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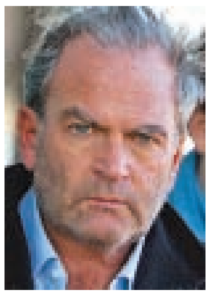


A star lawyer's downfall leaves a host of questions

NEWS IN DEPTH | PAGES 16-17

Forgotten naturalist's fans plan a Darwinian struggle

ON OTHER FRONTS | PAGE 30

Car-industry troubles hit Japanese giant Toyota

Operating loss shows slump's global reach; 'a kind of emergency'

By Yoshio Takahashi And Kate Linebaugh

Toyota Motor Corp. forecast its first-ever annual operating loss, a dramatic indicator that the deep troubles roiling the auto industry extend beyond the U.S. and are taking a heavy toll on even some of the strongest car makers.

Toyota, the world's largest auto company by sales, still expects to report a small net profit for the fiscal year ending March 31. But it forecast a consolidated operating loss of 150 billion yen, or about $1.7 billion, amid falling demand in the U.S., Europe, Japan and other major markets, as well as a strengthening of the yen.

The downward revision underscores the rapid worsening of the car industry since financial markets were jolted in September. "It's a kind of emergency that we've never experienced before," Toyota President Katsuaki Watanabe said at a news conference. "The environment surrounding us is extremely

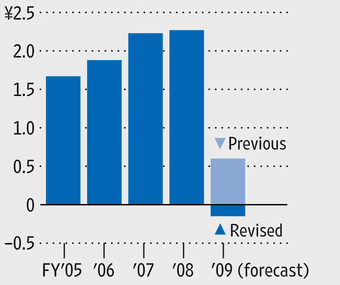
Please turn to back page

Grim outlook

Toyota Motor revised downward again its group earnings forecasts due to the yen's continued appreciation and shrinking auto sales

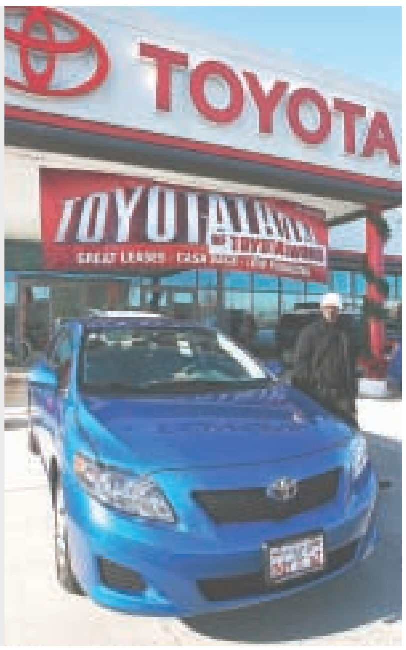
Operating profit

In trillions of yen, for fiscal years*



*Fiscal years end March 31 of year shown

Source: the company



A Toyota salesman outside a showroom in Arlington, Virginia

Reuters

What's News—

Business & Finance

Toyota expects its first-ever operating loss in the current fiscal year, showing how severely the global economic downturn is hitting even the world's most competitive companies. The auto maker sharply cut its net profit forecast. Page 1

■ **Glaxo said** it will stop making political contributions with corporate funds, in an attempt to increase transparency. Page 2

■ **TNK-BP elected** a new board member and amended its charter, bringing a shareholder dispute closer to resolution. Page 3

■ **AIG sold** HSB Group to Germany's Munich Re for about $742 million. It paid $1.2 billion for the specialty-insurance business in 2000. Page 3

■ **UBS will get a loan** of $1.81 billion backed by Swiss mortgage institutions that are flush with customer deposits. Page 19

■ **GM is preparing** for deeper talks in January with the UAW, bondholders and the Obama administration to work out terms of the bailout. Page 4

■ **European auto makers'** stocks slid after Toyota Motor released a profit warning. The U.S. stock market's car sector also was weak. Page 20

■ **Swiss Re has tapped** a $1.5 billion credit facility to strengthen its liquidity and take advantage of growth potential. Page 21

■ **Web portal Sina agreed** to pay $1 billion in stock for the digital-advertising business of Focus Media Holding. Page 8

■ **Hungary cut interest rates** to 10%, citing an anticipated slowdown and lower inflation, and the easing may continue. Page 11

■ **China cut rates** for the fifth time in recent months, an effort to spur the financial system to complement increased government spending. Page 12

■ **Caterpillar said** it will slash executive compensation, particularly its incentive and equity-based programs. Page 4

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8519.69	-59.42	-0.69
Nasdaq	1532.35	-31.97	-2.04
DJ Stoxx 600	193.32	-3.11	-1.58
FTSE 100	4249.16	-37.77	-0.88
DAX	4639.02	-57.68	-1.23
CAC 40	3151.36	-74.54	-2.31
Euro	$1.3934	+0.0013	+0.09
Nymex crude	$39.91	-2.45	-5.78

Money & Investing > Page 19

World-Wide

The euro zone is likely to remain in recession in the early part of 2009, with data showing factory orders dropped 4.7% in October from September and 15.1% from the previous October. A survey in Belgium showed business confidence slid in December to its lowest level since records began in 1980. Meanwhile, German consumer confidence remained weak. Page 1

■ **Belgium's king was** searching for a leader to steer the divided country, after accepting the resignation of Prime Minister Leterme in the wake of a bank-bailout scandal. Page 2

■ **Lawmakers called** an emergency session of Iraq's Parliament to try to remove the speaker, forcing the delay of a vote on a resolution to let non-U.S. troops remain past year end.

■ **The Afghan government** will begin soon a U.S.-funded effort to recruit armed local militias to fight the Taliban in remote parts of the country. Page 10

■ **Obama named** a task force to be led by Vice President-elect Biden to focus on issues hurting the U.S. middle class. Page 9

■ **A jury in the U.S. found** five men guilty of plotting to kill soldiers at the Fort Dix military base, in a high-profile case. WSJ.com

■ **The OSCE said** it would start shutting its mission in Georgia on Jan. 1 after Russia blocked a proposal to extend it in a standoff over the status of South Ossetia.

■ **Russia said it is supplying** Iran with defensive weapons, including surface-to-air missiles, but didn't say whether they include sophisticated S-300s.

■ **Russian businessman** Viktor Bout took the stand in Thailand to fight extradition to the U.S. and deny charges that he conspired to arm Colombian rebels.

■ **Zimbabwe's Mugabe** must step down if a power-sharing government is to succeed, the U.K. said.

■ **Israeli diplomats have been** instructed to prepare foreign governments for increased action by Israel's military against Gaza militants, officials said.

■ **Romania's Parliament** approved a new government after the prime minister-designate vowed to cut spending by 20%.

Editorial & Opinion

Steinbrück on the crisis

Germany's finance minister on the regulatory and fiscal policies the world needs. Page 15

Gloomy future seen in data from euro zone

By Nicholas Winning

LONDON—Factory orders in countries sharing the euro currency dropped 15.1% in October compared to a year earlier—the biggest annual decline since records began in 1997—and forecasters say they'll keep falling in a European recession expected to extend into 2009.

Orders in Germany and France dropped even more—17%—from a year earlier, the European Union's Eurostat statistics agency said Monday. New orders for transport equipment across the 15-nation euro zone fell by a third, a record year-to-year drop that reflected the collapse in automobile sales within the euro zone and around the world.

Meanwhile, a survey of confidence among Belgian businesses—viewed as a strong indicator of the health of the euro-zone economy—fell in December to its lowest level since records began in 1980. Exports, which are under stress, account for 75% of the country's gross domestic product.

The collapse in both sets of numbers is likely to cement expectations that the European Central Bank will cut its key interest rate further early next year from the cur-

Please turn to back page

Derivative losses spread to all corners of world

By Mark Whitehouse And Serena Ng

PARKES, Australia—In this town of 10,000 on the edge of the Australian outback, administrator Alan McCormack has a headache. The county council is poised to incur millions of dollars in losses if more U.S. companies succumb to a deepening recession.

More than 15,000 kilometers away, at New York investment firm **ICP Capital**, hedge-fund manager William Gahan is reaping big gains on Mr. McCormack's predicament.

The fortunes of the two men are connected through an investment known as a "synthetic collateralized debt obligation." Between 2005 and 2007, the Parkes local council put more than 13.5 million Australian dollars (US$9.2 million) of its savings into synthetic CDOs. The investments offered an attractive income and a gold-standard credit rating—in return for providing a sort of insurance on the debt of hundreds of mostly U.S. companies.

Now, though, if even a handful of those companies renege on their debts, Parkes will still have to cough up as much as A$12 million to honor the insurance commitments it made. That has been a boon for Mr. Gahan, who placed bets against many of the same companies by buying similar insurance.

But it would deprive Parkes of a big chunk of the money it needs to rebuild its water supply amid an enduring drought. "It's going to be a

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THE WALL STREET JOURNAL.

LEADING THE NEWS

Belgian premier's resignation accepted

Fortis bailout adds to complications in choice of successor

BY JOHN W. MILLER

BRUSSELS—Belgium's King Albert II is searching for a leader to steer this bitterly divided country, after accepting on Monday the resignation of Prime Minister Yves Leterme in the wake of a bank bailout scandal.

Mr. Leterme, 48 years old, offered to step down on Friday, after the country's supreme court accused his government of trying to sway a court case involving the bailout of Belgian-Dutch bank **Fortis** NV, one of the earliest bailouts in the global financial crisis.

Since then, the king has welcomed a parade of politicians to his castle in suburban Brussels, as he tries to find a compromise replacement. The front-runners are mostly members of Mr. Leterme's Christian Democrat party from Belgium's mainly Dutch-speaking north: former prime minister Jean-Luc Dehaene, parliamentary speaker Herman Van Rompuy and party leader Marianne Thyssen.

As on previous occasions—Mr. Leterme offered his resignation in July, but the king asked him to stay on—finding an alternative capable of assembling a government in Belgium's fragmented political landscape is proving difficult.

The king told Mr. Leterme on Monday that he plans to announce the new prime minister this week, said a spokesman for Mr. Leterme, who remains prime minister until a replacement is found.

Belgium has been seeking political stability since national elections in June 2007. Mr. Leterme and his Christian Democrat party won a plurality of votes. But he needed nine months to assemble a governing coalition.

In October, Mr. Leterme tried to save Fortis's Belgian banking and insurance businesses—the government owns 49% of the banking operations, but none of the insurance arm—by agreeing to sell them to France's **BNP Paribas** SA for €14.5 billion ($20 billion). The insurance arm of Fortis, however, still belongs to publicly traded Fortis NV, and minority shareholders filed a court challenge to the sale, which BNP wants as a package deal.

BNP Paribas says it still hopes to complete the purchase of Fortis's Belgian operations. Mr. Reynders, the finance minister, has said the government would improve the terms for Fortis shareholders if necessary.

Glaxo election funding to end in U.S., Canada

BY PETER LOFTUS

GlaxoSmithKline PLC said Monday it will no longer use corporate funds for political contributions as part of an effort to improve openness in its business.

The U.K.-based drug maker in the past has made direct corporate contributions to political candidates primarily in the U.S. and Canada. Glaxo has donated more than $585,000 in the U.S. this year and 58,000 Canadian dollars last year in Canada, spokeswoman Sarah Alspach said. Those contributions will now stop.

