glue for a New Business Model

The Reinvention Of Airlines, Part 2

By MICHELINE MAYNARD

Naum Kazhdan/The New York Times

BOB DYLAN once warned that "as the present now will later be past, the order is rapidly fading." He meant the political establishment four decades ago, of course, but his words also apply to the airline industry today.

In a year when beleaguered carriers hoped they would bounce back into prosperity after a deep slump brought on by the Sept. 11 attacks, they are instead facing a market that may have changed more fundamentally than at any time since the industry was deregulated in 1978. As a result, even the biggest companies may have to remake themselves radically, quickly and permanently, or face extinction.

The predominant business model since deregulation — based on wide availability of service, supported by customers willing to pay a premium for convenience — is being buried by low-fare airlines that pick and choose their destinations and continually pare costs and ticket prices.

"This industry is transforming itself in front of our very eyes," said Patricia A. Friend, president of the Association of Flight Attendants, which represents 100,000 workers at several airlines. The changes being forced on the industry today are as far-reaching as those unleashed when President Jimmy Carter pushed through deregulation a generation ago, she said, adding, "This is Round 2."

Some executives say that if airlines simply trim costs, they can withstand the onslaught as they did in previous slumps. But others say that the industry cannot just shrink this time, and that it must reshape itself, abandoning assumptions about consumers and labor contracts.

For example, the hub-and-spoke system, which funnels passengers from smaller cities to major ones, was embraced by most big airlines after deregulation. It may be on the endangered-species list, though, at least as the primary means of moving people around the country. And, analysts and executives say, airlines are likely to evolve from one-size-fits-all megacompanies into more specialized players that carefully aim at specific niches — international business travelers, for example, or Florida vacation bargain hunters.

All the business models now being tested, however, share one assumption: lower fares. As a result, all employees, from the pilots to the people who clean the

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