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World-Wide

U.S. and European banks face the challenge of paying off floating-rate notes coming due at a time when lenders are struggling to raise fresh funds. Some \$95 billion in these securities are expected to mature next month. **Page 1**

■ **The euro and pound** are falling against the dollar as the economic picture in Europe darkens amid a slowdown. **Page 1**

■ **Fed officials didn't believe** the key U.S. interest rate was too low at their August meeting, despite inflation worries, given credit conditions. **Page 2**

■ **Housing data and oil prices** kept U.S. stocks in check. In Europe, tech-sector shares gained as the euro weakened. **Page 18**

■ **Investors sold** Russian equities and the ruble as Moscow recognized Georgia's regions of South Ossetia and Abkhazia as independent. **Page 17**

■ **Shares of Fannie Mae** and Freddie Mac rose as the ailing mortgage companies took steps to conserve capital. **Page 17**

■ **ConocoPhillips expects** to sell its roughly 600 company-owned gasoline stations to PetroSun West. **Page 5**

■ **ONGC agreed to buy** Imperial Energy for \$2.59 billion to boost access to oil for India's growing economy. **Page 6**

■ **Temasek voiced support** for Thain's stewardship of Merrill Lynch as the investment fund seeks to raise its stake in Merrill to as high as 14%. **Page 19**

■ **Rio Tinto's net doubled** in the first half, with the miner saying it should resist a takeover by BHP or hold out for more money. **Page 6**

■ **Italy's prime minister** is weighing changes to bankruptcy law as part of the latest rescue plan for Alitalia. **Page 5**

■ **U.S. regulators increased** the number of struggling banks they have effectively put on probation, forcing them to fix their problems. **Page 5**

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11412.87	+26.62	+0.23
Nasdaq	2361.97	-3.62	-0.15
DJ Stoxx 600	282.74	+0.59	+0.21
FTSE 100	5470.7	-34.9	-0.63
DAX	6340.52	+43.57	+0.69
CAC 40	4368.55	+12.68	+0.29
Euro	\$1.4651	-0.0131	-0.89
Nymex crude	\$116.27	+1.16	+1.01

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Russia recognized the independence of two separatist regions of Georgia, brushing off Western denunciations of a move that effectively breaks up a U.S. ally. Bush said Moscow should reconsider its "irresponsible decision," while Merkel called the act "absolutely unacceptable." **Page 1**

■ **A U.S. diplomat escaped** unhurt after gunmen attacked her vehicle in northwest Pakistan, a day after the government banned an Islamist militant group. **Page 3**

■ **North Korea said** it may reverse steps taken to end its nuclear-weapons pursuit, due to anger the U.S. hasn't removed it from a terrorism blacklist. **Page 3**

■ **Obama's wife** and Sen. Ted Kennedy headlined the Democratic convention's opening, with Michelle Obama seeking to humanize a couple some fear may seem distant. **Pages 9, 10, 14**

■ **The U.N. said** it found evidence that coalition and Afghan forces killed 90 civilians in airstrikes in western Afghanistan last week.

■ **Malaysian opposition leader** Anwar scored a decisive by-election victory that enables him to seek the premiership. **Page 3**

■ **A suicide bomber** blew himself up in Iraq's Diyala province, killing at least 25 people. A roadside bomb killed five people.

■ **Rice urged** Israel to stop expanding settlements on disputed territory but held out hope a peace accord with Palestinians can be reached this year.

■ **A Ryanair jet** made an emergency landing in France after losing cabin pressure and descending 8,000 meters rapidly, with 26 people hospitalized. **Page 4**

■ **A Sudanese aircraft** carrying about 100 people was hijacked on a flight from the Darfur region and landed in Libya.

■ **Zimbabwe opposition** legislators heckled Mugabe and questioned his right to preside over Parliament's opening.

■ **Thai Prime Minister Samak** warned thousands of demonstrators attempting to overthrow his government to disperse or face a crackdown. **Page 8**

■ **At least eight people** were killed when Christians clashed with Hindu mobs attacking churches in eastern India.

EDITORIAL & OPINION

No comparison
Russia has it wrong in saying Kosovo set a precedent for two Georgian regions. **Page 11**

Russia flexes muscles, recognizing separatists

Moscow dismisses West's objections; Ossetian protector

BY ALAN CULLISON
AND ANDREW OSBORN

TSKHINVALI, Georgia—Russia defied the West by recognizing the independence of two separatist regions of Georgia, a move that effectively breaks up a U.S. ally.

In brushing off Western denunciations, Moscow demonstrated not just its resurgence, but also a self-confidence in its centuries-old role of expansion along its southern borders, where since czarist times it has successfully manipulated language, ethnic rivalries and history to offset its enemies.

In the West, the move set off a string of denunciations and warnings that relations are now the chilliest since the Cold War. In Moscow, officials prepared for the outrage to blow over.

"We're not scared of anything, including the prospect of a Cold War, but of course don't want it," President Dmitry Medvedev said on the Kremlin-sponsored television net-
Please turn to page 8



South Ossetian separatist fighters in Tskhinvali celebrate Russia's recognition of the Georgian region's independence Tuesday.

New bank debts threaten to extend credit crunch

BY CARRICK MOLLENKAMP

LONDON—U.S. and European banks, already burdened by losses and concerns about their financial health, face a new challenge in coming months: how to pay off hundreds of billions of dollars they borrowed before the credit crunch hit.

At issue are so-called floating-rate notes—securities used heavily by banks in 2006 to borrow money. A big chunk of those notes, which typically mature in two years, will come due over the next year or so, at a time when banks are struggling to raise new funds. That is forcing banks to sell assets, compete heavily for deposits and issue expensive new debt.

The crunch will begin next month, when some \$95 billion in floating-rate notes mature. J.P. Mor-

gan Chase & Co. analyst Alex Roever estimates that financial institutions will have to pay off at least \$787 billion in floating-rate notes and other medium-term obligations before the end of 2009. That is about 43% more than they had to redeem in the previous 16 months.

The problem highlights how the pain of the credit crunch, now entering its second year, won't end soon for banks or the broader economy. As banks scramble to pay the notes, they could see profit margins shrink as wary investors demand higher interest rates for new borrowings. They are also likely to become less willing to make new loans to consumers and companies, aggravating economic downturns in both the U.S. and Europe. "It's going to be a bigger problem now than it was in
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Euro, pound reversing roles with dollar

As the economic picture in Europe darkens, the U.S. dollar is proving to be the main beneficiary.

A surprisingly weak reading on a key measure of business confidence

By Joanna Slater in New York
and Neil Shah in London

in Germany sent the euro skidding to a six-month low against the dollar Tuesday before it recovered slightly. The British pound, meanwhile, dropped to its weakest point against the U.S. currency in two years.

Analysts say the path ahead for both currencies is likely down as investors adjust to a world where major economies outside the U.S. experience a sharper-than-expected slowdown and might even tip into recession.

That shift has been a boon to the dollar, which has gained about 8% versus the euro, 9% versus the pound, and 5% versus the Japanese yen since mid-July. Tuesday afternoon in New York, one euro fetched \$1.462 and one pound bought \$1.837. The dollar traded at 109.64 yen. In the U.K., falling housing prices, high levels of borrowing and a troubled financial sector mirror
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LEADING THE NEWS

German economy teeters as confidence plunges

Business, consumers show gloom, raising new recession worries

BY NINA KOEPPEN AND ROMAN KESSLER

FRANKFURT—German business and consumer confidence plunged in August, reinforcing fears that Europe's biggest economy has stalled and might already be in a recession.

A monthly survey of German companies by the Ifo economics institute, released Tuesday, showed the gloomiest business outlook in three years. A separate consumer survey by the GfK market-research group showed confidence at a five-year low.

The closely watched Ifo business-climate index for August fell to 94.8 from 97.5 in July, well below economists' forecasts of 97.1. GfK's forward-looking consumer-climate index fell to 1.5 points for September from a revised 1.9 points in August. That was also weaker than expected, reflecting household caution amid high energy prices, tight credit conditions and growing job fears.

The brace of data cast new doubt on economic growth in the second half, increasing the chance that the German economy could contract for the second consecutive quarter in the current period, meeting a common definition of a technical recession.

The German government confirmed Tuesday that the economy contracted 0.5% in the second quarter, when compared with the first three months of 2008, owing to weak household spending and cutbacks in construction activity.

"The probability that we are sliding into a technical recession is now a high 70%," said Andreas Rees, UniCredit SpA's chief German economist.



Stock prices fell across much of Europe on news that the region's locomotive economy was losing steam. But government bonds in Germany and elsewhere in the euro zone got a fillip as markets speculated that the European Central Bank could cut interest rates early next year should these trends continue.

"The German economy is further descending into the maelstrom of economic troubles," said Carsten Brzeski, an economist at ING Bank. ECB staff could cut the euro zone's growth outlook significantly in their next economic projections, due in September, Mr. Brzeski said.

The GfK report on deteriorating consumer sentiment disappointed hopes that German households would step in and support the economy, as exports and industrial spending weaken.

Producers of consumer goods and services already face the possibility of bleak Christmas shopping season.

"Retailers currently have little reason to be euphoric. High oil and gas prices are massively sucking off purchasing power that is flowing out of the economy," said Herbert Kaempfer, a spokesman for the retailers' association in central Germany.

Fed officials said rates not too low

ASSOCIATED PRESS

WASHINGTON—Even as they grappled with inflation worries, most U.S. Federal Reserve officials at their August meeting didn't believe the central bank's key interest rate was too low given tighter credit conditions straining consumers and businesses.

Documents released Tuesday provided insight into the Fed's thinking at the Aug. 5 meeting, when policy makers decided to hold the central bank's key rate steady at 2% for the second straight meeting. Confronted by problems at every turn—rising unemployment, shaky growth, credit troubles and creeping inflation—the Fed took a gamble that once again the best move was none at all.

"Most members did not see the current stance of policy as particularly accommodative, given that many households and businesses were facing elevated borrowing costs and reduced credit availability" due to fallout from financial-market strains and economic problems, the Fed's minutes stated.

But looking ahead, the next direction for rates is probably up, according to the documents. "Although members generally anticipated that the next policy move would likely be a tightening," the timing was far from clear and depended on incoming barometers on economic growth and inflation. Many economists don't believe

at this level, a four-year low, could aggravate inflation down the road.

At the August meeting, one Fed member—Richard Fisher, president of the Federal Reserve Bank of Dallas—wanted to raise rates.