"We need to ensure that there is no implication whatsoever that corporate political contributions provide us with any special privileges," Glaxo Chief Executive Andrew Witty said in a statement.

The policy change won't apply to individual employee's contributions, including a voluntary political-action committee, or PAC, run by Glaxo employees, Ms. Alspach said. Glaxo stopped making corporate political contributions in Europe in 2001, she said.

Major pharmaceutical companies have taken steps in recent years to try to be more transparent about their businesses, including posting information about clinical trials and political donations on company Web sites. Some companies also are planning to post data on payments to doctors.

As a group, pharmaceutical industry workers and their PACs have been big contributors to U.S. congressional and presidential candidates. In the 2008 election cycle, the industry contributed $14 million, according to the Center for Responsive Politics, a Washington organization that tracks contributions.

Glaxo employees and affiliated PACs gave $1.1 million in the 2008 election cycle, ranking third behind **Pfizer** Inc. and **Amgen** Inc., according to the center, which operates the Web site opensecrets.org.

Separately Monday, Glaxo reported positive mid-stage results in key additional indications for a drug seen as a successor to top-selling Advair. The new asthma drug, an inhaled long-acting beta agonist known as LABA 444, showed an increase in lung function in patients suffering from moderate to severe chronic obstructive pulmonary disease, the company said.

LABA 444, which Glaxo is developing with U.S. biopharmaceutical partner **Theravance** Inc., achieved better results than a placebo drug, meeting the goals for the Phase 2b trial. The company said that it didn't show an increased average heart rate, a common side effect of beta agonists.

Advair achieved sales of $5.7 billion in the first nine months of the year.

Also Monday, GlaxoSmithKline said it will pay **Bristol-Myers Squibb** Co. around $36.5 million for its Bristol-Myers Squibb Pakistan Ltd. unit and certain associated trademarks.

CORRECTIONS & AMPLIFICATIONS

Capital One Financial Corp.'s roll rate, or the percentage of cardholders who go from late on their payments to not making them at all, reached 39% in the third quarter, up from 32% a year earlier. **Discover Financial Services** Inc.'s roll rate climbed to 34% in the third quarter, up from 28% a year earlier. A Dec. 11 Money & Investing article on credit-card holders who fall behind on their payments gave incorrect data for each company.

INDEX TO PEOPLE

This index lists the names of businesspeople and government regulators who receive significant mention in today's Journal.

For more people in the news, visit CareerJournal.com/WhosNews

INDEX TO BUSINESSES

This index of businesses mentioned in today's issue of The Wall Street Journal Europe is intended to include all significant references to companies. First reference to these companies appear in boldface type in all articles except those on page one and the editorial pages.

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AIG to sell U.S. unit to Munich Re

Reinsurer to pay about $742 million for HSB Group

By Matthew Karnitschnig, Liam Pleven and Dana Cimilluca

American International Group Inc. sold its specialty insurer unit HSB Group for about $742 million to Germany's **Munich Re**, a further step in the Munich-based reinsurer's effort to grow more profitable in the key U.S. market.

The transaction marks AIG's first big divestiture as it seeks to pay back as much as $60 billion in loans it received as part of its September rescue by the U.S. government.

The price is well below the $1.2 billion AIG paid to acquire HSB in 2000 and underscores the leverage buyers have in negotiating for even AIG's most prized businesses.

As it seeks to dispose of assets to repay its loans, AIG faces the dual burden of its own weakness and a depressed economic environment that has made it difficult for potential buyers to raise money.

As time ticks away without major deals, it could become harder for AIG to maintain the value of both the businesses it is trying to sell, as well as those it is trying to preserve, according to some observers. That could affect U.S. taxpayers, who own 80% of the company as a result of the rescue.

"The longer it takes, the greater the franchises are going to be damaged, and the greater the haircut AIG is going to have to take," said Rob Haines, an analyst at CreditSights, an independent debt-research firm.

The $742 million price tag is a preliminary one and is pegged to 1.25 times HSB's equity capital at the end of the third quarter under U.S. accounting standards. The final acquisition price for HSB will be determined when the deal closes and will be based on the company's equity capital at the end of the first quarter of 2009, Munich Re said.

Founded in 1866 in Hartford, Conn., HSB is considered one of the world's leading specialty insurers and reinsurers. It insures steam boilers, mechanical and electrical equipment for customers around the world. It also offers inspection services and engineering consulting.

Munich Re, one of the world's largest reinsurers by gross premium income, said the acquisition will be funded entirely from cash and won't affect a planned share-buyback program or the planned 2008 dividend of €5.50 ($7.66) a share. It said HSB's €1.2 billion portfolio doesn't contain any assets tied to subprime mortgages.

Munich Re said HSB fits well with an effort it announced in 2007 to boost profitability in the U.S. It has already acquired a number of highly profitable U.S. primary insurance players, among them The Midland Co., for $1.3 billion in October 2007 and health-care insurer Sterling Life Insurance Co. for $352 million in December 2007.

AIG said in October that HSB would be among the assets it would sell to pay back the U.S. government. AIG has several years to repay its loans but is trying to dispose of businesses as quickly as possible, both to free itself from the interest it is paying to the government and to avoid further deterioration in the assets' value.

Even though most of AIG's units weren't linked to the risky investments that nearly caused the group's bankruptcy, many of these businesses have come under pressure. Since AIG's rescue, dozens of its executives and underwriters have jumped to rivals, sales of key products at home and overseas have fallen, and investment losses have mounted.

An AIG spokesman said the company has had a handful of senior executive departures but that, overall, it has maintained management continuity during an unsettled period.

The insurer still faces serious challenges even after the government supplied extra breathing room by easing the bailout terms last month. The government agreed to cut the interest rate on the loan and to extend the maturity from two years to five.

The company has released few details of its insurance units' results beyond third-quarter numbers. It has acknowledged pressures on various operations around the world. AIG is expecting to raise the bulk of the tens of billions it will need to repay taxpayers by selling some of its valuable life-insurance units around the globe.

Those units are losing business in Japan—a particularly important market for AIG—and elsewhere, according to a company filing with the Securities and Exchange Commission last month. Banks in Japan have largely stopped selling some products from AIG's largest unit there, known as Alico.

"A number of those banking relationships have been put in a suspended mode," said Rodney Martin Jr., AIG's chief operating officer world-wide for life insurance, which includes retirement services.

The eased bailout terms for AIG have generated "some relief among buyers and brokers" regarding AIG's insurance entities, said Dave Bradford, head of research and editorial at Advisen Ltd., which tracks the insurance industry.

Still, relationships are important in selling commercial insurance, and in recent months, more than two dozen executives and underwriters have left AIG to join rivals, including major competitors for commercial insurance, according to Advisen Ltd. **Zurich Financial Services** AG has lured away at least three AIG executives since the bailout.

—Leslie Scism and Klaus Brune contributed to this article.

Hedge-fund firm Fortress drops quarter's dividend

By Kathy Shwiff

NEW YORK—**Fortress Investment Group** LLC won't pay a fourth-quarter dividend, saying it will use the capital for investing or operations.

The firm, which has more than $30 billion under management in private-equity and hedge funds, also chose not to pay a third-quarter dividend. In the second quarter, it paid a dividend of 22.5 cents a share.

Fortress has been hit by the market turmoil as investors demand their money back from the $1.5 trillion global hedge-fund industry.

Big-name hedge-fund managers have been forced to put up what are known as "gates" that slow redemptions or stop them altogether. Fortress did so earlier this month on its largest hedge fund: the $7.2 billion Drawbridge Global Macro Fund, which lost 2.3% in November and was down about 23% for the year, according to investors.

Last month, Fortress reported a wider third-quarter loss and a 25% drop in revenue as one analyst warned that the firm could violate a debt covenant next year.

Fortress's shares were at $1.10, down five cents, in late morning trading Monday. The stock price has fallen more than 90% in the past year.

TNK-BP revamps board in effort to break deadlock

By Alexander Kolyandr And Jacob Gronholt-Pedersen

LONDON—The shareholder dispute that for months has wracked **BP** PLC's Russian venture came closer to resolution Monday when the venture's traded subsidiary elected a new board and amended its charter. A new chief executive could be named by year end.

The new board of **TNK-BP Holding** OAO includes four representatives each from BP and its group of Russian partners, AAR. The new board also has an independent director to "help avoid possible board deadlock in the case of differences," TNK-BP said.

The independent director, David Lasfargue, was elected chairman of TNK-BP Holding, a person close to the venture said. Mr. Lasfargue, a Frenchman, also is head of the Moscow office of the international law firm Gide Loyrette Nouel.

The changes at TNK-BP Holding are part of a deal that would end months of conflict between BP and AAR, which includes three Soviet-born billionaires—Mikhail Fridman, Len Blavatnik and Viktor Vekselberg. BP and AAR, each of which owns 50% of the venture, bickered publicly over strategy at TNK-BP, Russia's third-biggest oil producer. The row climaxed in July when venture CEO Bob Dudley fled Russia, complaining of harassment.

Other moves to resolve the dispute are expected in the coming days. They include the naming of a new chief executive to succeed Mr. Dudley. People close to the company said that will be Denis Morozov, former head of Russian miner OAO Norilsk Nickel.

"The management of the company now looks forward to proceeding under the new governance model as we move to the next phase of the company's evolution," TNK-BP Acting Chief Executive Tim Summers said in a prepared statement.

Thai king swears in new premier

Associated Press

BANGKOK—Thailand's revered monarch Monday called on the new government to make peace a priority, ending a long silence on months of unrest that culminated in a siege of Bangkok's airports.

The ailing 81-year-old King Bhumibol Adulyadej spoke with a hoarse voice as he presided over a swearing-in ceremony for the cabinet led by Prime Minister Abhisit Vejjajiva. When Mr. Abhisit was selected by Parliament last week, he became Thailand's third leader in four months. His cabinet was unveiled Saturday.

King Bhumibol, who has occupied the throne for six decades, has historically been the country's sole unifying figure in times of crisis. He wields significant moral authority and Thais have long looked to him to guide the country, even though he is a constitutional monarch with few real powers.

CORPORATE NEWS

GM lays ground for talks with UAW

Auto maker, unions will likely wait until after Christmas to hammer out how to comply with bailout conditions

By John D. Stoll
and Alex P. Kellogg

DETROIT—General Motors Corp., while holding preliminary discussions now with key constituents, is expected to wait until early January to begin deep talks with the United Auto Workers union, bondholders and the coming Obama administration in an effort to work out agreements to comply with the terms of the bailout President George W. Bush announced last week.

