THE WALL STREET JOURNAL.

WSJ.com

DOW JONES Newswires

EUROPE

DOW JONES A News Corporation Company

VOL. XXVI NO. 186

WEDNESDAY, OCTOBER 22, 2008

For information or to subscribe, visit www.services.wsje.com or call +44 (0) 207 309 7799 — Albania **Lk 370.00** - Austria **€3** - Belgium **€2.90** - Croatia **HRK 20** - Czech Republic **Kc 110** - Denmark **Dkr 22** - Finland **€3.20** - France **€2.90**
Germany **€3** - Greece **€2.90** - Hungary **Ft 530** - Ireland (Rep.) **€2.90** - Italy **€2.90** - Lebanon **L£ 4000** - Luxembourg **€2.90** - Morocco **Dh 24** - Netherlands **€2.90** - Norway **Nkr 27** - Poland **Zl 10.50** - Portugal **€3** - Slovakia **Sk 100/€3.32** - Spain **€2.90**
Sweden **kr 27** - Switzerland **SF 4.80** - Syria **S£ 150** - Turkey **YTL 4.25** - U.S. Military (Eur) **$2** - United Kingdom **£1.40**

THE WALL STREET JOURNAL.

Ex-Fed chief Volcker makes comeback in Obama camp

NEWS IN DEPTH | PAGES 16-17

Wells Fargo's galvanizing chief might be staying on

MONEY & INVESTING | PAGE 19

What's News—

Business & Finance

European governments are coming out with new proposals to alleviate a looming recession, amid increasing fears that a dropoff in bank lending could further damage their economies. Italy's government is considering stimulus measures, and France plans to inject $14 billion in capital into six of the country's largest banks. Page 1

■ **The IMF warned** that all major European economies will enter a recession soon, though recent interventions likely will soften the downturn. Page 2

■ **The U.K. economy** appears to be entering a recession, said Bank of England Gov. King. He also said the pound could fall faster and more than expected. Page 2

■ **Germany's export juggernaut** is losing steam, casting a pall on the outlook for Europe's largest economy. Page 4

■ **Kirk Kerkorian began** selling his Ford shares. The billionaire investor had been the auto maker's largest individual shareholder outside its founding family. Page 5

■ **The Fed said** it will lend to the money-market industry, and European central banks also took steps to bolster credit markets via short-term funding. Page 10

■ **Argentina planned** to seek to nationalize private pension funds as it seeks cash to repay debts, depressing shares. Page 3

■ **U.S. stocks tumbled** as weak earnings data took over from interest rates as the main driver of the market. European shares mostly fell, too. Page 20

■ **Six Spanish banks** are discussing a tie-up in what could be a move toward domestic banking consolidation. Page 20

■ **Chrysler may join** an alliance between Japan's Nissan and France's Renault, but a sale of the U.S. company to GM is still its preferred path. Page 6

■ **Nissan plans to cut** output in Japan, the U.S., U.K. and Spain as the global financial crisis damps world-wide auto sales. Page 5

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	9033.66	-231.77	-2.50
Nasdaq	1696.68	-73.35	-4.14
DJ Stoxx 600	220.90	-1.11	-0.50
FTSE 100	4229.73	-52.94	-1.24
DAX	4784.41	-50.60	-1.05
CAC 40	3475.40	+26.89	+0.78
Euro	$1.3193	-0.0108	-0.81
Nymex crude	$70.89	-3.36	-4.53

Money & Investing > Page 19

World-Wide

Obama's lead over McCain in the U.S. presidential race has widened to 10 points, with more voters saying they are comfortable with the Democratic candidate's values, background and ability to lead the nation, a Wall Street Journal/NBC News poll shows. Also, the popularity of McCain's running mate, Alaska Gov. Palin, has faded. Page 1

■ **Russian prosecutors** released a top finance official from jail a year after he was arrested in a politically charged criminal case seen as a strike by Kremlin hard-liners against pro-market officials. Page 10

■ **The top military officer** in the U.S. met with his Russian counterpart, who led the invasion of U.S. ally Georgia, signaling a thaw in relations.

■ **Iraq's cabinet decided** to ask the U.S. for unspecified changes in the draft security pact that would allow U.S. troops to stay for three more years.