Mr. Fisher favored an increase "to help restrain inflation and inflation expectations, which were at risk of drifting higher," the minutes said. Even though financial markets remained fragile and economic growth could weaken further, Mr. Fisher "saw a greater risk to the economy from upward pressures on inflation."

But other Fed members generally anticipated that inflation would calm down, although they acknowledged there were risks to the outlook.

That is consistent with the message delivered by Mr. Bernanke last week. The Fed chief welcomed the recent price drops for oil and other commodities and said he believes inflation will moderate this year and next. However, he also warned that the inflation outlook remains highly uncertain.

The next direction for U.S. rates is probably up, but timing is unclear.

the Fed will start to push up rates until next year.

Speaking last week at a high-profile economic conference in Jackson Hole, Wyo., Fed Chairman Ben Bernanke signaled that rates would likely stay at 2% at the Fed's next meeting, on Sept. 16, and probably through the rest of this year. Some fear that keeping rates

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CORRECTIONS & AMPLIFICATIONS

Italy's Cremonini family completed a take-private offer for food group Cremonini SpA in June. An Aug. 20 Financial News article mistakenly said the Marazzi family completed the offer.

In May 2002, as part of a child-support dispute with his ex-wife, Kirk Kerkorian's lawyers filed court documents alleging Steven Bing's paternity of the child; however, Mr. Kerkorian didn't sue Mr. Bing. In the Friday-Sunday edition, a Corporate News page article incorrectly said the documents were part of a lawsuit Mr. Kerkorian filed against Mr. Bing.

A transcript supplied by Sen. Barack Obama's campaign of his speech Saturday to introduce his running mate referred to Sen. Joe Biden as a "working-class kid from Scranton and Wilmington." However, when Sen. Obama delivered the speech, he referred to Sen. Biden as a "working-class kid from Scranton and Washington." An article Tuesday about supporters of Hillary Clinton referred to the comment as written in the transcript, but failed to note the change in the delivered version.



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LEADING THE NEWS

Diplomat's car shot at in Pakistan

U.S. official unhurt in Peshawar incident after group banned

BY ZAHID HUSSAIN

ISLAMABAD, Pakistan—Gunmen attacked a car carrying a senior U.S. diplomat in Pakistan's northwestern city of Peshawar on Tuesday, a day after the government banned an Islamist-militant group involved in recent suicide attacks that have jolted the country.

Lynne Tracy, principal officer at the U.S. consulate in Peshawar, escaped unhurt when two gunmen riding in a Toyota Land Cruiser sprayed several rounds of bullets at her armored vehicle. A senior police officer said the U.S. vehicle was slightly damaged and one man was hurt when the armored car hit his three-wheeled taxi. The attack took place about 100 meters from Ms. Tracy's home.

No one claimed responsibility for the attack, but police in Peshawar said it is possible that militant groups were involved.

"We are coordinating with Pakistani authorities in investigating the incident," Lou Finton, a spokesman for the U.S. Embassy in Islamabad, said.

The Peshawar consulate remained open following the attack.

Pakistan's fractious civilian government has had little success stemming Islamist militants, who have gained strength in the coun-



A Pakistan paramilitary soldier stands guard outside the residence of Lynne Tracy, who narrowly escaped a gunfire attack on her armored vehicle Tuesday.

try's border regions with Afghanistan and have widened their attacks in Pakistan's bigger towns and cities in recent weeks.

Politicians have blamed their own infighting for the failure to agree on a common antimilitancy strategy. On Monday, the junior partner in the ruling coalition, the Pakistan Muslim League (N), pulled out of the government, leaving the Pakistan People's Party to scramble for new allies to maintain its majority in parliament.

The perilous state of security is a huge concern for Pakistan's allies. Along with North Atlantic Treaty Organization forces, American troops are fighting Taliban mili-

tants across the border in Afghanistan. But Western commanders increasingly complain that many Taliban fighters have established sanctuaries and training grounds in Pakistan's border region.

The attack on the U.S. diplomat in Peshawar occurred after Pakistani authorities on Monday banned Tehrik-e-Taliban Pakistan, or TTP, a militant group that has claimed responsibility for a series of recent terrorist attacks. The latest were last week's twin suicide bombings at an army munitions-factory complex about 50 kilometers from Islamabad. That attack left more than 70 people dead.

The TTP, led by Baitullah Meh-

sud, a militant commander with links to al Qaeda, controls a lawless tribal region along the Afghan border. It has expanded its activities in North West Frontier Province. A Pakistani court has also charged Mr. Mehsud with masterminding the assassination of former Prime Minister Benazir Bhutto in December. He has denied the allegation.

His Taliban group has vowed to launch more terrorist attacks in Pakistani cities if government troops don't halt a military operation in its tribal region, known as Bajur. More than 500 militants and dozens of Pakistani government soldiers have been killed recently in Bajur, which is considered a TTP stronghold. More than 200,000 people have fled.

Peshawar, the capital of North West Frontier Province, is itself coming under siege. Militants have been trying to impose their version of rigid Islamic Sharia law on the population. Although there have been several suicide bombings in Pakistan during the last year, Tuesday's was the first attack targeting an American official since 2006, when a suicide attacker blew himself up outside the U.S.'s Karachi consulate, killing an American diplomat. Along with its embassy, the U.S. has three consulates in Pakistan: in Peshawar, Karachi and the eastern city of Lahore.

In 2002, five people, including two Americans, were killed when a militant hurled grenades into a Protestant church in Islamabad attended by members of the diplomatic community.

North Korea says it may suspend nuclear disabling

BY EVAN RAMSTAD

SEOUL—North Korea is shaking up the latest denuclearization agreement it made with the U.S. and four other countries, in a move designed to pressure the Bush administration in its final months to give it a better deal.

The country's foreign ministry said Tuesday that it may reverse the steps it took two months ago to end its pursuit of nuclear weapons, which included disabling its sole nuclear plant. The reason: It is angry the U.S. hasn't removed it from a terrorism blacklist.

Getting off the U.S. list of state sponsors of terror has long been a goal of North Korea's authoritarian regime. The U.S. promised to start the process in June, when Pyongyang provided a declaration of the scope of its nuclear-weapons efforts.

But U.S. President George W. Bush repeatedly said the delisting hinges on an agreement by North Korea to let other nations verify its declaration. "They've got to show us a verification regime that we can trust," Mr. Bush said during a visit to Seoul this month.

The White House echoed that statement on Tuesday in response to Pyongyang's announcement.

"We've informed North Korea that we will take action to rescind its designation as a state sponsor of terrorism when it fulfills its commitment regarding verification," White House spokeswoman Dana Perino said.

The U.S. envoy to the six-party process, Sung Kim, met with North Korean officials in New York Friday to discuss proposals for verification methods that the U.S. and China have offered. Pyongyang hasn't accepted either one.

"The U.S. has maintained the ball is in North Korea's court regarding the building of a verification process, but North Korea doesn't want to allow the international standard of visitation and onsite inspections," said Park Young-ho, senior research fellow at the Korea Institute for National Unification in Seoul. "It's North Korea's turn to push hard against the U.S. position and seek concessions because the Bush administration is nearing the end."

In a sign that North Korea was souring on the verification discussion, its state media stepped up its criticism of the U.S. and South Korea in recent weeks. Last week, it condemned joint military exercises the two countries were conducting in South Korea and said it may boost its "war deterrent," a term it has used for nuclear weapons.

In its statement Tuesday, the North Korean foreign ministry said the "U.S. failed to keep its own side in the agreement." The ministry said it will consider restoring the nuclear plant at Yongbyon, of which it destroyed a portion in June, to its original state.

Since late 2003, the U.S., South Korea, China, Japan and Russia have worked in the so-called six-party process to entice North Korea through offers of financial and energy assistance to stop building nuclear weapons.

North Korea has used the process to push for security guarantees and diplomatic recognition. The country has used many delaying tactics throughout the process, in part because giving up nuclear weapons poses a risk for the Pyongyang government, which uses the specter of invasion by the U.S. and South Korea to maintain power over its people.

Victory lifts Malaysian opposition

BY RAPHAEL PURA

KUALA LUMPUR, Malaysia—Opposition leader Anwar Ibrahim cleared a major hurdle in his campaign to topple Malaysia's National Front government, scoring a resounding election victory that puts him in position to challenge for the country's premiership.

Mr. Anwar, a former deputy prime minister, won a fiercely contested parliamentary by-election in his home state of Penang Tuesday, defeating a candidate who was heavily backed by Prime Minister Abdullah Ahmad Badawi's National Front.

Among other things, pro-government campaigners had tried to portray Mr. Anwar as unfit for office, citing a controversial sodomy charge filed against him earlier this month. Mr. Anwar has denied the sodomy accusation—made by a former aide—alleging that the charge was politically motivated.

Malaysia's Election Commission said that Mr. Anwar won about 66% of the 47,258 votes cast in the by-election in the Permatang Pau constituency where he grew up, defeating his government opponent, Arif Shah Omar Shah, by more than 15,600 votes. His margin of victory surpassed that of his wife, who won the same parliamentary seat in a March general election but resigned last month to allow Mr. Anwar to contest the post.

"This is the people's victory," Mr. Anwar said in a victory speech to thousands of supporters Tuesday night.

"Permatang Pau has given a clear signal to the leadership of this country. We demand change. We want freedom. We don't want to live with corruption and oppression," he said, according to the Associated Press.

The magnitude of his win confirms 61-year-old Mr. Anwar as one of Malaysia's most powerful politicians and enhances his stature as leader of a broad alliance of opposition parties that threatens National Front's 51-year grip on power in Malaysia.

In March, the opposition coalition Mr. Anwar leads came within 30 seats of ousting the government in national elections. "Anwar has definitely cemented his role as a very key political figure in Malaysia," said political analyst Khoo Kay Peng. "It's a huge defeat" for the National Front.

Mr. Anwar's victory sets the stage for him to woo enough defectors from the National Front to win a no-confidence vote against the 68-year-old Mr. Abdullah's government in parliament next month and bring down the coalition which has ruled Malaysia since independence in 1957.

The National Front has seen its popularity wane in recent months amid internal bickering, a slowing economy and accelerating inflation in this resource-rich Southeast Asian country of 27 million. The looming confrontation in parliament has created unaccustomed uncertainty over the political future of Malaysia, which has attracted substantial foreign investment while becoming a major exporter of commodities and electronic compo-

nents to the global economy.

In the by-election, Mr. Anwar campaigned on a reform agenda aimed at strengthening the judiciary and other public institutions, fighting corruption, improving the economy and ending a sweeping affirmative-action program for Malaysia's ethnic Malay Muslims, who make up 60% of the population.