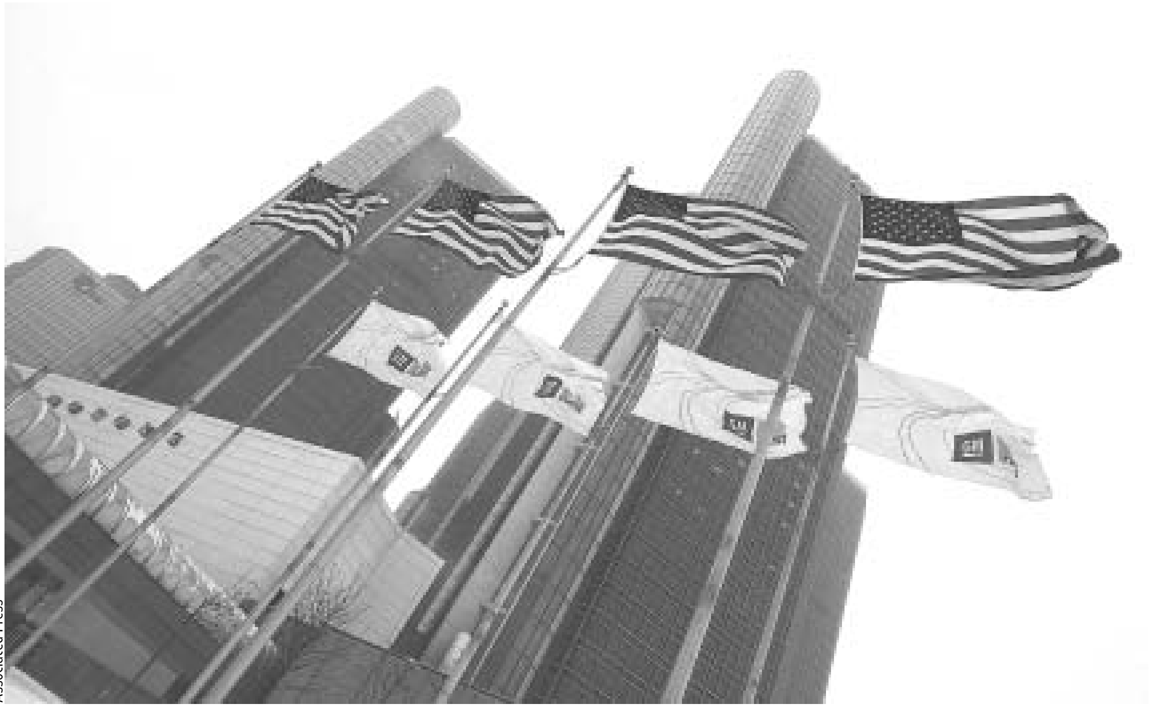
GM and Chrysler LLC are supposed to get $13.4 billion in coming months but are required, among other things, to cut labor costs and reduce their debt. If they make progress on their restructurings, they could get an additional $4 billion in February.

Following the Bush announcement, the two ailing auto makers got another shot in the arm from north of the border on Saturday, as the Canadian government and the province of Ontario said they will provide at least US$3.29 billion in loans to the Canadian units of GM and Chrysler.

Canada and Ontario had been poised for more than a week to provide an injection of cash once the U.S. government took action, and were promising to provide loans totaling 20% of whatever the U.S. offered.

"We cannot afford, in the United States or Canada, the catastrophic short-term collapse of the Big Three auto makers. The U.S. has signaled that they aren't going to allow these companies to fail, and we will do our share of the North American package to see that this doesn't happen either," Canadian Prime Minister Stephen Harper said at a news conference on Saturday.

After spending the last several weeks lobbying Congress and the White House for bridge loans, GM officials got a breather over the weekend. This week they'll begin "brief and high level" talks with the UAW, bondholders, banks and suppliers, although it's unclear how much progress they can make with the Christmas holiday coming on Thursday, according to several people involved in discussions.



Associated Press

GM officials will begin preliminary talks with the UAW, bondholders, banks and suppliers this week.

GM expects to receive its first round of loans from Washington by Dec. 29, the company's chief financial officer said on Friday, just in time to fund $6 billion to $8 billion in payments due to thousands of parts makers at the beginning of January.

Throughout the nation, UAW officials began bracing GM workers to make what they called "unpopular sacrifices." In a letter to assembly-line employees in Texas, the leaders of UAW Local 276 said that "strict conditions associated with the loans are non-negotiable and must be met by the stated deadline," which is March 31. The officials warned UAW workers that they may not hear any updates from the union's leadership in Detroit until after the holidays.

"I would say we have a very good track record of working with our major unions, in particular the UAW, to address competitive challenges," GM Chief Executive Rick Wagoner said Friday. "The agreement sets out some targets, and we're anxious to sit down with our UAW colleagues to do our best to address those."

Brett Hoselton, a senior automotive analyst at KeyBanc Capital Markets, said in an telephone interview that GM and Chrysler are likely headed for some tough talks with the United Auto Workers union, and must come away with significant cost cuts quickly in order to qualify for a second round of loans in the first quarter.

"Concessions need to happen, and happen soon," he said. "Because you're basically back to square one come February or March."

GM and Chrysler are likely to seek the complete elimination of the so-called Jobs Bank, a controversial program in which laid-off workers continue to get paid even when their plants close and they no longer report for work. UAW President Ron Gettelfinger has said the union will suspend the Jobs Bank.

GM is also being forced to cut about $40 billion of its $60 billion debt load, or $10 billion more than the auto maker was willing to cut under a plan it submitted to Congress in early December.

Pat O'Keefe, president of O'Keefe & Associates Consulting, a turnaround firm in Bloomfield Hills, Mich., said the auto makers can use the specter of bankruptcy to prod creditors into accepting new terms that help the auto makers.

"Bankruptcy is a failed negotiation," he said. "If they're unable to get a deal on a negotiated basis, they will use bankruptcy to push the parties that can't seem to come to the table."

On Friday, GM Chief Executive Rick Wagoner told reporters that government assistance is expected to give GM time to put together a plan that doesn't require a bankruptcy filing.

As it dives into negotiations with unions and investors, GM is keeping a close eye on developments at its lending affiliate, GMAC LLC, which won't receive any of the funds slated for GM's bailout. GM relies on GMAC to make loans to most of its dealers and a substantial chunk of GM car buyers. The firm, however is facing a liquidity crisis and is working with federal regulators on a plan that would allow it to become a bank holding company, and therefore separately tap the $700 billion in funds originally intended to bail out the finance industry, known as TARP.

Without that designation, GMAC is likely to collapse. The lender currently owes GM up to $1.5 billion in delayed payments related to wholesale financing for auto dealers, and that money is due Dec. 30. GM needs the money in order to pay its suppliers in early January. It is unclear what will happen if GMAC is unable to make that payment.

GM executives expect to resume discussions with President-elect Barack Obama's transition team shortly after the New Year. Mr. Obama is currently vacationing in Hawaii, and GM officials haven't been as closely in touch with his aides as they were when the auto maker was in discussions with Congress earlier in December about a bridge loan.

Even as it lobbied for White House aid, GM's management team was beginning to build contingency plans in the event it had to file for Chapter 11 bankruptcy protection. Many of the advisers it has been working with, including high-profile bankruptcy attorneys, are expected to continue working with Mr. Wagoner's management team in coming months.

General Growth grants concession

By Kris Hudson
And Jeffrey McCracken

To gain a reprieve on a debt-payment deadline last week, General Growth Properties Inc. granted a concession long sought by its lenders: The debt-laden mall giant won't take any significant actions without the consent of certain lenders, according to people familiar with the matter.

The concession, expected to be disclosed soon in a U.S. Securities and Exchange Commission filing by the company, was a critical piece of the hotly contested payment reprieve that kept General Growth out of bankruptcy court. It also marks the latest twist in a weekslong saga of strife between Citigroup Inc. and other General Growth lenders.

The pact struck last week provides that lenders in two big loans—a $900 million loan backed by two luxury malls in Las Vegas and an unsecured $2.6 billion credit facility—won't call those loans due before Feb. 12 and Jan. 30, respectively. Such a provision is called forbearance.

The reprieve gives General Growth—which owns more than 200 malls—and its lenders time to try to resolve their differences and perhaps strike a longer extension. Citigroup, which was a major advocate for concessions from General Growth, didn't go along with the forbearance agreement, but the deal went through anyway.

A representative of Chicago-based General Growth, which has struggled for the past year to refinance and pay down its $27 billion debt load, declined to comment.

Several other lenders in the talks either declined to comment or didn't return messages seeking comment. A representative of holdout lender Citigroup declined to comment.

To clinch the deal, General Growth acquiesced to a standstill agreement. The mall owner won't make major moves—such as selling malls, refinancing properties or transferring assets between its subsidiaries—during the term of the forbearance pact without the approval of the majority of lenders in its credit facility, according to people familiar with the talks.

The concession is significant because General Growth needs to sell several malls and refinance mortgages to cope with not only the $900 million Las Vegas loan, but also another $2 billion in other debts coming due in 2009. The roughly 180 lenders in the company's credit facility, led by Eurohypo AG as agent, now hold sway over that process for the next six to eight weeks.

Meanwhile, General Growth has enlisted more advisers. A week ago, New York investment-banking and financial-advisory firm Miller Buckfire & Co. began working with the company. General Growth's other advisers—Goldman Sachs Group Inc., Morgan Stanley and Deutsche Bank AG—would have conflicts of interest in the event of a bankruptcy because they are also lenders to General Growth. Miller Buckfire declined to comment.

Early this month, General Growth hired Michigan-based advisory firm AlixPartners to help with the company's turnaround.

Caterpillar slashes bonuses, freezes hiring as sales decline

A WSJ News Roundup

Caterpillar Inc. said it would slash executive compensation—particularly its incentive and equity-based programs—to cope with slumping demand.

The company, based in Peoria, Ill., also instituted a hiring freeze and plans to suspend merit pay increases for managers and support employees.

The maker of mining and construction equipment said executive compensation would be cut by as much as 50% and it will reduce compensation for senior managers by 5% to 35% in 2009. Other management and support staff will see a reduction of up to 15%.

Numerous U.S. companies have begun opting for salary freezes and reductions instead of cutting jobs, as the cost of hiring and firing can be significant when looking to rebuild a work force after a downturn. Management pay has been a particular focus of cuts. Caterpillar's compensation reductions, for both executives and lower-level employees, reflect planned cuts to incentive and equity-based compensation.

Caterpillar has been averse to cutting jobs, but last week announced it will cut more than 800 workers at an Illinois plant. It is the first time the company has cut full-time workers on a large scale and for an indefinite period since early this decade. Caterpillar has also been shedding workers hired through employment agencies.

Sales of the company's machinery through dealers world-wide fell 6% in the three months that ended in November from a year earlier, Caterpillar said last week. A sharp growth slowdown was noted in its Latin America and Asian operations.

The company has benefited from a five-year boom led by emerging markets in big need of the heavy construction equipment made by Caterpillar. During that time, the work force rose nearly 50% to 101,000 as revenue more than doubled.

CORPORATE NEWS

U.S. developers ask for bailout of their own

Massive debt tied to commercial market is coming due soon

By Lingling Wei And Jon Hilsenrath

With a record amount of commercial real-estate debt coming due, some of the biggest property developers in the U.S. have become the latest to go hat in hand to the government for assistance.

They are warning policy makers that thousands of office complexes, hotels, shopping centers and other commercial buildings are headed into defaults, foreclosures and bankruptcies. The reason: According to research firm Foresight Analytics LCC, $530 billion of commercial mortgages will be coming due for refinancing in the next three years—with about $160 billion maturing in the next year. Credit, meanwhile, is practically nonexistent, and cash flows from commercial property are slowing.