■ **The gap between rich** and poor is widening in the world's richest nations, particularly in the U.S., an OECD study found.

■ **Thailand's top court** convicted deposed Prime Minister Thaksin of abuse of power and sentenced him to two years in prison for helping his wife secure a land deal. Page 10

■ **A court in Denmark** convicted two men who were filmed mixing the type of explosive used in the 2005 London transit bombing of plotting a terror attack.

■ **Saudi Arabia confirmed** it hosted a meeting between the Afghan government and Taliban insurgents but said any future mediation depends on the Afghans showing they want peace.

■ **Saudi officials indicted** 991 suspected militants for participating in terror attacks carried out over the past five years.

■ **The European Commission** will meet with Italy to clarify the nation's concerns over costs stemming from a plan to make Europe a greener economy.

■ **Zimbabwe's opposition** said only new elections would resolve a dispute with Mugabe over who controls key cabinet posts.

EDITORIAL & OPINION

Anti-sovereign Sarko

The French president misfires on a bid to shield Europe from state wealth funds. Page 13

European bailouts focus on boosting real economy

Efforts in France, Italy strive to curb impact of recession

European governments, increasingly afraid that a dropoff in bank lending could further damage their economies, are coming out with new proposals to alleviate a looming recession.

Italy's government said Tuesday it was mulling a package of economic stimulus measures. French President Nicolas Sarkozy called for the creation of sovereign wealth funds to prevent big companies from being bought up by non-Europeans at bargain prices, and proposed a vague "economic government" for the euro zone.

By ***David Gauthier-Villars*** *and* ***Leila Abboud*** *in Paris,* ***Sara Schaefer Muñoz*** *in London and* ***Mike Esterl*** *in Frankfurt*

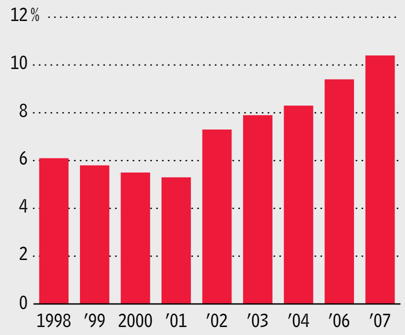
Mr. Sarkozy's calls came after the French government said it would inject €10.5 billion ($14 billion) in capital into six of the country's largest banks. The move, aimed at restarting bank lending, underscores the clear shift in governments' focus to the real economy from ailing financial institutions. Their fear is that if banks lend less, businesses and consumers won't spend money, crimping economic activity at a time when most of Europe's big economies appear headed for recession.

Companies are finding it harder to get financing, a growing weight of anecdotal evidence shows. In France, whose banks have been rela-

Please turn to page 31

Time for farewells

Contribution of the financial-services sector to the U.K.'s annual gross-domestic product



Source: City of London

Outside the Bank of England, a makeshift memorial tied to a lamppost reads "In Loving Memory of the Boom Economy."

Reuters

Economic turmoil drubs London's psyche, future

By Alistair MacDonald And Cassell Bryan-Low

LONDON—Outside the Bank of England, a makeshift memorial recently appeared: a lamppost decorated with flowers and a sign: "In Loving Memory of the Boom Economy."

The financial crisis is hitting many drivers of London's growth as a global financial capital in recent years. London's economy appears to be changing in fundamental ways, and, with it, the psyche of the City.

In remarks that drove down the pound against the dollar, Bank of England Gov. Mervyn King said Tuesday evening that "it now seems likely that the U.K. economy is entering a recession." He added it will take a "long, slow haul" to return economic growth to more normal levels. (Please see related article on page 2.)

In London, finance professionals who had come from all parts of the globe to make their fortunes have been going back home. The once-booming business of creating complex investment products, much of it centered in London, has all but disappeared, along with thousands of jobs.

The U.K. markets regulator is promising heavier regulation, putting an end to the hands-off approach that had been part of London's appeal to banks and overseas companies. And financial problems elsewhere are forcing banks and wealthy individuals to pull out money they had parked in London, leaving businesses from real-estate developers to retailers bereft of financing.

"There are a number of factors crowding in on London at the moment that makes this feel different to previous cyclical dips, that the

Please turn to page 31

Obama takes 10-point lead in latest poll

By Laura Meckler

WASHINGTON—Democratic Sen. Barack Obama has opened up a double-digit lead in the U.S. presidential race, with a growing number of voters saying they are comfortable with his values, background and ability to serve as commander in chief, according to a new Wall Street Journal/NBC News poll.