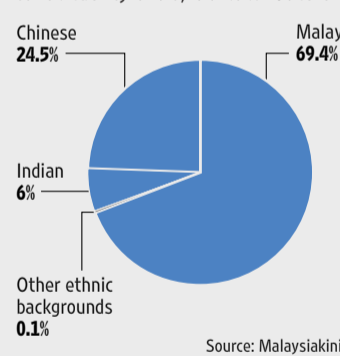
Fighting back, Mr. Abdullah's United Malays National Organization—the dominant party in the National Front—attacked Mr. Anwar, himself a Malay, for allegedly selling out Malay interests to the country's non-Muslim ethnic Chinese and Indian minorities. National Front politicians also played up the sodomy charge against Mr. Anwar in an attempt to discredit him. Sodomy is a criminal offense in Malaysia, punishable by a prison term of up to 20 years. Mr. Anwar is currently free on bail pending trial on a charge that he sodomized a 23-year-old male aide in June.

The government campaign was led in the field by Deputy Prime Minister Najib Abdul Razak, heir apparent to Mr. Abdullah and Mr. Anwar's main rival to be Malaysia's next leader. But the National Front's strategies didn't pay off. Most voters in the racially mixed, semirural constituency of Permatang Pau, where Malays make up about 70% of the electorate, weren't moved by the government's effort to cast Mr. Anwar as someone who would betray Malay interests to pander to Malaysia's minorities.

Similarly, the sodomy issue appeared to have backfired against the National Front. Indeed, going into the election, a survey by Merdeka

Voter breakdown

Permatang Pau parliamentary constituency of 58,459 total voters:



Centre, an independent Malaysian polling group, found that 59% of ethnic Malays polled believed the sodomy allegation against Mr. Anwar was politically motivated.

Still, Mr. Anwar's pending prosecution makes it possible he could still ultimately lose his newly won parliamentary seat if he is later convicted on the sex charge.

"In moral sense, he is stronger," said Shamsul A. Baruddin of the National University of Malaysia. "But technically, he still has to go through the [legal] mill, and that's the unsavory side of things."

Meanwhile, Mr. Anwar's by-election triumph will return him to Malaysia's parliament 10 years after he was purged from the National Front government by former Prime Minister Mahathir Mohamad for alleged sexual misconduct. Mr. Anwar was later convicted on sodomy and corruption charges and jailed for six years before the sodomy conviction was overturned in 2004. Mr. Anwar has always denied the earlier charges.

—Celine Fernandez contributed to this article.



Anwar Ibrahim

CORPORATE NEWS

AIRLINES

Ryanair plane makes an emergency landing



ARYANAIR Holdings PLC plane made an emergency landing in central France after it suddenly lost cabin pressure and descended 8,000 meters in five minutes, French officials said Tuesday.

As many as 26 people were hospitalized, suffering mostly from chest, nose and ear pain. The "depressurization incident" caused the oxygen masks on board to deploy, Ryanair said, adding that all 168 passengers had disembarked safely upon landing.

The company said French and Irish aviation authorities were investigating the incident, and it declined to comment further while the probe continued.

—Associated Press

BANKS

Credit Suisse purchases majority stake in U.S. firm



CREDIT SUISSE Group said Tuesday that it bought a majority stake in a small U.S. firm that provides funding for asset-management companies in a deal valued at \$384 million, paying with

newly issued Credit Suisse Group stock.

The Swiss bank said it is acquiring more than 80% of Asset Management Finance Corp. from National Bank Financial of Canada and said it hopes to expand the business internationally. New York-based AMF will operate under the umbrella of Credit Suisse's alternative-investment unit.

The transaction has received all necessary approvals, the bank said.

—Anita Greil

ELECTRONICS

Nokia goes after Apple with 2 new smart phones



NOKIA CORP. unveiled two high-end mobile phones, the N79 and the N85, which allow users to browse the Internet and play music, among other features.

The move is Nokia's latest effort to outdo competitors such as iPhone maker Apple Inc. in the lucrative market for so-called smart phones and associated services.

Seeing the double-digit growth of the PC-like handsets, Nokia and other phone makers are pushing devices with larger memories, bigger screens and other features.

Before taxes and subsidies, the N85 will retail for €450, or about \$665, while the N79 will cost €350.

—Adam Ewing

Crossover sales slump spurs deals

U.S. car buyers find biggest incentives in almost two years

BY MIKE SPECTOR
New York

AMID A RECENT sales slump and the push to clear out 2008 models, discounts in the U.S. on crossovers—car-based sport-utility vehicles—are at their highest in two years.

Car shoppers can find a bevy of deals on the small SUVs, including cash-back offers ranging from \$500 to upward of \$4,000. Auto makers also are using low-interest-rate deals and subsidized leases to lure buyers. The average incentive on a crossover in July was \$2,437, the largest since September 2006, according to Edmunds.com, an auto-research firm.

Crossovers offer a reasonable alternative for SUV owners who still crave space and can't fathom toting their family in a subcompact. In addition, mileage, while not exemplary, can land in the 25-miles-per-gallon range—10 mpg ahead of some larger SUVs. Many of the vehicles offer four-wheel drive along with other bells and whistles, and they handle better than larger SUVs.

Katie Milette, a 52-year-old mother of three in Laguna Beach, Calif., wanted a new hybrid earlier this month. As Mrs. Milette shopped for lower emissions and better mileage, another factor came into play: She and her husband need room for camping and ski gear when they meet their grown children for family vacations. She settled on a Mercury Mariner hybrid.

"We're kind of the stuff-carrier; we're taking all the gear," she said. "Because of that, we want one car in the family that can do that." She added that a larger vehicle makes her feel a bit safer on the freeway.

Still, when gasoline surpassed \$4 a gallon, consumers rushed to small cars and stopped buying crossovers. Crossover sales fell 11% in July from a year ago, according to Autodata Corp., for the fifth straight month of declines. Overall, sales of crossovers are off about 4%

Trouble in the middle

Auto makers are reducing prices on vehicles including GM's Saturn Outlook (left) and Ford's Lincoln MKX (right) to boost crossover sales.



this year. Even though they get better mileage than their larger cousins, most don't crack the 30 miles a gallon that many car buyers have craved in recent months.

"Anything perceived to be large and a consumer of fuel is going to be deemed a little suspect right now," says Jack Nerad, editorial director of Kelley Blue Book, a firm that appraises new and used cars.

In that climate, small-car sales have skyrocketed, up about 11% through July. Luke Matthews, a 30-year-old information-technology worker in Madison Heights, Mich., just traded in his Dodge Caliber crossover for a new Ford Focus compact car, which can get about 35 mpg. He made the switch even though his Caliber got fairly good mileage.

"I wanted something that got at least 30 miles to a gallon," he says. "I need something that's not going to break my wallet every day." He said he might consider a crossover again if gas prices come down but would prefer that auto makers improve their fuel efficiency instead.

Despite the stampede to small cars, crossovers don't appear headed for a permanent decline like SUVs. Dealers and industry analysts say the market shift to small cars has receded slightly in recent weeks as gas prices have moderated a bit.

Prices on crossovers range from less than \$20,000 for smaller models like the Chevrolet HHR to more than \$35,000 for larger luxury models like the Lexus RX 350. Many crossovers can be had for prices

comparable to midsize sedans.

Even if demand picks up, crossover discounts are likely to remain. For one thing, manufacturers keep introducing new crossovers to feed what was until recently a white-hot segment. The competition from that oversupply, combined with still-high gas prices and year-end model clearances, means auto makers will be gunning to grab market share, says Mike Maroone, chief operating officer of AutoNation Inc., the nation's largest dealership chain.

"I think they're going to have to do whatever it takes to liquidate the

Most of the small SUVs don't crack the 30 miles a gallon many buyers crave.

'08 inventory," he says. "It's going to be aggressive."

Indeed, General Motors Corp. just offered employee pricing, on top of existing rebates, for nearly all its 2008 models and some 2009 vehicles through Sept. 2. The move could force other auto makers to respond in kind. For consumers looking at GM's crossovers—the Buick Enclave, GMC Acadia and Saturn Outlook—the promotion means discounts totaling about \$3,800, a spokesman says. Regular prices on those crossovers can push \$30,000.

Ford SUV plant to switch to build smaller vehicles

BY JEFF BENNETT

Ford Motor Co. will invest at least \$75 million to begin converting a Michigan sport-utility-vehicle plant to small-car production as part of its strategic shift to sell more of the fuel-efficient vehicles in North America starting in 2010.

Work to revamp the 51-year-old Michigan Truck Plant, located in Wayne, Mich., will start in November when equipment now used to build the Ford Expedition and Lincoln Navigator SUVs is moved to the auto maker's Kentucky Truck Plant. Navigator and Expedition production at that plant is to resume in the second quarter of 2009.

The \$75 million investment will be used to retool the plant's body shop. The auto maker will make additional investments to upgrade other functions such as the assembly line, said Ford manufacturing chief Joe Hinrichs. He didn't disclose an amount.

The 1,000 Michigan Truck workers will transfer to the Wayne Assembly Plant in January, where a third shift will be created to boost production of the Ford Focus. Once the conversion is complete, Michigan Truck workers will return to their plant to produce a new product and augment the Focus output when needed.

The investment and conversion are part of Ford Chief Executive Alan Mulally's plan to overhaul the auto maker in response to a decline in pickup-truck and SUV sales in the U.S. amid \$4-a-gallon gasoline. The auto maker, which posted an \$8.7 billion second-quarter loss, is betting that revamping three production plants and introducing six of its European models in the U.S. starting in 2010 will help the company return to profitability.

Ford's Cuautitlan Assembly Plant, located in Mexico, is to begin building a Fiesta subcompact car in 2010. The plant currently produces the F-Series pickup trucks. The Louisville Assembly Plant, located in Kentucky, also will begin producing a new small car in 2011. It is now home to the Ford Explorer.

CORPORATE NEWS

U.S. fights bank failures

More institutions are put on notice to fix their problems

BY DAMIAN PALETTA
AND DAVID ENRICH

WASHINGTON—Federal regulators have increased the number of struggling banks they have essentially put on probation, forcing them to fix their problems and try to avoid potentially costly failures.

The Federal Reserve and the Office of the Comptroller of the Currency, two of the primary bank regulators in the U.S., have issued more of these so-called memorandums of understanding so far this year than they did for all of 2007, according to data obtained from regulatory agencies under Freedom of Information Act requests.

These secret agreements can force banks to take steps including raising capital, cutting back on risky loans and suspending dividend payments.