Unlike home loans, which borrowers repay after a set period of time, commercial mortgages usually are underwritten for five, seven or 10 years with big payments due at the end. At that point, they typically need to be refinanced. A borrower's inability to refinance could force it to give up the property to the lender.

A recent letter sent to Treasury Secretary Henry Paulson, and signed by a dozen real-estate trade groups, painted a bleak scenario: "Right now, we believe there is insufficient systemic capacity to refinance expiring, performing commercial real-estate loans," said the letter. "For many borrowers, [credit] simply is not available."

To head off some of the impending pain, the industry is asking to be included in a new $200 billion loan program initially created by the government to salvage the market for car loans, student loans and credit-card debt. This money is intended to go directly to help investors finance purchases of securities backed by these assets. If commercial real estate is included, banks might have an incentive to make more loans to developers since they would be able to repackage and sell them more easily to investors with the assurance of government backing.

As part of their lobbying efforts, some industry representatives have asked lawmakers to explore the idea of setting up a separate program aimed at boosting lending to commercial real estate only.

"We've been urging Washington to put this as one of the top priorities in dealing with the economy," says Steven Spinola, president of the Real Estate Board of New York, underscoring the need for the government to help spur commercial property lending either directly or indirectly.

The real-estate executives are warning that the approaching surge in commercial mortgages coming due poses another major threat to the global financial system, which already is on life support. With rent prices falling and vacancies rising due to the weakening economy, delinquencies on commercial mortgages already have begun to rise sharply.

Up until now, delinquencies on commercial real-estate loans have stayed below historical levels thanks in part to the limited amount of speculative construction in recent years. But now they are rising at a time when a huge volume of loans are coming due and some of the few institutions that were still making loans are retreating from the market.

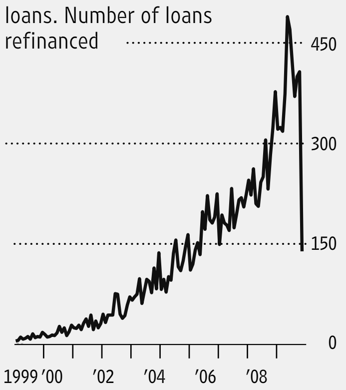
"The credit crisis has got so bad that refinancing of even good loans may be drying up," says Richard Parkus, head of commercial-mortgage-backed securities research at Deutsche Bank.

Commercial real-estate owners, of course, are just the latest to get in line in Washington for the billions of bailout dollars that the government has begun to hand out. Other businesses that have received or are campaigning for some form of aid include banks, credit-card issuers, car companies and even farm-equipment maker Deere & Co.

Real-estate owners are pressing the government to take pre-emptive action before thousands of properties begin to fail. Among those who have been active in the lobbying effort is William Rudin, whose family is a large Manhattan office-building owner, Stephen Ross, chief executive of The Related Cos., a major U.S. developer, and Steven Roth, chief executive of office and retail landlord Vornado Realty Trust.

Commercial blues

Lenders are refinancing fewer commercial-real-estate loans. Number of loans refinanced



Source: Deutsche Bank

In recent weeks, industry representatives have met with officials in the Treasury Department, Senate Majority Leader Harry Reid, senior lieutenants of Federal Deposit Insurance Corp. Chairman Sheila Bair, members of President-elect Barack Obama's transition team, and Democratic Sen. Charles Schumer of New York.

Treasury and Fed officials have said they would consider including commercial real estate in the new $200 billion loan initiative. But such a step won't happen soon. The program isn't likely to be operational until February. Even then, expanding it to include the immense commercial real-estate market would likely require additional financial support from the Treasury.

For now, the Treasury has agreed to backstop the Federal Reserve on as much as $20 billion of losses on the program. That means Treasury will take the first $20 billion of any losses using funds approved by Congress for the $700 billion Troubled Asset Relief Program.

There is widespread agreement that a record volume of commercial real-estate loans made during the boom years are starting to come due. According to Foresight Analytics, the $530 billion of commercial mortgages that will be maturing between now and 2011 includes loans held by banks, thrifts and insurance companies as well as loans packaged and sold as commercial-mortgage-backed securities—or CMBS.

At the heart of the financing scarcity is the virtual shutdown of the market for CMBS, where Wall Street firms sliced and diced commercial mortgages into bonds. During the recent real-estate boom that took off in 2005 and lasted through early 2007, that market fueled the lending to real estate because banks could easily sell the loans they made. But the credit crisis that started in the summer of 2007 has put the securitization market on hold, which, in turn, has caused lenders of all stripes to become increasingly reluctant to make new loans.

While commercial real-estate developers restrained themselves during the boom years when it came to speculative development, property investors bid up the prices of office buildings, malls and other projects to record levels assuming rents and occupancies would keep rising. With cash flows now falling, an increasing number of developers are having a tough time repaying their debt. A revitalized lending climate is necessary, they say, to keep them afloat.

What isn't clear is how soon the crunch will come. The Real Estate Roundtable, a major industry trade group, predicts that more than $400 billion of commercial mortgages will come due through the end of 2009. Foresight Analytics estimates that $160 billion of commercial mortgages will mature next year.

Jeff DeBoer, president and chief executive officer of the Roundtable, says the group came up with its estimate by looking at the $3.4 trillion of commercial real-estate loans outstanding. It isn't unusual for roughly 10% of the industry's debt to roll over every year, he says, referring to refinancings.

This year, some $141 billion worth of commercial real-estate debt owed by property owners and developers to lenders came due, according to Foresight Analytics. Most of that was refinanced or extended by existing lenders.

Palm secures cash infusion from private-equity backers

A WSJ News Roundup

Palm Inc. said **Elevation Partners** has agreed to make an additional $100 million equity investment, a move that the smart-phone maker hopes will increase momentum behind its 2009 product introductions.

The news set off a rally in the stock of Palm, known for its Treo handsets.

Elevation Partners is the private-equity firm that gave Palm a new lease on life in 2007. This time around, for its $100 million, Elevation Partners will get preferred shares, convertible into stock at $3.25 a share—a substantial premium to where the stock has been trading—and warrants to purchase an additional 7 million shares at that price. In September 2007, Elevation Partners bought 25% of the company for $325 million.

Elevation also agreed to sell $49 million of the new investment to "other investors" at the same price, should Palm ask it to do so by March 31.

The news follows Palm's widened fiscal second-quarter loss, reported Thursday. The company, a pioneer in the smart-phone market, has watched its market dominance erode as it failed to keep up with Research in Motion Ltd.'s Blackberry line and Apple Inc.'s iPhone.

The new money is meant to keep the company going as it contends with falling prices of smart phones while striving toward release of a new operating system dubbed "Nova," which may be detailed during the Consumer Electronics Show in January in Las Vegas.

Palm, based in Sunnyvale, Calif., saw its shares trade up as much as 49% in morning action Monday. In afternoon trading in New York, Palm's shares were at $2.95, up 19%.

Palm Chief Executive Ed Colligan said the capital "will enable us to put added momentum behind the new product introductions ... and will provide us with enhanced stability in unsettled economic times."

CORPORATE NEWS

Shop around the clock

Desperate for sales, some U.S. retailers open for night owls

By Rachel Dodes


Josh Wortman

Camille Joseph takes a seat on the floor during a 4 a.m. shopping spree at the Toys "R" Us store in New York, which will be open continuously until Christmas Eve.

At 4 a.m. Saturday, while most people in the city that never sleeps were nevertheless sleeping, Camille Joseph was wandering the aisles of Toys "R" Us in New York's Times Square.

Saying she hates crowds, the 37-year-old Ms. Joseph was thrilled to be able to finish her shopping when no one was around. Surrounded by packages filled with a dollhouse, videogames and a robot, she sprawled on the floor next to a cash register. "Could you imagine being able to do this during the day?" said Ms. Joseph, who by day is a manager at Starbucks.

Starting this past Friday and continuing until 8 p.m. Christmas Eve, Toys "R" Us is embracing procrastinators, night owls and curiosity seekers by keeping its New York flagship—billed as the world's largest toy store—open continuously for 134 hours.

In the final countdown of one of the worst holiday retail seasons in decades, more retailers have extended hours and are staying open for 24-hour periods or more in a last-ditch effort to capture sales. **Macy's** Inc., **L.L. Bean International**, **Wal-Mart Stores** Inc. and **Hennes & Mauritz** AB's H&M chain added extreme hours at select locations this year, they said, as a way to enhance customer service, reduce congestion and compete for last-minute sales.

"In this kind of environment, you do whatever it takes," said Michael Niemira, chief economist at the International Council of Shopping Centers.

Snowstorms across the U.S. during the last shopping weekend before Christmas were expected to make the already dismal retail season even worse, some retailers said. Numbers weren't available Sunday, but ShopperTrak RCT Corp. said that the final weekend before Christmas typically accounts for 11.5% of holiday sales. Last year, Super Saturday brought in $8.7 billion in retail sales. Retail sales for the six weeks to Dec. 13 were down 2% from a year earlier.

Marshal Cohen, chief industry analyst at market researcher NPD Group, has been visiting malls in North Carolina, South Carolina, Florida and Georgia since Friday. He said "traffic was on par with last year" but noticed fewer purchases per person.

Kathleen Waugh, a spokeswoman for Toys "R" Us, said it was premature to say whether the benefits of keeping the Times Square store open continuously outweighed the costs. "We will evaluate its success once the event is over at 8 p.m. on Christmas Eve," she said.

Toys "R" Us Inc., which was purchased in 2005 by private-equity funds **Bain Capital** LLC, **Vornado Realty Trust** and **Kohlberg Kravis Roberts** & Co., reported Dec. 12 that the company incurred a loss of $104 million in the quarter ended Nov. 1, compared with a $76 million loss in the year-earlier period. Sales at stores open at least a year declined 0.3%.

To lure shoppers, the Times Square store offered 15% off for people who spent at least $75 between midnight and 5 a.m. While the store wasn't bustling all night, the after-midnight hours created a festive atmosphere.

On the first floor of the Toys "R" Us store, as Sammy Davis Jr. belted out "The Candyman" over the sound system, Mike Morris linked arms with his friend Janine Cicero and danced the fox trot while oblivious employees unpacked boxes and restocked shelves nearby. "I am finding this to be pretty fabulous," said Ms. Cicero, 38 years old, who was accompanying Mr. Morris on his 2:30 a.m. quest for a $59.99 Elmo Live toy for his goddaughter.

Only 16% of all consumers say they prefer late hours, according to Britt Beemer, president of America's Research Group. But retail experts say the late-night strategy is an inexpensive way to boost sales per square foot, provided that at least some sales are generated. Electricity doesn't cost as much during off hours, and stores can operate with fewer staffers. "People would be surprised at how little it costs" to stay open, said Frank Pereira, managing partner at shift-work scheduling consultancy Capstan Group.

Outdoor retailer L.L. Bean became the first store in the U.S. to stay open 24-7, all year long, at its Freeport, Maine, store in 1951. Its founder, Leon Leonwood Bean, wanted to help people who were passing through Maine on hunting and fishing expeditions at all hours of the night. Later, the 7-Eleven chain became the first national chain to stay open around the clock. Most of Wal-Mart's supercenters, the first of which opened in 1991, are open 24 hours a day, except some holidays.