The poll finds that his Republican rival, Sen. John McCain, still holds the edge on experience, and most voters remain convinced he is better prepared for the White House than Sen. Obama is. But that argument is undercut by concerns about the readiness of his running mate, Alaska Gov. Sarah Palin, whose popularity has faded.

The poll found that 52% of voters favor Sen. Obama compared with

Please turn to back page

LEADING THE NEWS

U.K. warns of recession

Gov. King's remarks send pound, euro to multiyear lows

By Natasha Brereton And Ilona Billington

LONDON—Bank of England Gov. Mervyn King said Tuesday that the British economy appears to be entering a recession and that returning economic growth to more normal conditions will require a long, slow haul.

His remarks, in which he also said the U.K. pound could fall faster and more than expected, drove the pound to a five-year low against the dollar and dragged the euro with it to a 20-month low against the dollar. The euro fell to a low of $1.3060 against the dollar, while the pound hit a low of $1.6757.

In a speech that suggested a significant shift in his view of the U.K. economy and that could open the door to rate cuts, Mr. King said the central bank's rate-setting Monetary Policy Committee needs to focus not on the "worryingly high" level of actual inflation but where it will be in the medium term, once the credit squeeze and commodity prices have filtered through.

This contrasts with his view in the central bank's quarterly report on inflation in August, when he said growth was likely to be "broadly flat," although a quarter or two of contraction was possible.

"It now seems likely that the U.K. economy is entering a recession," Mr. King said in a speech in Northeast England. "The combination of a squeeze on real take-home pay and a decline in the availability of credit poses the risk of a sharp and prolonged slowdown in domestic demand."

His remarks came after a closely watched survey showed that British industrial output fell in October to its lowest level in more than 28 years.

The Confederation of British Industry said manufacturing output slumped to a balance of minus 31 in October from minus 16 in September, the lowest level since July 1980. The survey measures the number of firms reporting a pick-up in manufacturing output minus those reporting a fall.

John Cridland, the CBI's deputy director-general, said that the manufacturing sector had been badly hurt by the most recent financial crisis and that the expected U.K. economic recession would be "deeper and longer than we had previously forecast in September."

In his speech, Mr. King said economic news over the past month was probably the worst it has been in a "very considerable time." The rest of the world economy seems to be slowing rapidly, and the U.K. housing market is likely to remain weak ahead, he said.

But at the same time, falls in gas and oil prices should help support real income growth and bring down inflation, risks to which have shifted "decisively to the downside" over the past month, he said.

The bank's Monetary Policy Committee must set rates to meet the 2% inflation target "not next month or the month after, but further ahead when the impact of recent developments in both credit supply and world commodity prices will have worked their way through the economy," Mr. King said.

The BOE and several other major central banks cut interest rates by half a percentage point in a coordinated move earlier this month.

Mr. King also said that the government could reduce its stake in the British banking system quickly by selling shares in a bank reconstruction fund.

Earlier this month, the government unveiled a plan to recapitalize the banking system by buying shares in a number of U.K. banks in an effort to end concerns about the viability of individual institutions and encourage banks to resume lending. Mr. King was a key proponent of the plan.

"Within a reasonable period it should be possible for the government to reduce its stake in the banking system, for example by selling units in a Bank Reconstruction Fund, and repay the additional debt that had been issued," Mr. King said.

IMF predicts slowdown in European growth

By Adam Cohen

BRUSSELS—All major European economies will enter recession in the coming months, though recent moves to ease the financial crisis will probably prevent a sharper downturn, the International Monetary Fund said in its latest report on the region's economy.

For the euro zone, the U.K., Sweden and Denmark, the IMF stuck to its recent forecast for average economic growth of 1.3% this year and 0.2% next year. For emerging European economies, it said average growth next year will be slower than the 4.3% it had predicted, and advised these states to make contingency plans for a "hard landing."

"Confronted with a crisis in the financial system that is of unprecedented scale, scope and complexity, on top of a commodity price shock, it's hardly surprising that Europe's economy is entering a major slowdown," the acting director of the IMF's European department, Alessandro Leipold, said in a statement. He said the recession will feature two or three consecutive quarters of contractions before Europe's large economies make a modest recovery in the second half of 2009.