The depth of problems in the banking sector will become clearer Tuesday, when the Federal Deposit Insurance Corp. updates its list of "problem" institutions. The FDIC had 90 banks on its list March 31. There have been five bank failures since July 11, and many other banks are considered at risk by regulators.

Government officials have been brokering the memorandums with institutions large and small, from National City Corp., a Cleveland bank with \$154 billion in assets, to First Private Bank & Trust of Encino, Calif., a unit of Boston Private Financial Holdings Inc. with \$660 million in assets.

Banks are struggling with their worst crisis in a generation amid the deterioration of real-estate and credit markets nationwide.

"The increase in [memorandums] is not surprising given the more challenging market conditions faced by many banking organizations," said Roger Cole, the Fed's director of banking supervi-

Under pressure

Some banks with confirmed 'memorandums of understanding' this year:

Bank, State	Regulator(s) involved	Details
Brooke Bancshares Kansas	Office of Thrift Supervision	Submit a plan to boost capital ratios
Imperial Capital Bank California	California Dept. of Financial Institutions; FDIC	Reduce loan concentrations
PFF Bancorp, California	Office of Thrift Supervision	Limits dividends
National City Ohio	Federal Reserve; Office of the Comptroller of the Currency	Address capital and risk management
First Private Bank & Trust California	California Dept. of Financial Institutions; FDIC	Didn't disclose

sion and regulation. They "are useful in specifying weaknesses in risk management and other areas that need to be addressed by bank management."

Because banks don't have to disclose the memorandums, bank customers and investors generally remain in the dark. In some recent cases, federal regulators haven't disclosed more-serious enforcement actions against banks until after those banks have failed. Regulators are often wary of igniting a run on the bank, with panicked customers yanking deposits.

BankUnited Financial Corp., based in Coral Gables, Fla., said Monday that its \$14 billion banking unit recently entered into an agreement with the Treasury Department's Office of Thrift Supervision over concerns about capital levels, among other things. BankUnited didn't specify whether the agreement was a memorandum or some other type of directive, but the regulator is requiring the company to end its option adjustable-mortgage and alternative mortgage businesses.

The inconsistency of public disclosures "is very frustrating as an investor in bank stocks," said Gerard Cassidy, an analyst with RBC Capital Markets, noting that an enforcement action represents a red flag about a bank's health and is likely to put the brakes on that company's growth. "It would be very helpful in an investor's analysis if they knew that an agreement was already signed."

For regulators, the memorandums are an early-warning system about troubled banks but aren't meant to imply that a bank is at risk of failing. They are often a precursor to more-severe, publicly disclosed enforcement actions if conditions don't improve.

"Enforcement actions, bank failures and so on are sort of trailing economic indicators," said Oliver Ireland, a former Fed attorney who is now a partner at Morrison & Foerster LLP. "We're probably not done with all this yet. Not by a long shot."

While regulators wouldn't disclose the names of banks with which they've entered into memorandums, three agencies provided tallies of how many agreements they've arranged.

As of June 17, the Fed had entered into 32 memorandums with state-chartered banks and bank holding companies. For all of last year, the Fed entered into 31 such agreements.

The Office of the Comptroller of the Currency, a division of the Treasury Department that supervises national banks, entered into nine memorandums with banks through Aug. 15, compared with six in all of 2007.

The FDIC, which insures deposits at the nation's banks and thrifts and also is the primary regulator of many smaller lenders, had entered into 118 memorandums as of Aug. 15, compared with 175 for 2007.

The Office of Thrift Supervision, which supervises federal savings and loans, refused to disclose its data.

ConocoPhillips to exit U.S. gas-station business

BY RUSSELL GOLD

ConocoPhillips expects to sell the remainder of its roughly 600 company-owned gasoline stations to privately held PetroSun West LLC for about \$800 million, exiting a business that has been part of the company for decades.

The sale is part of a broad move by global oil companies to get out of the low-margin U.S. gasoline-retail business in order to focus on finding and developing new supplies of crude oil. Houston-based ConocoPhillips will continue to refine oil into gasoline and supply fuel on a wholesale basis to stations. Its brands—Conoco, 76 and Phillips 66—will remain part of the U.S. driving landscape.

PetroSun West plans to upgrade the properties by copying the upscale evolution of gas stations in Europe and parts of Asia. Few gas-station owners generate the majority of their income from filling automobile tanks with gasoline. Profits tend to come from getting drivers to buy other goods and services, such as food and car washes.

Seattle-based PetroSun West plans to add fresh sandwiches, financial services such as bill-paying, and even dry cleaning, says Chief Executive Sam Hirbod. Most of the ConocoPhillips stations PetroSun West is buying are located in urban, high-traffic areas along the West Coast, from Seattle to Los Angeles.

Companies such as Wawa Inc., Sheetz Inc. and QuikTrip Corp., all privately held, have already introduced this more expansive gas-station model in the eastern U.S., the mid-continent from Texas through Nebraska, and metropolitan Phoenix, but not on the West Coast.

"We're not just going to serve the existing customers," says Mr. Hirbod. "We're also gearing ourselves towards the professional as well as the soccer mom."

PetroSun plans to continue operating the stores under ConocoPhillips's brands. Mr. Hirbod, who opened his first gas station in 1996 in Menlo Park, Calif., says the deal was financed with about 60% debt, with the remainder from private capital. The deal is expected to be signed Wednesday and close by the end of the year.

ConocoPhillips declined to comment.

The gasoline-sales business is undergoing dramatic change. Many

publicly traded companies such as ConocoPhillips that explore for crude oil and refine it into fuel are getting out of retail sales. Exxon Mobil Corp. earlier this year said it would sell the remainder of its directly owned stores, and BP PLC says it intends to sell its company-owned U.S. stations by next year. The number of gas stations in the U.S. has been shrinking over the past decade, though gasoline-sales volume per store has been increasing.

Earlier this year, retailers experienced some of the worst gasoline profit margins on record from a combination of high oil prices and slowing gasoline demand that hindered their ability to raise prices to com-

PetroSun West will buy the 600 gasoline stations for around \$800 million.

pensate. Gasoline-sales margins have rebounded sharply in recent weeks, as falling prices have allowed station owners to widen per-gallon profit, according to data from the Oil Price Information Service, a research firm in Wall, N.J.

Jeff Lenard, spokesman for the National Association of Convenience Stores, says the oil companies' sale of gas stations makes sense. They are focused on finding new supplies of crude oil and navigating global economic trends. "To succeed in retail, you need to be focused on the street corner and the customer," he says.

Property Report

Moving target

Liberty International stock rises as rivals vie for stakes in the REIT > Page 28



Berlusconi weighs Alitalia rescue

BY STACY MEICHTRY
AND LUCA DI LEO

ROME—Italian Prime Minister Silvio Berlusconi is weighing potential changes to a 2004 bankruptcy-protection law as part of Italy's latest rescue plan for struggling state-controlled airline Alitalia SpA.

Mr. Berlusconi's economic ministers met Tuesday to discuss whether to retool the law, crafted in the wake of the collapse of Italian food and dairy giant Parmalat. Although the law allowed Parmalat to remain in business and receive protection from creditors as it worked its way back from the brink of financial ruin, lawyers say the law can take more than a year to fully implement.

Time isn't a luxury Alitalia can afford if it wants to remain flying. The airline, which had €375 million (\$553 million) on hand at the end of June, is burning through cash and is carrying €1.1 billion in debt, about twice its market capitalization.

The Italian government has tried to sell its 49% controlling stake in the unprofitable airline three times

in nearly two years without success. In the latest attempt, Italian bank Intesa Sanpaolo managed Monday to get 10 Italian businessmen to pledge €1 billion to relaunch Alitalia, which is burdened by high fuel prices, an increasingly competitive environment and aggressive unions.

But the potential investors, likely to be headed by Roberto Colaninno, chief of motorcycle maker Piaggio SpA, will put the money only into the potentially profitable operations of Alitalia. Investors want Alitalia to hive off its debt and ground operations into a separate company that will be liquidated. Mr. Berlusconi's cabinet meets Thursday and may approve the changes, according to a person familiar with the matter.

Successive Italian governments have tried and failed to attract foreign buyers for the ailing airline. In addition to Mr. Colaninno, the latest rescue plan drawn up by Intesa Sanpaolo has drawn the interest of Italy's Benetton family. Any attempt to re-craft Italy's laws in ways that directly benefit Alitalia is likely to draw scrutiny from rival airlines and

the European Union. The EU has repeatedly warned Italy it would block any new attempts to prop up Alitalia with state funds. In April, the government of Romano Prodi agreed to extend the carrier a €300 million bridge loan to keep Alitalia flying. An EU spokesman declined to comment on Italy's latest rescue attempt.

As part of the new rescue plan, at least a quarter of Alitalia's work force of nearly 20,000 is expected to be laid off, prompting some labor unions to oppose the plan. The plan calls for Alitalia to partner with a larger foreign carrier on long-haul routes. After takeover talks between Air France-KLM and Alitalia collapsed in May because of union opposition, the Italian carrier has been looking at Deutsche Lufthansa AG.

Intesa Sanpaolo will also discuss the plan with Air France-KLM Wednesday, according to a person familiar with the matter. Alitalia's advisers will also send a delegation to Lufthansa, the person added.

—Sofia Celeste in Rome and Charles Forelle in Brussels contributed to this article.

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Loan No : ID-P: 193			
Construction of Eight lane Access Controlled Expressway as Outer Ring Road to Hyderabad City in the State of Andhra Pradesh, India in the stretches from Patancheru to Shamirpet from Km. 23.700 to Km. 61.700 (Northern Arc) - 3 Contract Packages.			
The following amendments may be noted:			
Sr. No.	Reference	As Notified	As Amended now
1.	The last date and Time for receipt of bids	27.08.2008 upto 15.00 hrs IST	19.09.2008 upto 15.00 hrs IST
2.	Last date and time for purchase of Bid Documents	17.00 hrs on 26.08.2008	17.00 hrs on 18.09.2008
Chief General Manager (Tech), Hyderabad Growth Corridor Limited 2nd Floor, HUDA Complex, Tarnaka, Secunderabad 500 007, Andhra Pradesh, India, Telephone: +91 40 27002913, Fax: +91 40 27003271, Email: cgm_hgcl@yahoo.co.in			

CORPORATE NEWS

ONGC to buy Imperial Energy

Indian company to pay \$2.59 billion for Russian oil firm

BY ALEXANDER KOLYANDR

LONDON—India's state-run Oil & Natural Gas Corp. agreed to buy Russia-focused Imperial Energy Corp. for £1.4 billion (\$2.59 billion), in a move to boost access to oil supplies for India's growing economy.