Walgreen's profit declines 11%

By Mike Barris

U.S. drugstore chain **Walgreen** Co. posted an 11% profit drop for its fiscal first quarter and said it will further trim store openings to hold down costs.

The retailer called the slowdown "a prudent step" in the current economy, despite posting "solid sales results."

Walgreen now aims for store count to rise 4% to 4.5% in 2010 and 2.5% to 3% in 2011. The annual savings will be $500 million, on top of a $500 million cut in capital spending announced in July.

Walgreen reported profit of $408 million, or 41 cents a share, for the quarter ended Nov. 30, compared with $456 million, or 46 cents a share, a year earlier. Sales rose 6.6% to $14.95 billion, while sales at stores open at least a year increased 1.7%.

Gross margin fell to 27.8% from 28% amid flat nonpharmacy retail results, weakness in nonretail operations and an inventory charge.

Retail pharmacy margins increased due to increased sales of generic drugs, which have higher margins. Overall, prescription sales, which account for two-thirds of the chain's sales, rose 6.2%; on a comparable-store basis, they were flat.

Walgreen and other big pharmacy chains have aggressively promoted their discount-drug programs as the economy declined and competition increased. These moves are among the latest in a market battle that has helped lead to lower prices and greater use of generic drugs.

Toyota to unveil small electric car at Detroit show

By Norihiko Shirouzu

Toyota Motor Corp. said it plans to display a battery electric concept car at the North American International Auto Show in Detroit next month.

The car is based on a subcompact model the Japanese auto maker is considering introducing in a few years, people familiar with the company's plans said.

They said the production model Toyota would have a limited driving range and an affordable price tag of about $20,000. The car would be ideal for everyday shopping and other errands but wouldn't be fit for long-distance driving, the people said.

For more versatile use, they said, Toyota is developing a plug-in hybrid car—an electric car with a small gasoline engine to charge its battery when it runs dry—which the company plans to roll out late next year.

It wasn't clear when Toyota plans to start producing the small electric car for the mass market.

U.S. pharmacies battle over generic-drug prices

By Dinah Wisenberg Brin

Retail pharmacies are waging what some consider a generic-drug price war that is threatening margins in a typically high-profit area and reflects the intense competition drugstore chains face in attracting and keeping customers.

Big pharmacy chains like **CVS Caremark** Corp., **Walgreen** Co. and **Rite Aid** Corp. have started to aggressively promote their discount drug programs in recent months as the economy has declined and competition has increased. These moves are among the latest in a market battle that has helped lead to lower prices and greater use of generic drugs.

Retail-pharmacy generic discount programs have proliferated since **Wal-Mart Stores** Inc. introduced $4 generic prescriptions for one-month supplies of hundreds of unbranded drugs in 2006 and mass merchandisers and grocery stores responded with their own versions.

In recent months, three big pharmacy chains each have unveiled or expanded drug-discount programs.

Walgreen this summer started strongly marketing its Prescription Savings Club, which provides discounts on generics and 5,000 branded medications and rebates on store-brand products. The company said the program has been "extremely successful" in keeping and acquiring customers.

CVS this fall introduced a discount program aimed at the uninsured, offering a 90-day supply of more than 400 generic drugs for $9.99 and a 10% discount at the company's store-based clinics. The company at the time cited "a very challenging economic environment" and Americans' struggles with health-care costs.

"Wal-Mart's move was very significant because they were going after a core source of profits for retail pharmacy," said Adam Fein, president of Pembroke Consulting Inc., pharmaceutical-supply-chain consulting firm in Philadelphia.

"Wal-Mart is trying to provide mail-order pricing in a retail format, and they're pressuring other pharmacies to get much more efficient and accept lower margins for generics than they historically have," Mr. Fein said.

While offers such as Wal-Mart's have hurt independent pharmacies and regional drugstore chains more, Mr. Fein said, national drugstore chains face significant pressure, as well.

For their part, the retailers see the recent rollout of discount generic-drug programs as normal competition.

"I don't know if I would term it a generic price war," said Kermit Crawford, Walgreen's senior vice president of pharmacy. "I think that the pricing is competitive within certain therapeutic categories, and I think what you see is all of the retailers promoting their competitive price."

Pharmacy-benefits managers such as CVS Caremark, **Medco Health Solutions** Inc. and **Express Scripts** Inc., which run the nation's big mail-order drugstores, say the retail generic-discount programs aren't hurting their businesses.

"The movement's really been from retail to retail. We have not seen movement from our mail pharmacies," said Ken Malley, Medco vice president for channel and generic strategy. Mail-order programs serve the insured, while the retail programs tend to focus more on the uninsured, and Mr. Malley noted that generic pricing for the insured market already is low.

Pembroke's Mr. Fein sees more than the economy behind CVS's move. Most of CVS's customers are insured, he said, wondering whether the company is trying to pick up more uninsured and underinsured patrons or defending against the leakage of pharmacy customers to competitors.

A CVS spokeswoman, Carolyn Castel, said the company has made no strategic change. "The prevailing economic situation only increases the need to offer options for the under- and uninsured," she said.

Rite Aid in late September rolled out nationally a prescription savings card offering hundreds of generic drugs at $8.99 for a 30-day supply or at $15.99 for a 90-day supply, plus discounts on branded drugs and Rite Aid products. Chief Executive Mary Sammons acknowledged in September that retail drug-discount programs were starting to affect consumers' decisions on where to purchase their medications.

Rite Aid says its prescription savings program has been very successful, with more than 30% of the 700,000 customers who have used it being new patients to the stores. While industry watchers say discount programs threaten generics margins, others see opportunity in having more patients switch to generics from lower-margin brands. While Rite Aid's pharmacy margin was flat in its recent quarter, one positive factor the company cited was greater generic-drug substitution.


Associated Press

Discount generic-drug programs have proliferated among U.S. retail chains since Wal-Mart introduced $4 prescriptions for some medicines in 2006.

CORPORATE NEWS

India's textile industry starts to unravel

Decline in demand exacts a heavy toll on economic growth

By Niraj Sheth

COIMBATORE, India—Half of the yarn-making machines in V. Kalyanaraman's spinning mill sit idle, and nearly a third of his staff has been let go. The domino effect of recession in the West has arrived here in southeastern India.

India's second-largest employers after agriculture, textile concerns employed 35 million workers last year. But the companies have already shed 700,000 jobs this year and at least 1.2 million textile employees are expected to be out of work by March, according to the government's Ministry of Textiles.

The sector is crucial to the country's economy. The textile industry contributed 4% of India's gross domestic product in the year that ended March 31, and accounted for 13.5% of Indian exports.

The industry is particularly important in the southern Indian state of Tamil Nadu, which is bearing the brunt of the slowdown. At Mr. Kalyanaraman's **Chandra Textiles** Ltd., the work force—mostly female migrant workers from rural areas—has been trimmed by 30% to 300 workers, and more cuts are expected as U.S. demand shrivels. Mr. Kalyanaraman has also halted construction on a new spinning mill, leaving it half-built.

Trimming jobs

Heavily reliant on the textile industry, India's southern state of Tamil Nadu is suffering amid a drop in demand for exports

A worker empties spools of processed cotton yarn in an Indian spinning mill.

Niraj Sheth/WSJ

So far, most of the textile industry's job losses are among its least-skilled and lowest-paid workers at spinning mills, dyeing houses, and stitching and embroidery factories. Employees in such operations earn about $2 a day. It isn't unusual to spot child workers in such factories, although it's illegal to employ them.

As India's once-booming economy slows, some financial and technology companies have started handing out pink slips, too. Last month, **American Express** Co. cut 100 staffers in India, while **Goldman Sachs Group** Inc. is also expected to lay off an unspecified number of staff in India as part of an announced 10% reduction in its global work force, according to people familiar with the matter.

However, no sector has been hit as hard as textile manufacturing. The drop in demand for all textile products, including raw cotton, started late last year, company executives say. That's when the housing bubble burst in the U.S. and many Americans stopped buying household items such as carpets and blankets. The trend has since accelerated and spread into apparel and other products.

Meanwhile, the industry's woes have been compounded by India's infrastructure problems. Tamil Nadu state, home to a quarter of the country's textile production, last month capped power usage at 50% of normal levels to deal with a severe energy shortage. Textile businesses such as spinning mills need to operate around the clock to be profitable, factory owners say.

"The textile industry is really being hit on all sides," says K.A. Srinivasan, chairman of the South India Mills Association. He warns that "the full effect is still to be seen."

That is evident in the small city of Tirupur, 60 kilometers from Coimbatore. Tirupur used to be a thriving center for the Indian garment trade, with almost 3,500 apparel makers. Locals call the city "little Japan" for its dependence on exports. Half of the garments made there are shipped to the U.S.

Now, trucks delivering raw cotton to Tirupur factories are half-empty, reflecting slumping orders. Workers who have had their shifts eliminated or shortened sit idly on the stoops of their garment plants.

Tirupur's exports, which were growing at 15% a year and peaked at $2.2 billion in the year ended March 31, are set to decline 20% this year, says A. Sakthivel, president of the Tirupur Exporters' Association. "From the tea shop to the big store or theaters, Tirupur lives on exports," Mr. Sakthivel says, adding that the slowdown "will affect us from top to bottom."

The industry has been lobbying the government for help. Last month, a delegation from the Tirupur Exporters' Association traveled to New Delhi to ask the central government to reinstate a tax break for exports, reduce lending rates from state-owned banks, and extend a two-year moratorium on loan payments for garment exporters. The government has indicated it will try to help, but hasn't disclosed any specific measures.

Clues sought in U.S. jetliner crash

By Andy Pasztor And J. Lynn Lunsford

Investigators took photos and measurements at the charred wreckage of a Continental Airlines jet Monday, searching for clues about why the plane veered off a runway in Denver on Saturday and skidded into a shallow ravine, injuring more than three dozen on board.

The twin-engine Boeing 737-500 still sat Monday in a shallow, snow-covered ravine where it came to rest after an aborted takeoff.

National Transportation Safety Board investigators made preliminary reviews of the cockpit voice recorder and the flight data recorder Sunday, agency spokesman Peter Knudson said.

No information has been released, but Mr. Knudson said "we do have good data" from the recorders.

Investigators planned to interview the captain and the first officer later Monday. Both had clean safety records with the Federal Aviation Administration, FAA spokesman Ian Gregor said. He declined to release their names.

Preliminary indications point to braking problems aboard the Houston-bound jetliner that may have caused the accident, said people familiar with early data gathered by investigators.

These people said preliminary data and information from air-traffic controllers indicate the jet was accelerating for takeoff when the cockpit crew decided to stop the plane from becoming airborne. When pilots applied the brakes, the speeding plane was pulled to the left side of the runway, careened across some taxiways and smashed into a ravine, about 180 meters from one of the airport's fire stations, according to these people.

It isn't clear what prompted the crew to abandon the takeoff in cold but clear weather around 6 p.m. Saturday. The Denver runway was free of ice or snow Saturday, according to eyewitnesses and people familiar with the investigation, but rubber skid marks suggest the plane began veering to the left early in its roll toward takeoff.