A bevy of European Central Bank policy makers also came out Tuesday with gloomy economic projections. George Provopolous, who heads Greece's central bank, said 2009 would be an "era of stagnation" in both the U.S. and Europe; Bank of Italy Governor Mario Draghi highlighted "negative signs" for Italian growth; and ECB executive board member José Manuel González-Páramo told Spanish newspaper La Voz de Galicia that euro-zone growth would moderate significantly in coming quarters.

Most economists expect the ECB to lower its key rate from the current 3.75% this year, perhaps as soon as its next meeting in early November.

Mr. Leipold advised European governments to follow through on recent steps to shore up their banks and restore confidence to financial markets. He added that ending the financial crisis is key to reviving Europe's economic prospects. The crisis is the catalyst for states to improve cross-border coordination of their financial sectors, he said, and should compel them to make more-permanent improvements to Europe's supervisory system.

The IMF report also stated that there is further room for interest-rate cuts to aid an economic recovery. The IMF said European states also should use fiscal policy to cushion the downturn, and added that European Union rules that limit budget deficits are flexible in crisis situations.

—Joellen Perry in Frankfurt contributed to this story.

CORRECTIONS & AMPLIFICATIONS

The new G1 smart phone from Google and T-Mobile limits the total size of third-party programs that can be installed on the device to 70 megabytes. Because of erroneous information supplied by T-Mobile, the Personal Technology column on Oct. 16 stated the limit was 128 megabytes.

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.

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium
Telephone: 32 2 741 1211 FAX: Business: 32 2 732 1102
News: 32 2 741 1600 Editorial Page: 32 2 735 7562
SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799 Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: www.services.wsje.com
Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Daniel Hertzberg M-17936-2003

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

Argentina expected to nationalize pensions

Government needs funds to repay debts; news depresses stocks

By Matt Moffett

BUENOS AIRES—Argentina's leftist President Cristina Kirchner is expected to propose nationalizing the country's private pension funds in what could be seen as a grab for cash and power amid the global economic crisis.

The proposal, which triggered a steep drop on Argentina's stock market after it was leaked by union officials and reported in the Argentine press, reinforces Argentina's image as a pariah in financial circles and represents a repudiation of a system of private pensions that had been in vogue in developing countries. In 2001, Argentina announced the largest sovereign-debt default in history.

The government said the takeover of the private system, created as an option to state pension funds in 1994, aimed to protect investors from losses due to the global market turmoil. But economists said the underlying motive would be to provide the government with about $5 billon in annual pension contributions that it needs to plug a gap in financing next year and avert a second debt default.

The measure would require the approval of Congress, where the governing Peronist party has a majority. Opposition leaders vowed to contest the proposal. "In the current context, the government measures aren't designed to better the retirement system, but rather to plunder the funds of the retirees and pay the bills," said opposition leader Elisa Carrió.

Meanwhile, one pension-fund head suggested that contributors inundate the government with lawsuits.

The move comes amid a sharp decline in agrarian commodity prices that Argentina has counted on to pay its debts and fuel growth. Coupled with unchecked government spending, the revenue decline has created a gap of around $10 billion to $11 billion in Argentina's debt service requirements by the end of next year, according to Buenos Aires economist Aldo Abram. Mr. Abram said the pension takeover would help the government close about half the gap, while the rest could be obtained from a state-run bank or by dipping into currency reserves.

"It's clearly confiscatory," Mr. Abram said of the government proposal.

Rather than restoring confidence in Argentina's ability to pay its debt, the pension plan further spooked investors. Argentina's Merval index was down 9.5% in late-afternoon trading Tuesday. "With the announcement, the custom of violating the rules of the game has been repeated, which deepens the lack of confidence," political analyst Rosendo Fraga wrote in Buenos Aires daily La Nación.

Argentina has moved toward normalizing relations with the international financial community. In September, it offered to repay the Paris Club of wealthy nations a debt of $6.7 billion and to reopen a debt restructuring agreement to bondholders who didn't accept it the first time around. The cash squeeze triggered by the global crisis has raised doubts about both initiatives.