ONGC and London-listed Imperial said their boards reached an agreement on the terms of a pre-conditional cash offer that values Imperial shares at £12.50.

The Indian company has secured support from Russia's government and the country's largest oil

producer, state-run OAO Rosneft, people familiar with the matter said Tuesday.

Analysts say such support is crucial for any such deal to succeed. Some observers said they expect Rosneft would eventually buy a stake in Imperial's assets, as it did in buying 51% of Udmurtneft in 2006 from China Petrochemical Corp. after the Chinese company acquired the Russian oil producer.

The deal is "an important opportunity to expand on the continuing cooperation between Russia and India in the energy sector," R.S. Butola, managing director of ONGC's overseas arm ONGC Videsh, said in a prepared statement.

Rosneft declined to comment.

State-run China Petrochemical, known as Sinopec, has expressed an interest in Imperial, but Tues-

day played down talk of a bid. Sinopec Chairman Su Shulin said Tuesday that the Chinese company isn't at the stage of making a formal decision on whether to proceed with a bid, although it is internally assessing Imperial.

China and India, the world's two most populous nations, rely on energy imports and have frequently butted heads in their efforts to invest in oil assets overseas, primarily in developing nations. The Sino-Indian rivalry has helped drive up the price of oil and gas fields around the world.

Imperial, which mostly operates in the Tomsk region of western Siberia, said it has reserves equivalent to 920 million barrels of oil, with total possible resources of 3,405 million barrels.

Last month, Imperial said it had

received an approach of £12.90 a share from an unnamed party. People familiar with the matter identified the bidder as ONGC.

A person familiar with the matter said Tuesday that ONGC reduced its planned offer price from the level discussed in July because oil prices have since fallen from their record highs.

"This is a good price, given consideration for the current softening in oil prices, the turbulence on global stock markets and the geopolitical stage," said Tim Heeley, an analyst at Daniel Stewart.

Imperial Executive Chairman Peter Levine said the company's directors "intend unanimously to recommend shareholders accept the proposed offer."

—Alison Birrane and Aries Poon contributed to this article.

Rio Tinto cites doubling of net in resisting BHP

BY ROBERT GUY MATTHEWS

Mining company Rio Tinto pointed to a doubling of first-half net profit as proof that it should resist a takeover by larger rival BHP Billiton—or hold out for more money.

But BHP countered that because both companies have posted record profits so far this year, there is more reason than ever for them to cut costs and bolster future results by combining operations. In reality, the proposed deal's success is largely up to Australian and European regulators, who are set to rule in the next six months on whether a BHP-Rio link-up would create a mining monopoly.

As commodity prices begin to fall from their recent historic highs, and costs for labor, machinery and fuel continue to climb, both Rio and BHP are searching for ways to keep profit buoyant.

Rio is betting its portfolio of iron ore, aluminum, coal, copper and other metals and minerals will keep it financially strong without linking with BHP. BHP is betting that a combined company will cut inefficiencies, and that its own profitable petroleum business, because it isn't linked to mining and metals, can act as a counter to falling commodity prices.

Rio's profit in the first six months more than doubled to \$6.91 billion, or \$5.39 a share, compared to \$3.25 billion, or \$2.51 cents a share, in the same period last year. Revenue more than doubled to \$27.2 billion from \$12.1 billion.

Tom Albanese, chief executive of Rio, said he expects iron-ore sales to buoy second-half profit, and produce stronger results at Rio Tinto than BHP. "I am comfortable saying that we are continuing to outrun them," says Mr. Albanese. "The momentum favors us. We have not had any of our markets plummet nor have an offsetting effect."

BHP has seen nickel prices have dropped and demand for nickel has fallen this year, and it plans to close one of its nickel mines in Australia. Rio doesn't mine nickel.

Last week, BHP too posted record first-half profit of \$9.4 billion. When Rio released its results, BHP said they weren't strong enough to force it to increase its \$131 billion all-stock offer for Rio. BHP's chief operating officer, Alberto Calderon, says Rio's results show that investors would make more money if they took the deal BHP currently has on the table.

Rio's Mr. Albanese says Rio's potential for future growth is stronger than BHP's; thus, he says, BHP should increase its offer price. Rio has said it doesn't oppose a combination, but that BHP's current offer is too low.

Mr. Albanese says most of Rio's mines have more years of productive life in them compared to BHP's. Rio also says aluminum consumption will grow strongly in coming years. Rio, one of the world's biggest producers of aluminum, calculates that aluminum sales will add to its profit. Rio sold more aluminum this half than in the year-earlier period, but at a lower profit per metric ton.



Tom Albanese



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DOWJONES

CORPORATE NEWS

Delta taps \$1 billion loan ahead of Northwest deal

Move will let airline buoy its cash balance as merger advances

BY PAULO PRADA

Delta Air Lines tapped a \$1 billion loan ahead of its planned merger with Northwest Airlines and said it had renegotiated agreements with credit-card processors to ensure that sales revenue continues to be turned over promptly.

In a letter sent to employees, Ed Bastian, Delta's president and chief

Delta expects to close the Northwest transaction by the end of the year.

financial officer, said the draw, which is part of a credit line that was made available to the airline upon its exit from bankruptcy-court protection last year, will help Delta "increase our cash balance as we approach the closing of the merger." The company, he added, had \$3.7 billion in cash at the end of July, including the \$1 billion option exercised Monday, and is comfortable with liquidity through the end of the year.

The loan, the company said, was to be reported in a filing with the U.S. Securities and Exchange Commission.

The decision to tap the credit line "was not for any operating need," said Mr. Bastian, in an interview. Rather, it ensures "full financial flexibility" to move forward with the merger and the "alignment" of the two airlines' credit agreements.

Atlanta-based Delta in April announced plans to merge with Northwest, of Eagan, Minn., and expects to close the transaction by the end of the year, once antitrust regulators have completed their review of the deal. Integration costs for the transaction, the airlines said last month, would total about \$600 million. At the end of the year, Delta and Northwest combined are expected to have about \$6 billion in cash, Mr. Bastian said.

Delta on Monday also told employees that the airline had renegotiated its credit-card agreements through the end of 2011 to ensure that credit-card processors don't begin to "hold back" revenue they collect from the airline's ticket sales. Processors generally turn over sales revenue promptly, but the concern about holdbacks has grown since Frontier Airlines, the Denver-based discounter, blamed new restrictions from its processors as a key reason when it filed for protection from creditors under Chapter 11 of the Bankruptcy Code of the U.S. in April.

H-P completes its purchase of EDS for \$13.25 billion

BY JUSTIN SCHECK

Hewlett-Packard Co. closed its \$13.25 billion acquisition of Electronic Data Systems Corp. Tuesday.

The EDS deal, announced in May, is H-P's biggest acquisition since it bought Compaq Computer Corp. in 2002 for \$19 billion.

H-P expects to formally take over EDS's more than 140,000 employees world-wide, an H-P spokeswoman said Monday. Since May, a group of more than 500 employees from both companies has been working on an integration plan near EDS's Plano, Texas, headquarters.

Unlike the controversial Compaq deal, the EDS acquisition has seen little resistance from H-P investors. The move is part of the company's efforts to seek profits in areas other than the computer and printer markets that have made up much of its revenue. The PC business has relatively slim profit margins and growth in the printer business has leveled off.

In an interview Monday, H-P Chief Executive Mark Hurd said the company won't disclose financial expectations from the acquisition or details of how many EDS employees might be laid off until a Sept. 15 meeting with stock analysts.

The EDS deal is a result of a decision made over the past three years to fuel future growth by focusing on

software and services, Mr. Hurd said. It became clear that H-P's outsourcing business was too small to get the multibillion-dollar contracts it would need to compete with rivals, he added.

H-P had to "no-bid on many opportunities," Mr. Hurd said, "simply because we couldn't deliver." That's where EDS fit in, he said.

Shane Robison, H-P's chief strategy officer, said in an earlier interview that he and his EDS counterparts "had the basic model in place" when the deal became public in May. H-P then hired consultants from Deloitte & Touche LLP to help plan the integration, he said. EDS CEO Ron Rittenmeyer, who will head the new combined outsourcing unit, said in an interview Monday that he expects cost savings to come from increased automation of functions now being done by workers.

But there is room for skepticism, said Rod Bourgeois, an analyst at Sanford Bernstein Co. who follows EDS. "It's not like H-P has automation tools that weren't at EDS's disposal before," he said.

Mr. Bourgeois added that EDS's profit margin last year was about 5.8%—which doesn't include one-time expenses—and it shouldn't be too hard for H-P to increase it through staffing cuts. But, he said, the strategy of "do the same amount of work with fewer people" could impact quality of service.



Mark Hurd

GLOBAL BUSINESS BRIEFS

ThyssenKrupp AG

German steelmaker plans revamp of services unit

German steelmaker ThyssenKrupp AG Tuesday said it plans to revamp its services unit and sell the unit's industrial operations next year. ThyssenKrupp, faced with soaring costs for its energy-intensive production, is disposing of noncore business. Analysts at UniCredit, however, expect the unit to bring in as much as €1 billion, or nearly \$1.5 billion. The steelmaker said it considers its industrial-services division "highly profitable" but believes it doesn't fit in with the rest of the services unit. The business is by far the smallest unit in the segment, and the resources to run it can't be shared by other divisions, said Edwin Eichler, executive-board member and chief executive of ThyssenKrupp Services.

Nova Ljubljanska Banka DD

London-based private-equity firm Apax Partners LLP is in exclusive talks to buy KBC Group NV's 30.6% stake in Nova Ljubljanska Banka DD, Slovenia's largest bank with a 40% market share, a person familiar with the matter said Tuesday. The Belgian bank's stake in NLB is valued at about €892 million (\$1.3 billion), estimates analyst Ivan Lathouders at Bank De-roof. The sale process, which is being run by Goldman Sachs Group Inc., is due to be completed by Sept. 21, when Slovenia holds general elections, the person familiar with the matter added. The planned acquisition by Apax Partners is the latest example of private equity's interest in mainstream banks amid continuing turmoil in credit markets.