Over the years, engine malfunctions and problems with landing gears or blown tires have accounted for about half of all aborted takeoffs globally, and they are among the leading probable causes for Saturday's accident, according to people familiar with the investigation.

A likely contributing factor, according to investigators, was a stiff crosswind reported at more than 48 kilometers per hour that would have made it more difficult to keep the plane rolling down the center of the runway while simultaneously trying to stop.

There were no fatalities among the 115 passengers and crew. Some passengers used emergency chutes while others clambered down wings in what they described as a chaotic scene in the smoke-filled ravine. Firefighters were able to quickly douse flames on the right side of the plane, though they stayed on the scene to mop up minor flare-ups through early Sunday.

So-called runway excursions or overruns are rare events in the U.S., with pilots receiving regular training on how to slow down aircraft in all types of weather and runway conditions if they decide against a takeoff. But such overruns are an increasing problem outside the U.S., ranking as one of the top global causes of commercial-airplane accidents in recent years.

Investigators will look at, among other things, how fast the plane was moving when pilots aborted the takeoff. They will also try to determine whether automatic braking systems were engaged, and whether such systems as the engine-thrust reversers or panels on top of the wings were deployed or may have failed to operate correctly to stop the aircraft.

Continental declined to comment on any of the factors that could have caused the crash. Robert Sumwalt, the NTSB member at the accident site, is a former commercial pilot who used to fly such jets. Calling it a potentially important safety lesson, he said "we're going to learn something" important from this crash "without suffering any fatalities."

CORPORATE NEWS

Smoking lawsuits revive

U.S. court ruling against Altria unit sets off legal moves

By Brent Kendall

Bloomberg News/Landov

The U.S. Supreme Court ruled smokers can sue Altria for allegedly deceptive advertising of 'light' cigarettes.

WASHINGTON—The Supreme Court's ruling last week allowing smokers in Maine to sue **Altria Group** Inc.'s Philip Morris unit for allegedly deceptive advertising of "light" cigarettes already is prompting new legal activity, including an effort to revive a multibillion-dollar case against the tobacco company that had been thrown out.

St. Louis trial lawyer Stephen Tillery filed a motion Thursday seeking to reopen a $10.1 billion judgment in Illinois against Philip Morris in 2003. The judgment was later tossed out by the Illinois Supreme Court, which said Mr. Tillery's plaintiffs couldn't sue the tobacco company for marketing cigarettes with "light" and "low tar" descriptions.

Mr. Tillery says the U.S. Supreme Court's 5-4 decision "eviscerates" the legal basis for the Illinois court's ruling and could breathe new life into his case. He was nearing a final deadline for finding a basis to revive the suit.

Altria spokesman Jack Marshall said the Illinois plaintiffs have tried once before to have the case reopened and were rebuffed by the state Supreme Court. "We believe the plaintiffs' second attempt is also meritless and will be rejected by the Illinois courts," Mr. Marshall said.

The Supreme Court ruling rejected Philip Morris's argument that the federal government's regulation of tobacco advertising should bar consumer product-liability lawsuits in state courts. The tobacco giant has made similar arguments in other cases.

The ruling cleared the way for a lawsuit by a group of Maine smokers who allege that Philip Morris used the "light" term on Marlboro Lights and other cigarettes to communicate that those brands were less harmful than regular cigarette brands, even though it knew that smokers would receive the same levels of tar and nicotine from both.

The Maine case is similar to several state-law class-action lawsuits that deal with the advertising of light cigarettes. Many of those lawsuits were on hold pending the outcome of the Supreme Court case.

"An entire class of litigation has been revived thanks to [the] ruling," said Edward Sweda, an attorney with the Northeastern University's Tobacco Products Liability Project. "Those lawsuits were on the precipice of being eliminated."

Mr. Sweda said there are roughly 40 cases pending in 22 states. The Illinois case that Mr. Tillery is attempting to revive is the only one that has gone to trial, Mr. Sweda said.

Sina expands into offline world

By Loretta Chao

HONG KONG—**Sina** Corp. agreed to acquire the core operations of China's largest digital-advertising company for more than $1 billion in stock, a risky move by one of the country's oldest Internet companies to expand into offline advertising.

Sina, founded in 1999, operates China's most popular Web portal by advertising revenue. Under terms of the deal, Shanghai-based **Focus Media Holding** Ltd. will sell Sina its nationwide network of hundreds of thousands of flat-panel displays that play video ads in places like stores and office-building elevators.

Sina will also acquire related ad businesses, which together accounted for about 52% of Focus Media's revenue and about 73% of its gross profit in the first nine months of the year, the two companies said Monday.

Sina said it will issue 47 million new shares to Focus Media for distribution to its shareholders. The size of the issue is close to the roughly 56 million shares Sina had outstanding before the deal, according to the Nasdaq Stock Market. That means significant dilution for existing Sina shareholders.

The 47 million shares would be valued around $1.37 billion based on Sina's closing share price Friday. The market value for all of Focus Media was $1.42 billion at Friday's close. After the announcement Monday, Sina's shares were down 18% at $24 in late-afternoon Nasdaq trading. Focus Media's shares were off 17% at $9.12, also on the Nasdaq.

The deal size highlights the growing muscle of Internet companies in China, which by some measures boasts the world's largest population of Internet users.

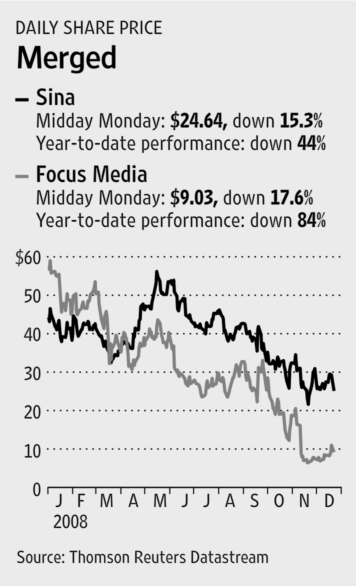
Sina and its Chinese peers remain relatively small compared with their U.S. counterparts, but they are expanding quickly thanks to strong growth in online ad spending. Sina last month reported a 64% increase from a year earlier in its third-quarter revenue to $105.4 million.

Sina hopes the acquisition will create the "dominant new-media advertising platform in China," which will cover "a significant portion of mainstream urban consumers in the China market," Sina Chief Executive Charles Chao said in a conference call.

Analysts voiced skepticism, despite the possibilities for cross-selling advertising across platforms.

"There is synergy in the sense you've got an integrated platform that could be a powerful new platform for media buyers and advertisers," said Vivek Couto, an analyst with Media Partners Asia. "However it depends on how integrated it's going to be."

Founded in 2003, Focus Media grew quickly thanks to its widespread digital-ad displays and to a series of acquisitions. But in the past year its share price has plunged by more than 80% as investors started doubting its business model and its founder resigned as chief executive.



Focus Media said it plans to keep its Internet-advertising division, movie-theater advertising network and certain traditional billboards after Monday's deal.

Shaun Rein, head of Shanghai-based consulting firm China Market Research, said the steady growth of companies like Sina was posing a challenge to Focus Media, because companies have increasingly switched away from its ad displays in favor of advertising online.

Dick Wei, an analyst for J.P. Morgan, questioned whether Sina will be able to use Focus Media's networks effectively. "The idea of a 'media conglomerate' has not worked well in China," Mr. Wei wrote in a research note after the deal was announced.

Focus Media's "original plan of cross-selling between Internet, in-store and elevator lobby business has not shown much success."

—Geoffrey A. Fowler in Hong Kong contributed to this article.

On Other Fronts

Rough seas

The best CEOs kept their firms afloat during a brutal year > **Page 30**

GLOBAL BUSINESS BRIEFS

Newron Pharmaceuticals SpA

Swiss firm starts trial for back-pain drug ralfinamide

Swiss biotechnology company **Newron Pharmaceuticals** SpA said Monday it has started a mid-to-late stage trial of its lower-back pain drug ralfinamide, paving the way for a potential out-licensing deal with a major pharmaceutical partner. The study is monitoring 400 patients with moderate neuropathic lower-back pain who either take a 160-milligram or 320-milligram dose of ralfinamide per day or a placebo. The primary target of the study is the reduction of pain intensity. The drug, the second-most advanced in Newron's pipeline, is also being studied for use in inflammatory pain. About 55 million patients in the U.S., Europe and Japan suffer from lower-back pain, caused by a disorder of the central nervous system.

Alandsbanken Abp

Finnish bank **Alandsbanken** Abp said Monday it has signed a contract to buy most of the Swedish operations of Iceland's troubled **Kaupthing Bank** hf. Alandsbanken said the deal should be completed in early 2009 to buy Kaupthing Bank Sweden's operations except for its corporate lending business. The value of the deal wasn't disclosed. "We have analyzed Kaupthing Bank Sweden and found a business which fits well into Alandsbanken," said Alandsbanken's chief executive Peter Wiklof in a statement. The chairman of Kaupthing Sweden, Christer Villard, said the acquisition means Sweden's central bank will get back the 5 billion Swedish kronor loan ($640 million) granted to Kaupthing Sweden in October. The Icelandic government took control of Kaupthing on Oct. 9 as Iceland plunged into a deep financial crisis.

Aer Lingus Group PLC

Aer Lingus Group PLC Monday appealed to shareholders to snub **Ryanair Holdings** PLC's takeover bid, calling the move "a rip-off." The Irish flag carrier also announced it will reopen services between western Ireland's main airport, Shannon, and London's Heathrow Airport in March 2009 following a 14-month break. That reversed the carrier's most unpopular decision since it went private in 2006, and undercuts part of Ryanair's takeover sales pitch. Ryanair, Aer Lingus's No. 1 shareholder, declined to comment. Its Dec. 1 bid, offering €1.40 ($1.95) per share, was 25% higher than Aer Lingus's share price at the time. Since then, the carrier's stock has been above Ryanair's bid price on expectations of an improved offer.

Steelcase Inc.

Steelcase Inc. said its net income plunged 99% in the fiscal third quarter, reflecting a decline in demand as well as restructuring charges. The designer and manufacturer of workplace furniture also projected a fourth-quarter loss of 4 cents to 10 cents a share on revenue of $650 million to $700 million. For the third quarter ended Nov. 28, the company reported net income of $400,000, or less than one cent a share, compared with net income of $31.3 million, or 22 cents, a year-earlier. Revenue fell 8.4% to $811.3 million as an increase in international sales of 2.3% failed to offset an 11% decline in U.S. sales.

Michelin SA

French tire maker **Michelin** SA said Monday that recent production cuts, made to adjust to sharply falling demand, will cost €150 million ($209 million) in the fourth quarter. Demand for tires in Europe, North America, Asia and South America plummeted in November as car makers slashed production. Last month, Michelin temporarily closed its Romanian factories until further notice. The company also added three days to the normal Thanksgiving-holiday shutdown at its Donaldson plant in Greenville County, S.C. Michelin North America has said it plans to reduce production of consumer tires at three of its BFGoodrich plants in Alabama. In October, Michelin warned it would miss its earnings target for the year because of slow demand in Europe and North America.