Argentina established the private pension funds in 1994, under conservative president Carlos Saúl Menem. Workers had the choice of going into the new system or staying in a revamped state system.

Macquarie fund plunges to zero; loans' value falls

Notes issued by an investment fund managed by Australia's **Macquarie Group** Ltd. reached a net asset value of zero, the fund said in a filing Tuesday, in another sign of the depth of the global credit crisis.

The Macquarie Fortress Fund invested in noninvestment-grade U.S. corporate debt. At the beginning of this month, Fortress said its notes had a net asset value of 42.7 Australian cents (30.1 U.S. cents) as of the end of August. But the net asset value began a sharp fall that the fund blamed on the effect of the global credit crisis on the trading value of its U.S. senior secured loans.

*By **Ross Kelly** in Sydney and **Carlos Tejada** in Hong Kong*

Investors in Fortress had put in about A$220 million, or about US$155 million, which was combined with leverage to reach a total of between A$1.2 billion and A$1.3 billion.

The decline in the net asset value to zero won't affect an April refinancing agreement under which investors holding the notes will recoup some of their investment, Macquarie said. Under that agreement, investors could get a final return of up to 83 Australian cents per note with a face value of one Australian dollar when the securities underlying the notes mature.

But investors will have to wait at least four years, as income generated by the securities will first be used to pay off the financing.

In its quarterly statement for the period ended July 31 , as the credit crunch was intensifying, the fund said it held three loans in default from two issuers valued at a total $2.98 million, a small fraction of the $378.1 million in debt outstanding at the end of that period.

German exporters are squeezed

Manufacturers slash costs as demand falls in Europe and U.S.

By Mike Esterl

FRANKFURT—Germany's export juggernaut is losing steam, casting a pall on the outlook for Europe's largest economy.

For the last five years, Germany has been the world's leading exporter of goods in dollar terms, according to the World Trade Organization. The country outfits factories, construction sites and households around the globe with high-precision parts and machinery ranging from tiny screws to giant cranes, and dishwashers to luxury cars. Exports of goods generated 41% of Germany's gross domestic product last year, more than twice the rate in Britain and Japan and five times as much as in the U.S., according to the Organization for Economic Cooperation and Development.

That reliance on foreign buyers makes Germany particularly vulnerable to a potential global economic downturn that could force customers large and small to postpone purchases of capital goods and high-end consumer products. In recent weeks, export-dependent companies in Germany have been ratcheting down their forecasts and sounding increasingly nervous.

The German government said last week that it now expects GDP to expand only 0.2% in 2009, down from its most recent forecast in April of 1.2%. It forecast exports will rise 1.2% next year, down from 4.6% in 2008 and 7.5% last year.

Some analysts say German exports could even contract in 2009 if the global financial crisis deepens and further slams the brakes on the global economy. And the German federal statistics office said Monday that September producer prices rose 0.3% from August and 8.3% from the year earlier, indicating that earlier price increases for oil and other raw materials continue to drive up production costs.

The automotive sector, one of Germany's main growth engines, is feeling the pinch of fewer exports. **Leoni** AG, a supplier of wiring systems for cars that racks up more than half its revenue abroad, scaled back sales and profit forecasts last week. That followed a profit warning from **Continental** AG, another big auto-parts supplier, and production cutbacks at automakers such as **BMW** AG.

Profit warnings in other sectors are piling up. **Rational** AG, which exports about 85% of its thermal cooking machines for professional kitchens, grew at a furious pace in recent years, posting record sales and profits in 2007. Last week it surprised investors by disclosing that sales and profit retreated slightly in the most recent quarter.

Citing "a very sudden reluctance to invest" among customers, Rational also withdrew its bullish full-year 2008 guidance until there's more clarity. "We've had here and there a quarter without growth in the last 10 years, but that was in a normal economic downturn. We didn't have at the same time a world-wide banking collapse," says Günter Blaschke, Rational's chief executive.

The biggest problems for corporate Germany are the slowdowns in the European Union, which buys about two-thirds of the country's overall exports, and the U.S., the No. 2 country destination after France last year.

Nonetheless, many German exporters appear well-positioned to weather a financial storm after years of slashing costs and socking away profits. Executives say they still can get cash from local banks when they need it, but many are considering a freeze in major capital expenditures.