Siemens AG

German engineering company Siemens AG said it has reached a deal with the company's central workers council on planned job-cut measures in Germany. The company's offers to employees will include internal transfers, early retirement for older employees, part-time preretirement contracts, termination agreements and the possibility of joining a "transfer company," which will operate for as long as two years. Siemens plans to save about €1.2 billion (\$1.77 billion) in costs by 2010 by cutting 16,750 jobs world-wide. It plans to cut 5,250 jobs in Germany. Separately, Siemens Chief Executive Peter Löscher said he is confident the company will reach its midterm growth-and-earnings targets, even in the case of an economic slowdown.

Novartis AG

Novartis AG's generics unit Sandoz has received a warning letter from the U.S. Food and Drug Administration, saying an inspection revealed significant deviations from manufacturing regulations. The letter, posted on the agency's Web site on Tuesday, said these deviations occurred in the manufacturing of metoprolol succinate ER tablets, a generic version of AstraZeneca PLC's Toprol XL, at Sandoz's North Carolina plant. A Novartis spokesman said the concerns were primarily related to documentation. "I don't think there are problems with the product per se," he said, adding that the company was working with the FDA to fix the problems but it was unclear how long this would take.

RTL Group SA

RTL Group SA posted a 17% increase in first-half net profit despite mixed results in European advertising markets. Net at the company, which is 90%-owned by closely held German publisher Bertelsmann AG, rose to €338 million (\$499 million) from €290 million a year earlier. Last year, RTL wrote down €129 million, mainly on its U.K. operations, while booking a gain of €96 million from divestments. This year, RTL wrote down €19 million and booked divestment gains of €7 million. Revenue edged lower to €2.86 billion, reflecting the euro's strength against the dollar and pound. Overall ad markets were up 4% in the Netherlands and 1% in Germany, contrasting with a 1% drop in the U.K., a 4% decrease in Spain and a nearly 7% decline in France.

Lindt & Sprüngli AG

Swiss premium-chocolate producer Lindt & Sprüngli AG reported a 4.6% rise in first-half net despite relatively weak organic growth. Net profit rose to 22.9 million Swiss francs (\$20.9 million) from 21.9 million francs a year earlier, while sales were up 2.9% to 1.17 billion francs. However, the closely watched organic-growth rate, which strips out currency fluctuations and acquisitions, was 7.9%—below the 13%-plus increase the company posted last year. Lindt generates most of its profit in the second half thanks to the Christmas season. Analysts have said the recent rise in raw-material prices, particularly cocoa, and tough comparative figures put the bar high for this year's interim report. Seasonal factors such as a very early Easter also depressed the top line. Lindt said it still expects sales to grow between 6% and 8% in the medium-term.

Virgin Atlantic Ltd.

Virgin Atlantic Ltd., the U.K. airline controlled by Richard Branson, outperformed its peers when it reported a sharp increase in full-year net profit, helped by a surge in business travelers. Net profit for the fiscal year ended Feb. 29 climbed to £47.7 million (\$88.3 million) from £6.6 million a year earlier. A spokesman for Virgin Atlantic said the airline had also benefited from its minority stake in Virgin Nigeria, in which it had been able to write off an unspecified amount of losses. Sales rose 9.1% to £2.3 billion. The number of passengers carried during the year rose 7.6% to 5.7 million, lifted by a 22% increase in the number of premium passengers. Virgin Atlantic also released pretax profit for its fiscal first quarter ended May 31, which was £23.5 million.

CRH PLC

Irish building-materials company CRH PLC ended 15 years of continuous earnings growth, posting an 8.5% drop in first-half net profit, and it signaled that the rest of the year will be tough. Net profit fell to €461 million (\$680.1 million) from €504 million a year earlier, mainly because of the current economic climate, the weak U.S. dollar and turbulent financial markets. Revenue was flat at €9.7 billion. Chief Executive Liam O'Mahony said pretax profit for the full year "is expected to be broadly similar to that in the first six months," which showed a 10% decline. That's worse than the previous outlook of "a high single-digit percentage decline." Analysts say that, typically, as much as 70% of CRH's earnings are generated in the second half of the year.

Bovis Homes Group PLC

British homebuilder Bovis Homes Group PLC said profit for the first half of the year plunged 83%, as banks reined in mortgage lending amid the credit crunch. Net profit dropped to £6.9 million (\$12.8 million) from £41 million a year earlier, as sales slipped 43% to £149.3 million. Bovis sold 32% fewer new homes in the half, while the average selling price dropped 12% to £167,600. Bovis said it is committed to competitive pricing, but warned that this is likely to reduce private sales prices and profit margins for the rest of the year. It cut its interim dividend to five pence a share from the 20 pence a share it originally envisaged. According to the latest Bank of England figures, the number of mortgages approved for people buying homes slid nearly 70% over the past year.

OAO Magnit

Russian discount-food retailer OAO Magnit said second-quarter net profit jumped 76% on higher sales and improved efficiency. Magnit, which completed a secondary stock offering in London in April, said net profit rose to \$37 million from \$21 million a year earlier. The company previously reported its revenue rose 53% to \$1.31 billion, boosted by stronger same-store sales and openings of new convenience stores and hypermarkets. Operating-profit margins advanced as the Krasnodar-based company tweaked its product mix, achieved greater economies of scale and improved logistics.

Hyundai Heavy Industries Co.

Hyundai Heavy Industries Co. said it plans to bid for Daewoo Shipbuilding & Marine Engineering, which is being sold by a government-run bank. If successful, a deal would boost the size of the world's largest shipbuilder by orders, by about 50%. The move raises the stakes in a battle among some of South Korea's largest companies for Daewoo Shipbuilding, known as DSME. Posco, GS Holdings Corp. and Hanwha Group have said they are interested in the stake. Companies must submit their bids by late Wednesday to Korea Development Bank, which is managing the sale of a 50.4% stake.

Foster's Group Ltd.

Australia's Foster's Group Ltd. posted an 88% fall in annual net profit, weighed down by write-downs of its global wine assets, but it said its beer business remained in good health. Net profit dropped to 111.7 million Australian dollars (US\$96.4 million) from A\$966.2 million a year earlier, which includes a previously flagged A\$602.9 million write-down. Profit before significant items fell 0.4% to A\$713.2 million, in line with analysts' forecasts. Foster's downgraded its earnings guidance in June, slashing the value of its wine assets and prompting the departure of chief executive Trevor O'Hoy. It also said it would undertake a strategic review of the wine business.

—Compiled from staff and wire service reports.

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FROM PAGE ONE

Russia recognizes separatists, flexing regional muscles

Continued from first page
work Russia Today. Later, Mr. Medvedev reiterated threats to respond with unspecified military means to a U.S. missile-defense system to be deployed in Eastern Europe that Moscow views as a threat to its security.

U.S. President George W. Bush, as well as Moscow's traditional ally Germany, had both warned the Kremlin not to grant the regions diplomatic recognition. In a statement, Mr. Bush condemned the Kremlin's move and called on Moscow to "reconsider this irresponsible decision." German Chancellor Angela Merkel called the act "absolutely unacceptable," and the European Union said the decision was "contrary to the principles of Georgia's sovereignty and territorial integrity."

But so far, Western leaders have said they want to continue dialogue with Russia. European officials say they aren't considering economic sanctions. Moscow has appeared confident that the West needs Russia too much—for everything from energy supplies to cooperation on other international issues—to risk a serious rift over Georgia.

Tuesday, Konstantin Kosachev, head of the Russian parliament's international-affairs committee, told the Interfax news agency that the criticism will "remain at the level of political declarations, which will rather quickly be consigned to the historical archive."

Investors aren't so sure. The rising East-West conflict has pushed Russian share prices to the lowest level in almost two years and eroded the value of the ruble against the dollar.

While the West compares Russia's invasion earlier this month of the breakaway region of South Ossetia to the Soviet intervention in Czechoslovakia 40 years ago, the history goes far deeper. For centuries, Russia has expanded its borders by skillfully pitting different nationalities against one another to keep them off-balance and dependent on Moscow for support.

"They have used this as their method of expansion for centuries. On their borders, they intervene on behalf of a minority group and use them to take control of a country," said Richard Pipes, professor emeritus of history at Harvard University. "It's something they will continue to do if the West does nothing."

It's a policy that Moscow tried to pursue even in the early 1990s, when it was economically and militarily feeble, forcing Georgia to accept a 1992 accord that introduced Russian peacekeepers in South Ossetia after fighting erupted between separatists and Georgia.

Now, Russia, emboldened by its own oil-fueled recovery and hobbling U.S. deployments in Iraq and Afghanistan, is using the tools it has long employed to take back what it views as its rightful place in the region—and make a point about the limits of Western power.

"Russia's historical role as guarantor of security in the Caucasus is objectively rising," Boris Gryzlov, speaker of the Russian parliament, said Monday. "The Caucasus has and will be in the region of Russian strategic interests, and they will be realized, no matter what kind of

statements are made from on high overseas."

Within the empire, the Kremlin has drawn borders for its provinces that made little historical sense and left minorities in some republics stranded with traditional rivals. Some of those borders remain a worry today.

In 1954, the Soviet leader Nikita Khrushchev signed a decree awarding Crimea, home of the Soviet Black Sea Fleet, to Ukraine, though most of the peninsula's population was Russian-speaking. Today, Kiev accuses Moscow of manipulating Crimea's staunchly pro-Russian population, who have protested Ukraine's efforts to ally itself with the West by joining the North Atlantic Treaty Organization.

The fragility of the Ossetian people in a tough neighborhood has given Ossetia a special dependence on Russia, which has used its defense of the people to further its own interests.

In local lore, Ossetians are descendants of the great tribe of Alans, whose warlike forays spread their genes to the far corners of North Africa and Europe, and are related to King Arthur and the Knights of the Round Table. But on their home turf, they have been beset by difficulties. The darkest moment was

in 1395, when Tamerlane's hordes swept in from the east, burning towns, killing the men, raping the women and forcing the few survivors to flee high into the rugged Caucasus Mountains that form what is now Russia's southern border.

Economic recovery was slow. For the next 400 years, they say, their once-great civilization numbered only a few thousand who scratched out a living as highland cattle-herders. Life improved only when Russia, under Catherine the Great, sent its troops into the region, chased hostile tribes off the fertile lowlands and declared the Russian Empire protector of the Ossetian people.

"Without Russia, our people would have simply disappeared," said Ludwig Chibirov, a professor of Ossetian history and former president of the self-declared republic of South Ossetia. "Russia is our savior and protector to this day."

But while Russia intervened for the Ossetians, it also drew a line through their communities that left them hobbled. Ossetian villages straddled the Caucasus Mountains, and Moscow assigned those on the south slopes to Georgia. On the North side, Moscow put them under control of Vladikavkaz, a newly built fortress meaning "power of the Caucasus" designed to dominate the chief trade routes traversing the Caucasus.