Électricité de France SA

The European Commission Monday cleared **Électricité de France** SA's acquisition of **British Energy Group** PLC, attaching some conditions that were broadly in line with market expectations, according to Deutsche Bank analyst Iain Turner. EDF confirmed it has committed to sell within the next few years British Energy's coal-fired power station at Eggborough, as well as a gas-fired power station at Sutton Bridge belonging to its EDF Energy U.K. subsidiary. It has also agreed to sell between five and 10 terawatt hours of electricity on the U.K. wholesale market from its plants each year from 2012 to 2015, EDF said. State-controlled EDF is buying the U.K. nuclear-power operator for £12.5 billion ($18.63 billion).

British Airways PLC

British Airways PLC said Monday it doesn't expect its U.S. antitrust immunity application to be delayed, despite the U.S. government's request Friday for more information on its proposed alliance with **AMR** Corp.'s American Airlines. The U.S. Department of Transportation Friday requested further information from BA, American and Spain's **Iberia Líneas Aéreas de España** SA about their potential tie-up, including queries on any potential capacity and pricing decisions they may adopt. The antitrust immunity status would bypass monopoly laws in the U.S., allowing BA, American and Iberia to work together on scheduling and pricing. The planned tie-up would also be a revenue-sharing deal.

Swedbank AB

Swedbank AB said that 75.7% of its 12.4 billion Swedish kronor ($1.6 billion) rights issue in preference shares had been taken up by shareholders. The remaining 24.3% will be absorbed by existing shareholders that had agreed to underwrite the rights issue. The preference shares were priced at 48 kronor a share—a 19% discount to the ordinary shares' closing price before the announcement of the rights issue. Swedbank's ordinary shares closed Monday afternoon at 42.7 kronor. In view of this, and considering the poor showing of many European financial institutions' rights issues, the initial take-up of its capital increase was "very good," a spokesman said. In Sweden, preference shareholders are paid dividends before ordinary shareholders.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

U.S. woes open door for China

America's tarnished economic model could allow other nations to exert greater influence

BY GERALD F. SEIB

The new edition of Foreign Affairs magazine has a pair of articles about the global financial mess that carry these disturbing headlines: "A Weakening of the West," reads one, and "The Rise of the Chinese Model" the other.

Those two pieces frame a serious but little-discussed strategic problem for U.S. President-elect Barack Obama. The meltdown in financial markets hasn't simply damaged the American economy. It also has tarnished the U.S. economic model, and threatens to reduce Washington's ability to exert influence around the globe.

CAPITAL JOURNAL

The "Anglo-Saxon brand of market-based capitalism" is under a cloud, Roger Altman, former U.S. deputy Treasury secretary and now chairman of Evercore Partners, writes in one of the Foreign Affairs pieces. "The U.S. financial system is seen as having failed." That can't be good for America's moral authority.

Conversely, China stands to benefit from the mess in a couple of ways. In practical terms, because its financial system is far less exposed to the debt problems now ravaging the West, China simply will suffer less real economic damage.

Sure, China will endure short-term hits from the decline in consumer demand for the goods its factories churn out. But to the extent it suffers less damage overall, its relative strength will grow. Having accumulated massive piles of foreign-exchange reserves, for example, China now can use that cash to make strategic investments that an economically flattened West simply can't. It will be better able to give aid to struggling nations, thereby winning friends there, and can keep up its pattern of investing directly in commodities and natural resources around the globe.

At the same time it reaps practical benefits, China has an opening to expand its political sway. As developing nations watch the convulsions in world financial markets, they may well decide that China's model of a kind of centrally controlled capitalism is more attractive than the American model of unfettered capitalism. The danger is that the developing world starts to look to China for economic lessons, rather than to the West.

Barack Obama

Put it all together, and "I think it will mean greater influence for China," says Harold James, professor of history and international affairs at Princeton University and the author of the second Foreign Affairs article.

These strategic risks will land directly in the lap of the new Obama team as it takes over next month. There are ways to minimize the damage to America's interests, but they will require avoiding the temptation to turn inward—and, ironically, will require working more closely with China even while competing with it for global influence.

The hardest part of the problem may be the intangible part—the tarnish on the American economic model. Starting with Ronald Reagan's promotion of America as the "shining city on the hill," to the collapse of the Berlin Wall and communism, through America's rescue of Latin America in the 1990s debt crisis and on to the stock-market boom of recent years, the U.S. was leading a world-wide movement toward free markets, open trade and light government regulation of the economy.

The spread of that model expanded American influence—political as well as economic—in places such as Central Europe and East Asia. More than that, it benefited the American economy by allowing for free movement of goods and capital.

The danger now is that developing nations could turn instead to the Chinese model of government, with managed mercantilism as the favored approach. While that approach has worked for China, it also has produced global trade and currency imbalances that have made matters worse.

Moreover, to the extent that developing countries might try to mimic China's manipulation of trade rules and currency values to protect their own markets, that would only prolong today's global slump and delay America's recovery.

Faced with these risks, the Obama team has some advantages, of course. It should find it easier to execute a sustained policy of economic stimulus than will leaders in Western Europe, who are hobbled by the continent's fractured political system. And the mere arrival of a new president is an opportunity to re-establish American influence.

Yet that alone can't eliminate strategic risks. Precisely because China is the main potential beneficiary of any American decline, limiting the damage likely will require convincing China that it will benefit more from a broad global recovery than from taking advantage of the West's short-term problems.

Mr. James suggests that may mean trying to bring China more directly into an international economic system long dominated by the West. The Group of Seven industrialized nations would make a lot more sense as the place to discuss the world's economic woes if the group were expanded to include China, for instance.

China also could be made a bigger participant in the International Monetary Fund, which would be a way to use Chinese surpluses to advance economic recovery in a way that benefits all, not just the Chinese.

The biggest trick for the Obama team, though, will be to resist Americans' natural urge on the home front to turn inward at a time like this, becoming more protectionist and isolationist. That course likely would only worsen the consequences of the global problem—and leave the field more open for China.

Biden to lead push to boost U.S. middle class

BY JONATHAN WEISMAN

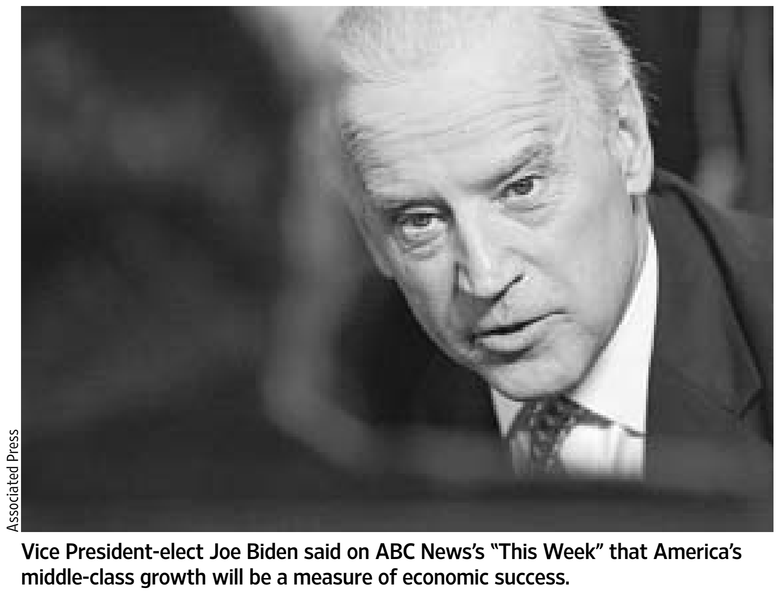
The Obama team cast its eyes toward middle-class economic anxiety Sunday with the naming of a high-level task force to be led by Joe Biden, giving the incoming vice president a defined role in the administration's domestic policy.

The White House Task Force on Working Families will include cabinet secretaries and economic officials from across the government. It will seek to make sure the economic-stimulus package—which would be the biggest implemented since the Depression—slows the soaring cost of education, expands work-force training and arrests the eight-year slide in middle-class incomes, the transition office said in a statement.

President-elect Barack Obama also promised to bolster enforcement of labor standards and workplace-safety rules, and to protect retirement income. The financial crisis has caused stock prices to slide, hurting many retirement portfolios, and triggered an economic slowdown that is hitting lower- and middle-class families especially hard.

Mr. Obama tapped Mr. Biden as his running mate partly for his potential appeal to middle-class voters. Earlier this month, the transition team gave Mr. Biden his own economic adviser, Jared Bernstein from the liberal Economic Policy Institute. Mr. Bernstein is perhaps the most pro-labor, liberal economist named to the administration.

Mr. Biden, in an interview with



Associated Press

Vice President-elect Joe Biden said on ABC News's "This Week" that America's middle-class growth will be a measure of economic success.

ABC News's "This Week" that aired Sunday, said the task force's job is to monitor "the one thing we use as a yardstick of economic success of our administration: Is the middle class growing? Is the middle class getting better? Is the middle class no longer being left behind?"

The transition team is seeking to bolster political support for its planned recovery package, which transition officials now estimate could cost between $675 billion and $775 billion, up from an original price tag of $175 billion.

The team has continued to issue details on its economic planning, in an apparent effort to appear actively engaged in addressing the country's economic woes. But the team can make little concrete progress on its plans with Congress out of session, cabinet nominees not yet confirmed and Mr. Obama still a month away from inauguration.

Transition officials said this weekend that Mr. Obama has raised his economic stimulus plan's target for job creation to three million jobs from 2.5 million earlier this month. Officials have yet to finish drawing up details of a program to make that happen.

Even if the program is able to create that many jobs, transition-team economists and advisers expect the labor market to shed jobs over the next year, just not as many.

An economic model formulated by Moody's Economy.com chief economist Mark Zandi, who is advising the transition team, predicts unemployment will rise to 8.3% in 2009 from the current 6.7%, even with a $600 billion stimulus package. His model predicts the unemployment rate will inch up further in 2010, to 8.37%.

Without a stimulus plan, however, the unemployment rate would peak at 10.8% by 2010, Mr. Zandi predicts.

Mr. Biden said that to prevent such a scenario, the stimulus package must be bold, even though the federal budget deficit is expected to soar to more than $1 trillion in 2009.

"There is going to be real, significant investment, whether it's $600 billion or more, or $700 billion. The clear notion is, it's a number no one thought about a year ago," Mr. Biden said in the ABC News interview.

Mr. Biden's working families task force will include the secretaries of labor, health and human services, education, and commerce, transition officials said. It will also include the directors of the National Economic Council and of the Office of Management and Budget, the Domestic Policy Council, and the chairwoman of the Council of Economic Advisors.

Obama's choice of pastor aims to bridge divide

BY LAURA MECKLER AND SUZANNE SATALINE

In choosing evangelical pastor Rick Warren to deliver the invocation at his inauguration, President-elect Barack Obama is associating himself with one of the most popular religious figures in the U.S., reaching out to conservative America and proving he is willing to take some flak from the liberal flank of his party.

It will be yet another high-profile moment for Mr. Warren, an evangelical leader who opposes abortion and gay marriage but has worked to broaden the Christian agenda to include issues of poverty, AIDS and the environment.

The invocation gives both men the opportunity to build on their longstanding efforts to create big tents and extend their appeal beyond their natural constituencies. As a result, both have taken some criticism from their traditional supporters.