German exports were softening even before the credit crunch deepened in recent weeks. Exports in August totaled €75.7 billion ($100.8 billion), 2.5% below the August 2007 figure, a rare negative reading after growing 6.9% in July.

Some 31% of German exporters still expect exports to grow over the next 12 months, with 52% forecasting them to be flat and 17% predicting a decline, according to a survey of 25,000 companies in September and October by DIHK, the country's umbrella association for chambers of industry and commerce. At the beginning of 2008, 44% expected higher exports and only 8% predicted a fall.

Ralf Wiegert, an economist at Global Insight in Frankfurt, warns that German exports "could go negative" in 2009. Given all the economic and financial turmoil, "you can change your forecast every week now," he adds.

The global slowdown coincides with growing calls by German unions to increase wages after several years of restraint boosted exporters' productivity. IG Metall, Germany's biggest industrial union, is pushing for an 8% wage increase sector-wide.

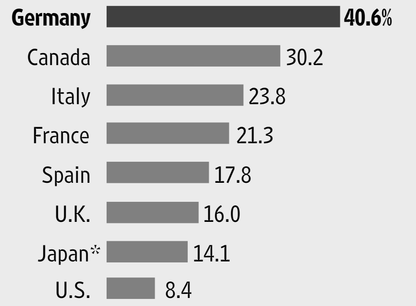
Higher wages could fuel consumer spending, long a weak link in the German economy. But German consumers may not be in a buying mood amid the heightened uncertainty, meaning domestic consumption also could stagnate next year, Mr. Wiegert says.

Associated Press

A container ship at the port of Hamburg

Losing steam

Germany is the world's leading exporter of goods, making it particularly vulnerable to a global economic downturn. Exports of goods as a percentage of gross domestic product in 2007



*2006 figures

Source: Organization for Economic Cooperation and Development

U.S. bank rescue is likely to foster takeovers

By Deborah Solomon And David Enrich

WASHINGTON—The U.S. government's $250 billion plan to bolster U.S. financial institutions is aimed at persuading healthy banks to lend again, but it is likely to foster further consolidation in the industry, with some banks already saying they intend to use the funds to help make acquisitions.

Henry Paulson

Treasury Secretary Henry Paulson has repeatedly emphasized that the government's investment is to restore confidence in the banking sector, so banks will lend again and private investors will put up capital for banks.

"Our purpose is to increase the confidence of our banks, so that they will deploy, not hoard, that capital," Mr. Paulson said Monday.

If the banks use the government funds to pay for acquisitions, it could prove controversial. Taxpayers essentially would be footing the bill as strong banks gobble up their weaker peers. Such acquisitions probably would provide less of a boost to the economy than would new bank lending.

BB&T Corp.'s chief executive, John Allison, said his Winston-Salem, N.C., bank will "probably participate" in the government capital infusions, in part to help fund acquisitions. "We think that there are going to be some acquisition opportunities, either now or in the near future, and this is a relatively inexpensive way to raise capital" for that, Mr. Allison said in a conference call discussing the bank's third-quarter results.

Mr. Allison didn't say whether government money would prompt BB&T to open its lending spigot. He said regulators were encouraging the bank to apply to the program.

The Treasury announced Monday some criteria it would use to pick banks in which it would invest, including institutions "that are going to be able to put the money to good use," a senior government official said. The Treasury will make investment decisions based on factors such as a bank's health and management, senior officials said. The Treasury also will consider whether a bank is involved in or contemplating a merger transaction, though it doesn't want its money to be used directly for that purpose, the officials said.

"If a healthy institution is making an acquisition, we would look very favorably on that," a senior government official said.The government views consolidation as a good thing if it helps weaker banks survive instead of fail.

The Treasury also said Monday that it won't make public the names of banks that are rejected, and will announce only those that qualify for assistance. That move is designed to avoid tarring any company with being deemed too troubled to receive government cash.

Government officials are wrestling with whether banks will need to inform shareholders that they have been rejected by the government. The Securities and Exchange Commission declined to comment. Companies are typically forced to disclose in SEC filings any "material" information.

Zions Bancorp, a Salt Lake City bank hurt by losses on real-estate loans, expects to apply to sell the government between $500 million and $1.5 billion in preferred stock, and may use some of the money to fund its acquisitions.