South Ossetians have long clamored to be united with the north and suffered the wrath of Georgia for seeking Moscow's help in achieving that aspiration. When Georgia declared independence in 1918 after the Bolshevik Revolution, South Ossetians revolted against Tbilisi in hopes of uniting with their brethren to the north. Tbilisi sent in punitive expeditions, villages were burned, and thousands fled north into Russia. There, many took revenge by joining Bolshevik troops and returned to Georgia to topple the new government



The headless statue in Tskhinvali of **Vasily Abayev**, an Ossetian linguist who traced the modern Ossetian language back to Celtic and Iranian roots.

and usher in Soviet power.

In the dying days of the USSR, ethnic unrest bubbled over again. When South Ossetia took steps toward seceding from Georgia, the move drew an angry response from Georgia's most senior elected official at the time, Zviad Gamsakhurdia. In the fighting that followed, Western aid organizations estimate, 60 to 100 villages were torched and thousands of civilians murdered, with the Ossetians taking the brunt of the punishment.

When Georgian forces swept into the breakaway South Ossetian capital of Tskhinvali in 1991, for example, they blew up a museum devoted to the Ossetian national poet Kosta Khetagurov, widely regarded as the founder of Ossetian literature, Mr. Chibirov said.

When the Georgian army launched an offensive on Aug. 7 this year, a village that bears his name, Khetagurovo, suffered the most. In that village, on a dusty street that also takes its name from the national poet, houses were pulverized by Georgian shells and turned into blackened husks. Villagers say eight locals died in the onslaught.

In Tskhinvali, someone took aim at the statue of another Ossetian icon, Vasily Abayev, a linguist who traced the modern Ossetian language back to Celtic and Iranian roots. During the fighting, someone shot off Mr. Abayev's head, and last week Irina Babayeva gathered the shards together in the hope that someone someday would glue them back together.

"Every time the Georgians attack, they try to destroy all our accomplishments," said Ms. Babayeva. "They don't want us to have a history."

But like many Ossetians, she said the most painful history is in her memory, not in books. She led most of her life with her mother in a South Ossetian village, Tamarasheni, just north of the capital of Tskhinvali. The village was mostly ethnic Georgian, but "in Soviet times, nobody noticed the differences between us," she said. That changed as the USSR dissolved and nationalist movements filled the void.

"My mother was a cleaning woman, and the Georgians would come to her all the time and say: You, woman, give us money," said Ms. Babayeva. "What kind of money could my mother give? She had nothing."

Mr. Shevardnadze. But the two never came close to a deal on unification.

Tensions in the region mounted, and a kind of armed apartheid emerged. Ethnic Georgians controlled a string of villages north of Tskhinvali that straddled the main road to Russia. Ossetians feared shakedowns or worse along the road and traveled a looping road around them every time they traveled to and from Russia.

Another source of Ossetian frustration was water. The capital's water supply came from Russia in large metal pipes that run close to or through the Georgian villages. In the summertime, villagers cut holes in the pipes to divert water to irrigate their crops. In the summer, locals said, Tskhinvali often had to do with little or no water.

After years of simmering tensions, the main protagonists exited the stage making way for more radical figures. In South Ossetia, Mr. Chibirov was defeated in 2001 by a burly former wrestler, Eduard Kokoity. Meanwhile, in undisputed Georgia, U.S.-educated Mikheil Saakashvili swept to power in the so-called Rose Revolution in 2003. He went on to win a landslide election victory the following year, with a central promise to bring all the country's breakaway territories back into the fold, restoring Georgia's territorial integrity and banishing what he saw as pernicious Russian influence.

But after the Russian army crushed Georgian attacks on South Ossetia earlier this month, the Kremlin left military posts deeper in Georgian territory than ever before, guarding a key port and highway. Moscow's recognition of the separatists' independence means there is virtually no chance they will return to Georgian control.

Tuesday, Mr. Medvedev said that Russia has no plans to intervene in other conflicts but warned that "our government is obliged to ensure our interests along our entire periphery."

For now, Mr. Saakashvili says Georgia will still try to regain the breakaway provinces. "It is the first attempt in Europe, since Nazi Germany and Stalin, of a big country to annex the territory of another country," he said.

Protests pose biggest test yet for the Thai prime minister

BY JAMES HOOKWAY

BANGKOK—Thailand risks a violent political confrontation after embattled Prime Minister Samak Sundaravej warned thousands of demonstrators attempting to overthrow his government to disperse or face a crackdown by security forces.

Waves of Mr. Samak's opponents took to Bangkok's streets Tuesday to protest against his close ties to one of Thailand's most powerful politicians, ousted premier-turned-fugitive, Thaksin Shinawatra. The yellow-clad demonstrators paralyzed much of the Thai capital, storming a government-run television station in the early morning before laying siege to the Finance Ministry and breaking into the compound of Mr. Samak's government headquarters.

The mass protests pose the biggest test yet for Mr. Samak, who became prime minister when Thailand returned to democratic rule last December after a military coup that ousted Mr. Thaksin in 2006. The antigovernment demonstrators accuse Mr. Samak of acting as a proxy for Mr. Thaksin, who continues to wield considerable behind-the-scenes influence in Thailand.

They fear Mr. Thaksin and Mr. Samak's populist brand of politics—which has attracted a huge following among poorer rural Thais—is eroding the country's traditional reverence for its monarchy and armed forces.

Thai political analysts say how Mr. Samak responds to Tuesday's protests could determine whether his 7-month-old government survives.

ECONOMY & POLITICS

U.K.

British population is seen as EU's largest by 2060



THE U.K. will overtake Germany as the largest European country in terms of population size by 2060, the European Union's official statistics agency said.

According to its new population projections, Eurostat said the U.K. will have one of the EU's fastest-growing populations over the next half-century, along with Cyprus, Ireland and Luxembourg. As a result, it expects the U.K. to become the most populous country in the EU, with 77 million people, ahead of France with 72 million and Germany with 71 million.

Since unification, Germany has long been Europe's most populous country. —Paul Hannon

U.S.

Home-price declines in big cities slowed in June



HOME PRICES are improving in parts of the U.S. but still falling sharply in some places, as the weak housing market and shaky consumer confidence continue to weigh on the economy.

On a monthly basis, home-price declines in the nation's largest cities slowed in June, according to the S&P/Case-Shiller

home-price indexes released Tuesday. Prices dipped 0.6% on average from the month before after falling 1% in May. Prices still were lower than they were a year earlier. Home prices in 10 major metropolitan areas in June fell 17% from the year before, though the declines appear to be moderating. —Kelly Evans

U.K.

Computer sold on eBay contained banking data



A COMPUTER containing banking-security details of more than one million people has been sold on eBay for £35 (\$65), bank officials said, the latest in a series of losses of personal data in the U.K. The computer belonged to MailSource UK Ltd.—an arm of Graphic Data, an archiving company that holds financial information for

companies such as Royal Bank of Scotland Group PLC and American Express Co. The security breach became known when the computer's buyer found the information and contacted authorities. Britain's Information Commissioner's Office is investigating the incident. —Associated Press

U.S. energy plan tests Obama and McCain

Policy compromise from Senate presents puzzle for candidates

BY STEPHEN POWER

APOTENT ISSUE facing Sens. Barack Obama and John McCain as they prepare to accept their parties' nominations is whether to back an energy-policy compromise that is uncomfortable for members of both major parties in the U.S., but that also represents a middle ground where many voters stand.

The plan, put forward by a so-called "Gang of 10" Republican and Democratic senators, would allow oil and gas drilling in some offshore areas that are currently off limits—a move opposed by many Democratic leaders. The plan would also raise \$84 billion for various alternative energy and conservation measures, partly by taking away certain tax deductions from oil companies—an idea opposed by many Republicans. Congress is likely to debate the drilling issue in September.

In a recent Wall Street Journal/NBC poll, respondents expressed strong support for developing alternatives to oil, but 63% also said expanding offshore drilling was a step in the right direction. In Washington, the Gang of 10 proposal has drawn criticism from groups on the left and the right. Some Republicans, who support expanded drilling, worry a compromise with Democrats will deprive Republicans of an election issue.

Tuesday, six more Senators—three from each party—signed on to the deal. If members of Congress can't agree on a drilling plan, that could lead to a government shutdown. A more certain result is that Sens. Obama and McCain will have to define their respective energy policy agendas by the stands they take on the Gang of 10 plan.

Sen. Obama said this week at a campaign stop in Wisconsin that he is "willing to consider offshore drilling, but that is not the long-term solution." Sen. Obama hasn't explicitly endorsed the Gang of 10 deal, but has indicated he could accept a

proposal like it. Sen. Obama's surrogates are attacking Sen. McCain for having said he would oppose it.

Sen. McCain, the Republican candidate, has spent months calling Sen. Obama "Dr. No" for opposing increased offshore exploration. But the Arizona Senator has criticized the Gang of 10 plan because it would raise taxes on oil companies.

At the center of the legislative maneuvering over the drilling issue are Sen. Saxby Chambliss, (R.-Ga.) and North Dakota Democrat Kent Conrad, one of the first senators to endorse Sen. Obama's presidential campaign. The two collaborated on a massive farm bill that passed Congress earlier this year.

In June, the two senators decided to undertake a similar effort on energy policy to overcome gridlock over high oil prices. "I just walked over to his office and said 'you and I need to talk...about energy,'" Sen. Chambliss says.

The senators rounded up colleagues from each party, and began hashing out ideas, with advice from Securing America's Future Energy, a Washington-based nonprofit that advocates tougher automobile-efficiency standards, increased domestic drilling and more reliance on biofuels.

To boost oil supplies, the senators agreed to open additional acreage in the Gulf of Mexico to drilling and to let four states along the Atlantic coast—Virginia, Georgia and the Carolinas—to "opt in" to drilling near their coasts if their legislatures approve. To curb demand, they proposed new tax credits worth up to \$2,500 to encourage the purchase of fuel-efficient vehicles, and \$7.5 billion to help automakers retool factories for alternative-fuel vehicles.

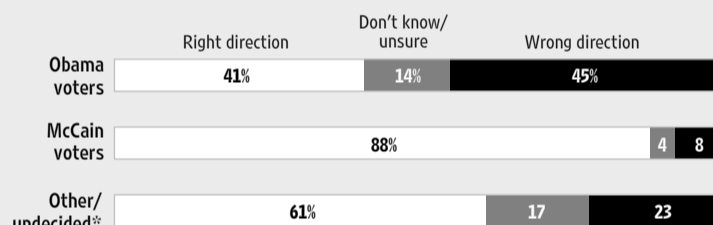
The proposal includes a prohibition on drilling within 80 kilometers of any state's coastline—which has drawn fire from some drilling supporters. Sen. Lindsey Graham (R., S.C.), one of the proposal's supporters, says the buffer zone is essential for his state, where many jobs are tied to beach-related tourism.