Some liberals were concerned that Mr. Obama has invited a supporter of California's Proposition 8, which banned same-sex marriage in that state, and they posted pages of protests on the Obama transition Web site. Mr. Obama addressed the critics directly Thursday.

"We have to...focus on those things that we hold in common as Americans," he said at a news conference Thursday. "What we have to do is to be able to create an atmosphere...where we can disagree without being disagreeable."

Mr. Warren praised the president-elect. "I commend President-elect Obama for his courage to willingly take enormous heat from his base by inviting someone like me, with whom he doesn't agree on every issue," he said in a statement.

The Rev. Billy Graham has been the traditional choice of presidents—Democrat and Republican—for decades. The elderly preacher is, like Mr. Warren, a populist Christian crowd pleaser. But Mr. Graham struck an ecumenical tone, while Mr. Warren is associated with the evangelical movement.

As a group, evangelicals have been wary of the president-elect. About one in four voters this November identified themselves as evangelical or born-again Christians, and just 24% of them voted for Mr. Obama.

Since Election Day, though, many appear to be giving him a new look. Half of all evangelicals now see Mr. Obama in a positive light, and 66% approve of the way he is handling the transition, not that far from the 73% of all adults, according to a December Wall Street Journal/NBC News poll.

Mr. Obama and Mr. Warren have made common cause before. In 2006, Mr. Warren took grief from some of his fellow Christians when he invited then-Sen. Obama to speak at an AIDS forum at his Saddleback Church in Lake Forest, Calif. In August, Mr. Warren invited Mr. Obama back, along with presidential rival Sen. John McCain, for back-to-back interviews on a range of religious subjects.

Despite his popularity, Mr. Warren has been criticized by many, including theologically conservative and fundamentalist Christians who argue he is an imprecise interpreter of the Bible and a profiteer who has commercialized Christianity.

U.S. plans to fund Afghan militias

Move to fight Taliban draws on successes of the tactic in Iraq

By Yochi J. Dreazen

KABUL—The Afghan government will formally start in coming weeks an experimental, U.S.-funded effort to recruit armed local militias in the battle against the Taliban in remote parts of the country.

The first militias will be established in Wardak Province, in eastern Afghanistan, officials said. If the effort in Wardak is successful, U.S. commanders hope to create similar forces in other parts of Afghanistan in early 2009.

The creation of the local fighting forces will mark one of the first times that successful tactics from Iraq have been imported to Afghanistan. In Iraq, the U.S. decision to recruit tens of thousands of Sunni Arab fighters, including many former insurgents, is widely credited with improving the country's security situation.

"Afghanistan historically has been known as a country where local communities took care of themselves," U.S. Ambassador William Wood said in an interview in Kabul. "The way to counter the Taliban today is to make the communities themselves stronger, so they can protect their villages, their fields, their towns and their valleys."

The militia push is part of a growing American effort to bypass the struggling Afghan central government and funnel resources to Afghan villages and provinces.

Agence France-Presse/Getty Images

The Afghan government will try to recruit local militias to fight against Taliban fighters like the ones pictured above in Wardak Province.

Senior American officials have stepped up their criticism of Afghan President Hamid Karzai in recent weeks, making clear that they believe his government needs to do more to fight corruption and deliver basic services.

During a weekend visit, Adm. Mike Mullen, the chairman of the Joint Chiefs of Staff, said the U.S. focus on establishing a strong central government may have been "overstated." He said the U.S. would now focus more on "enabling the communities, the tribes and their leaders." "How strong the central government will be in the future, I think, is yet to be determined," he told reporters.

The militia push is controversial. Mr. Karzai vetoed an earlier American proposal to create local forces because he feared they might one day fall under the sway of regional warlords, according to a senior official in the Interior Ministry.

Some U.S. allies also oppose the idea. Canadian Defense Minister Peter MacKay told the Canadian Press news agency this week that creating local forces could prove "counterproductive" and said the Canadian government was "not on board" with the idea.

Still, many Afghan and U.S. officials believe local forces could help stabilize the country and prevent the Taliban from securing footholds in remote parts of Afghanistan.

"This will be a grass-roots, community-defense layer against the Taliban," Wardak Gov. Mohammed Halim Fidai said in an interview. "We believe that the more people you involve in security, the greater the impact."

In the first phase of the pilot program, villages throughout Wardak will convene "shura" meetings of local tribal, religious and political figures. The community elders will then be responsible for recruiting the local militias and overseeing their conduct.

As in Iraq, the new Afghan militias will be paid by the U.S. A senior American military official in Kabul said the money would likely be first funneled to the individual village shuras, which would in turn be charged with disbursing salaries to their fighters.

The U.S. won't provide weapons or ammunition to the militias, but the local forces will be allowed to keep and use the weapons they already have. "The honest truth is that these guys don't need us to give them guns," the U.S. official said.

Gov. Fidai said that he hopes the local militias will attract some former insurgents, potentially boosting the Afghan government's efforts to win over moderate members of the Taliban. "Young people who might have joined the Taliban for financial reasons will have another option," he said.

Still, Mr. Wood, the American ambassador, cautioned that the Taliban hadn't yet signaled any willingness to open talks with Mr. Karzai.

U.S. workers crowd out immigrant laborers

By Miriam Jordan

LOS ANGELES—A year ago, a day-laborer center adjacent to a Home Depot here teemed with Latin American immigrants who showed up and found a sure day's work painting, gardening or hauling.

These days, more than immigrants are packing the Hollywood Community Job Center: Unemployed Americans are joining them. There is little work for anybody.

"Everybody is coming to look for work," says Rene Jemio, outreach coordinator for the hiring hall. "It's not just your average immigrant anymore; it's African-Americans and whites, too."

For the first time in a decade, unskilled immigrants are competing with Americans for work. And evidence is emerging that tens of thousands of Hispanic immigrants are withdrawing from the labor market as U.S. workers crowd them out of potential jobs. At least some of the foreigners are returning home.

"We see competition from more nonimmigrant workers," says Abel Valenzuela, a professor at the University of California at Los Angeles who studies day laborers. "Employers are also paying less than in previous years," he says.

In the third quarter of 2008, 71.3% of Latino immigrant workers were either employed or actively seeking work, compared with 72.4% in the same quarter a year earlier, according to a new study by the Pew Hispanic Center, a nonpartisan research organization. The 1.1-percentage-point drop "marks a substantial decrease in the labor-market participation of Latino immigrants," says Rakesh Kochhar, the Pew economist who prepared the report.

Getty Images

Undocumented immigrants wait to find work in Brooklyn, N.Y. For the first time in a decade, unskilled immigrants are competing with Americans for work.

Since 2003, the labor force participation rate—the employed or job-seeking share of the population—among foreign-born Hispanics had been consistently on the rise. The decline in the third quarter of 2008 "is a testament to the character and depth of the current recession triggered by the housing slump," says the Pew report.

"The recession has truly put Hispanic immigrants in a state of flux," says Mr. Kochhar, who based his analysis on data from the Current Population Survey produced jointly by the Bureau of Labor Statistics and the Census Bureau.

At the Hollywood center, even a year ago, contractors and homeowners employed 30 to 40 workers each day. Now, it isn't unusual for only three or four to get hired, organizers say.

In Houston, where post-hurricane cleanup work is drying up, "the situation is getting more difficult by the day," says Salvador Perez, a 45-year-old Mexican day laborer who has been in the U.S. since 2003. "I like this country for the work opportunity, but now I can barely scrape together a few dollars to send home to my family after paying for rent and food."

Latin American workers bore the brunt of the collapse of the construction sector, which employs 20% to 30% of all foreign-born Hispanics in this country. As the housing market tumbled last year, they lost jobs in ever-greater numbers.

Competition has become fierce even in agriculture, where farmers had struggled in recent years to hire enough immigrants to harvest crops, sometimes letting fruit wither on the vine.

Growers across the country are reporting that farmhands are plentiful; in fact, they are turning down potential field workers. "For the first time since 9/11, we have applicants in excess of our requirements," says Bob Gray, chief executive of Duda Farm Fresh Foods Inc., a grower, packer and shipper based in Salinas, Calif.

In particular, Mr. Gray has observed an influx of U.S.-born Latinos and other workers who previously shunned field work. "These are domestic workers who appear to be displacing immigrants," says Mr. Gray.

A similar situation has emerged in U.S. cities from New York to Los Angeles, where unemployed, nonimmigrant laborers are seeking informal work that typically has been performed by low-skilled immigrants that once commanded a 50% premium over the hourly minimum wage.

Among Hispanic immigrants who entered the U.S. between 1990 and 1999, the survey found that 217,000 quit the labor force between the third quarter of 2007 and the third quarter of 2008.

"There is definitely a lot of talk about leaving," says Mr. Jemio, who helps manage the Hollywood day-laborer center. "People are on their last hope."

Saudi Arabia to boost spending and incur deficit

By Mohammed Aly Sergie

RIYADH—Saudi Arabia said Monday it plans to ramp up government spending next year—despite a sharp downturn in oil prices—and incur its first budget deficit in six years to keep its economy growing.

The kingdom, the world's largest oil exporter, said revenue next year is forecast at 410 billion riyals, or $109.37 billion, against budgeted spending of 475 billion riyals.

The dramatic drop in estimated income, from 1.1 trillion riyals expected this year, signals that Riyadh is preparing for lower crude prices to extend into next year as a global economic downturn weighs on demand.

The government didn't say what average oil price it was using to calculate its budgetary figures. In Monday's statement, the finance ministry said that oil and petrochemicals represent the major portion of government revenues.

U.S. benchmark crude prices will have to average $43 per barrel in 2009 to cover the budgeted revenue projection, said John Sfakianakis, the chief economist at SABB, HSBC Holdings PLC's Saudi affiliate. On Monday, crude fell $2.45 to settle at $39.91 a barrel in New York.

Saudi Arabia, like other Arab oil-producing countries, traditionally presents conservative government budget estimates based on lower energy prices than the market forecasts. Throughout the oil boom of the last few years, such projections have helped Saudi amass large foreign currency reserves, now estimated at around $450 billion, as well as pay down its foreign debt. The ministry said that debt would fall to 13.5% of gross domestic product this year, compared with 18.7% of GDP in 2007.

Despite this comfortable position, business and investor confidence in the kingdom has dropped steadily this year, as oil prices have fallen and major developed economies have gone into recession.

The Saudi stock market, the Tadawul index, has dropped around 50% since July, when U.S. benchmark oil prices hit their peak of around $147 per barrel.

In December, Fitch, the ratings agency, said it forecast a 2.6% economic growth rate for the kingdom for 2009, down sharply from this year. The government said Monday that it expects gross domestic product to grow by 4.2% in 2008.

A quarterly business-confidence survey conducted by SABB bank earlier this month concluded that the best hope for growth in the kingdom next year would be beefed-up government spending because businesses in the kingdom "are bracing for a slowdown."

The government's budget appears to respond to that decline in sentiment. The ministry statement released Monday that the kingdom would increase spending so it could "continue the plans for economic growth, maintain an attractive investment environment and increase confidence."

Ministry figures show that spending is expected to increase across many sectors.

—Margaret Coker in Abu Dhabi and Reem Shamseddine in Dubai contributed to this article.