Chief Financial Officer Doyle Arnold said on a recent earnings conference call that Zions may become a bit freer in its lending with new capital in hand, but not dramatically so.

In addition to making more loans, Zions plans to use the government money "to take advantage of what we would expect will be some acquisition opportunities, including some fairly low-risk FDIC-assisted transactions in the next few quarters," Mr. Arnold said.

Executives at many banks said they haven't decided whether to apply. Some said they are unlikely to participate, contending they don't need more capital, or are wary of government restrictions in areas such as dividend payments. Banks have until Nov. 14 to submit an application to their primary regulators.

In earnings calls, James Rohr, CEO of Pittsburgh-based **PNC Financial Services Group** Inc., called the government plan "very attractive," and said "we're considering it very seriously." Paul Beideman, CEO of **Associated Banc-Corp**, a midsize lender in Green Bay, Wis., said it looks like "a pretty attractive alternative [to other capital sources], but the devil certainly is in the details."

Separately, Democrats continued to push the administration of President George W. Bush to centralize its focus on preventing avoidable foreclosures, and asked the White House to tap Federal Deposit Insurance Corp. Chairman Sheila Bair to lead a governmentwide effort to monitor activities in this area.

"Giving one official clear responsibility, particularly one as knowledgeable on the subject as Chairman Bair, will improve the effectiveness of the efforts of the federal government at a time when prompt and efficient action is most urgently needed," Reps. Barney Frank (D., Mass.) and Maxine Waters (D., Calif.) wrote to Mr. Bush on Monday.

Verizon Wireless sticks with bid to acquire Alltel

By Amol Sharma

Verizon Wireless says it intends to follow through with its pending acquisition of **Alltel** Corp. despite tough credit-market conditions, but Wall Street is showing some signs of jitters that the deal won't close.

The carrier, a joint venture of **Verizon Communications** Inc. and **Vodafone Group** PLC, announced in June it would buy Little Rock, Ark.-based Alltel in a deal valued at $28.1 billion. That included taking on $22.2 billion in debt mostly tied to Alltel's leveraged buyout last year by a pair of private-equity firms.

Verizon's plan was to issue new debt to repay Alltel's term loans, but in the current market it faces higher interest rates than it anticipated.

That has led to some speculation on Wall Street that Verizon may try to back out. Alltel's term loans are trading at about 91 cents on the dollar, according to Reuters Loan Pricing Corp. If investors were confident of a Verizon deal, the debt would be trading closer to par, analysts say. The cost of credit-default swap contracts—insurance against an Alltel default—has more than doubled in the last month, though the cost is significantly less than before the Verizon acquisition was announced.

But Verizon says it is continuing to push forward with the acquisition and is in the final stages of regulatory approval. The U.S. Department of Justice has already wrapped up its review of the deal, which requires Verizon to divest assets in about 100 markets, or 15 more than it had originally planned, according to people familiar with the situation. The Federal Communications Commission is scheduled to vote on the merger as soon as Nov. 4.

Verizon's challenge will be to arrange financing that isn't too costly. In a brief interview last week, Verizon Chairman and Chief Executive Ivan Seidenberg said he expects interest rates to come down, but higher-than-anticipated borrowing costs won't derail the Alltel deal.

"This is an asset that's going to be valuable to us for 20 or 30 years," Mr. Seidenberg said. By acquiring Alltel, which has more than 13 million customers, Verizon would vault to No.1 among U.S. wireless carriers with about 82 million subscribers.

An Alltel spokesman declined to comment.

Other parties involved in the deal have strong incentives to complete it. Alltel's private-equity owners, TPG Capital and GS Capital Partners, a unit of **Goldman Sachs Group** Inc., are eager to exit the investment, which will net them a profit of roughly $1.3 billion.

The banks that funded Alltel's buyout—including **Barclays** PLC, **Citigroup** Inc., **Royal Bank of Scotland Group** PLC and Goldman—will be able to cut potential losses.

"Everyone has an incentive to make this work," Mr. Seidenberg said.

Mr. Seidenberg declined to say whether Verizon will try to renegotiate a lower deal price with Alltel's owners and the banks. People close to the deal said they believed no such discussions are under way now. Those people said it would be difficult under the parties' strict contract for Verizon to alter deal terms or back out entirely.

—Serena Ng contributed to this article.