"Drilling without state consent would be an absolute political disaster," Sen. Graham says in an interview.

The proposal also doesn't call for new limits on speculative trading in

Mixed opinion

How U.S. voters feel about expanding offshore oil drilling:



*Doesn't add up to 100 due to rounding

Source: WSJ/NBC News telephone poll of 503 registered voters conducted Aug. 15-18; margin of error +/- 4.4 percentage points

oil—a top priority for some Democrats. Sens. Conrad and Chambliss say the group disagreed over the issue, and decided to wait for a report by a federal task force assessing what effect, if any, such trading has on prices.

A problem for Democrats is that

environmental groups have long opposed expanded drilling. Still, some in the environmental movement say they could accept legislation that expands offshore drilling with strong safeguards.

"We're not opposed to offshore drilling everywhere—there may be

ways that the line can be drawn that we can live with," says Carl Pope, executive director of the Sierra Club.

Congress could confront the drilling issue as part of a massive stop-gap spending measure to keep the government operating until the next president takes office. Barring a compromise with Republicans, Democrats could try to use that spending measure next month to extend the drilling moratorium another year. Some Republicans are threatening to vote against any legislation that continues the ban.

Sen. Chambliss, who is running for re-election, disputes the notion that the proposal helps Sen. Obama and other Democrats politically. But if it does, Sen. Chambliss says, "so be it."

"I'm a lot more interested in helping those people who are having trouble buying food or gas," he says, "than in having an issue going into the campaign."

Biden protected Delaware filings

BY NATHAN KOPPEL

As the voting record of presumptive Democratic nominee for vice president Joe Biden comes under scrutiny, one legislative maneuver stands out: his efforts to protect a tradition allowing companies nationwide to file for bankruptcy in his home state of Delaware.

Sen. Biden's fight benefited Delaware law firms that specialize in bankruptcies, which rank among his top supporters. Already Sen. Biden has been criticized for his role in bankruptcy legislation in 2005 that made it harder for consumers to escape their debts—a measure that was supported by credit-card giant MBNA, whose employees and executives have contributed to Sen. Biden. MBNA is now a unit of Bank of America Corp.

Sen. Biden has also sought to continue to allow corporations

wide latitude to file for bankruptcy in a venue of their choosing, including Delaware, a state with a reputation of being lenient to debtors.

Those votes could prove awkward for the senator, as it can be argued they hurt individual consumers yet benefited corporations and their attorneys.

Attorneys in Delaware law firms have contributed hundreds of thousands of dollars to Sen. Biden's various campaigns since 2002, according to the Center for Responsive Politics.

Sen. Biden's office didn't return requests for comment. In 2005, Mr. Biden said Delaware was popular because its courts have vast expertise in complex business bankruptcies.

Some bankruptcy attorneys outside Delaware concur. "Delaware courts are among the most adept forums in dealing with the sophisticated and fast-paced is-



Joe Biden

sues confronting today's bankruptcies," says Richard Chesley, a Chicago attorney.

Companies can file for bankruptcy where they are incorporated, which is often Delaware in part because of a favorable tax law. But companies also find the state attractive for bankruptcies, some lawyers say, because Delaware judges have been considered relatively generous in awarding pay packages to the management of distressed companies—and in awarding high legal fees to bankruptcy lawyers. Delaware attorneys are prime beneficiaries, aided by state rules requiring companies to retain local bankruptcy counsel.

Academics outside Delaware have long claimed that venue rules should be tightened to force companies to reorganize closer to their headquarters. That would drive down the costs of bankruptcy, proponents say, because legal fees, hotel rooms and other costs are relatively high in Delaware—and in Manhattan, another popular venue.

U.S. DEMOCRATIC CONVENTION

Obama threat fears ease

Suspects will face gun-related charges; 'plot' wasn't credible

A WSJ NEWS ROUNDUP

Three men originally feared to be plotting to assassinate U.S. Sen. Barack Obama at the Democratic National Convention now face only gun charges—a signal from law-enforcement authorities that they never posed a real threat.

Authorities are continuing the investigation but don't see a "credible plot," a federal agent involved in the investigation said. "No. 1," he said, why would anyone plotting such a crime "be under the influence, driving erratically through Aurora [a Denver suburb] with guns in plain view? There's no independent verification that it's a larger plot or conspiracy."

The three men and a woman taken into custody Sunday aren't expected to be charged with making threatening statements, conspiracy or other national-security-related crimes, a federal law-enforcement official in Denver said. The situation unfolded Sunday afternoon when police in the eastern suburb of Aurora stopped a truck that was swerving erratically. The driver, 28-year-old Tharin Gartrell, had a suspended driver's license, and the truck was rented in the name of another person, said Aurora police Det. Marcus Dudley.

That led to a search of hotel rooms where methamphetamine was discov-



Associated Press



Nathan Johnson, left, and Tharin Gartrell, who was arrested in the Denver area Sunday after police found **drugs, ammunition and two rifles** in his car.

ered and to the arrest of the three others. A second suspect told authorities that the third suspect had made reference to Sen. Obama and "a grassy-knoll-like plan," the agent said.

The FBI and the Secret Service are investigating, along with the U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives, which has traced rifles in the suspects' possession. One was stolen in Kansas and the other is apparently the result of a private sale, which can be done legally without background checks. Three of the suspects have felony records and are prohibited from pos-

sessing firearms.

The arrest marks the second time this month that authorities have arrested someone for threats against Mr. Obama. Earlier this month a Florida man was arrested for making threats against the Illinois senator and U.S. President George W. Bush. In that case, a search of the suspect's vehicle and hotel room turned up ammunition, a machete, tear gas, several knives and a loaded 9-mm. handgun with four loaded magazines, according to an affidavit made to support the complaint. That suspect has pleaded not guilty to the charges.

Michelle Obama speech aims at the working class

BY JONATHAN KAUFMAN AND MONICA LANGLEY

DENVER—Accompanied by her two young daughters, Michelle Obama took on a big challenge Monday night, to make the country more comfortable with her husband and her.

Her speech at the Democratic convention sought to humanize a couple that supporters fear may seem distant to many Americans. "I come here as a mom whose girls are the heart of my heart and the center of my world. They're the first thing I think about when I wake up in the morning, and the last thing I think about when I go to bed at night," she told a cheering throng on the opening night of the convention.

She tried to find a connection with working-class families that Sen. Obama has struggled to reach, adding: "And I come here as a daughter, raised on the South Side of Chicago by a father who was a blue-collar city worker, and a mother who stayed at home with my brother and me."

Mrs. Obama wasn't subtle in her effort to make the Obamas seem like, as one aide put it, the family "next door." Upon meeting her husband, she said, "What struck me... was that even though he had this funny name, even though he'd grown up all the way across the continent in Hawaii, his family was so much like mine....Like my family, they scrimped and saved so that he could have opportunities they never had themselves."

Mrs. Obama also used her opening-night speech to try to begin a week of healing rifts in the Democratic Party. She praised Hillary Clinton, whom her husband defeated in a bitter primary fight, for having "put those 18 million cracks in the glass ceiling, so that our daughters—and sons—can dream a little bigger and aim a little higher."

Mrs. Obama's speech initiated a critical convention goal: to reintroduce Sen. Obama and identify him more closely with middle-class values and struggles. Many black women hail Mrs. Obama as an icon. She is a Princeton- and Harvard-educated lawyer who works as a hospital executive. She is also the mother of two young girls and is seen as stylish and outspoken on the campaign trail.

But many whites remain uneasy. In the latest Wall Street Journal/NBC poll, 29% of voters said they had a negative view of Mrs. Obama, almost twice as many as said they had a negative view of John McCain's wife, Cindy. Mrs. Obama's positives were also higher than Mrs. McCain's, with 38% saying they had a positive view of her, compared with 29% for Cindy McCain.

Mrs. Obama has become a lightning rod for Republicans in their attempt to portray the would-be first couple as racially polarizing. Even allies concede she has helped fuel that reputation with certain remarks.

In one sign of the importance attached to Mrs. Obama's role, the Obama campaign's senior strategist of communications and message, Robert Gibbs, came off the campaign trail, where he typically stays by Sen. Obama's side, to meet Monday with network-television management and anchors. He pitched her personal story, of a father with multiple sclerosis who worked in a



Associated Press

Many voters are uneasy with **Michelle Obama**, pictured with her daughters.

water plant and managed to send two children to Princeton.

"Michelle has been caricatured," says Charles Ogletree, who taught both Obamas at Harvard Law School. Several months ago, she told voters that her husband's political success made her "proud" of her country for the first time.

As part of the effort to soften her image in recent weeks, she appeared on the TV show "The View" in June. Sales soared the next day for the \$148 dress she wore during her appearance. Mrs. Obama is far more rooted in the traditional black U.S. experience than her husband. She grew up on the black South Side of Chicago in a working-class family. Her father worked as a precinct captain for the city's Democratic machine in Chicago, and her connections to the Jesse Jackson family and other black politicians helped her husband when he began to get involved in Chicago politics.

"It never would have surprised me to see her one day run for state senator, mayor of Chicago, or even U.S. senator," Mr. Ogletree says. Instead, Mrs. Obama took a job at a high-powered Chicago law firm, where she later met her husband. She subsequently worked for the city of Chicago and the University of Chicago hospital system, where she is a vice president of external affairs.


Mrs. Obama talks frequently about the Obama family's financial struggles, including paying off student loans. She was earning more than \$300,000 a year when she took a leave of absence from her University of Chicago hospital post. She received a raise to \$316,000 from \$121,000 in 2005, shortly after her husband was elected to the Senate. Hospital officials have said the raise reflected a broadening of her responsibilities and matched the salary of other vice presidents of the not-for-profit institution.

Mrs. Obama's effectiveness on the campaign trail first became evident in South Carolina, where she was widely credited with bolstering Sen. Obama's support among black voters who initially backed Sen. Hillary Clinton. Since then, some of her most popular appearances have been with working women at roundtable discussions about juggling jobs with raising a family.


She offers her own experiences, such as "running into Target to buy toilet paper" and making business meetings with a daughter in tow. She was to hold another such roundtable Tuesday in Denver.

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