CORPORATE NEWS

PHARMACEUTICALS

Novartis to acquire unit of Nektar Therapeutics

Associated Press

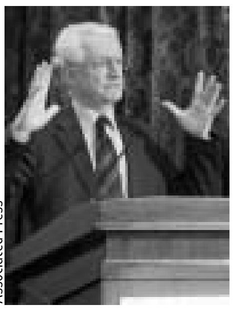
NOVARTIS AG Tuesday agreed to buy the pulmonary-drug business of **Nektar Therapeutics** for $115 million.

Nektar, of San Carlos, Calif., develops drug products using its own drug-delivery technologies, including PEGylation—a chemical process aimed at improving the performance of drugs, for instance by making them more soluble. The company's pulmonary technology allows drugs to be inhaled and thus delivered through the lungs.

Switzerland-based Novartis said it will use Nektar's expertise to accelerate work on drugs to treat illnesses such as chronic obstructive pulmonary disease, asthma and cystic fibrosis. *—Associated Press*

AIRPORTS

French, Dutch operators link up to share expenses



Associated Press

THE FRENCH and Dutch state-owned airport operators, **Aéroports de Paris** SA and **Schiphol Group**, Tuesday announced a strategic alliance, cemented by a cross-shareholding agreement, in a bid to share costs. The deal unites Paris's Charles de Gaulle and Amsterdam's Schiphol airports—the hubs of Franco-Dutch airline **Air France-KLM** SA.

ADP Chief Executive Pierre Graff, above, said a link-up had been discussed for some time and wasn't related to the financial crisis. France will sell an 8% stake in ADP to Schiphol for about €530 million ($706.5 million), reducing the government's interest in ADP to about 60%. *—David Pearson*

COMMUNICATIONS

RIM strikes partnership with software-test firm

Research In Motion

RESEARCH IN Motion Ltd. is joining a new Internet-based software-testing service to help speed the rollout of applications for its BlackBerry phone-and-email devices.

Research In Motion, of Waterloo, Ont., will make the service available in partnership with **Mobile Complete**, a closely held company based in San Mateo, Calif. Its DeviceAnywhere service lets developers test their applications on a single system that represents 100 Blackberry models running on 16 carrier networks. Mobile Complete is backed by the venture-capital wings of **Motorola** Inc. and **France Télécom** SA. *—Sara Silver*

Kerkorian backs off Ford

Investor shifts gear, moving to sell shares despite hefty loss

By Matthew Dolan

BILLIONAIRE INVESTOR Kirk Kerkorian is starting to pull out of **Ford Motor** Co., at a substantial loss, after becoming the auto maker's largest individual shareholder outside its founding family.

The move is an abrupt about-face for Mr. Kerkorian, a film and casino mogul with a history of investing in Detroit auto makers. His representatives had praised the leadership of Ford Chief Executive Alan Mulally when Mr. Kerkorian started buying Ford shares earlier this year. **Tracinda** Corp., his investment arm, said it was in for the long haul, betting the auto maker was on track for a turnaround and poised to deliver big returns.

But ten days after Ford's stock reached a 25-year low, Mr. Kerkorian began to cash in his chips in the Dearborn, Mich., auto maker.

Tracinda said that on Monday it sold 7.3 million shares of Ford common stock in the open market at an average price of $2.43 a share, which translates to $17.7 million in total. If Tracinda ends up selling all its Ford shares at that price, it would lose about $640 million on a roughly $980 million investment. It wasn't clear why Mr. Kerkorian would be willing to take such a loss, but a spokeswoman said the move isn't the result of a margin call. Ford shares were down 14 cents to $2.19 in midafternoon trading Tuesday on the New York Stock Exchange.

Tracinda said it intends to further reduce its Ford holdings, with an eye toward selling all its remaining 133.5 million shares, approximately 6.09% of Ford's outstanding shares, depending upon market conditions. An investment bank has been contacted about the planned sale, Tracinda said.

"Tracinda Corporation today announced that in light of current economic and market conditions, it sees unique value in the gaming and hospitality and oil-and-gas industries and has, therefore, decided to reallocate its resources and to focus on those industries," the investment arm, based in Beverly Hills, Calif., said Tuesday.

YEAR-TO-DATE SHARE PERFORMANCE

Ford Motor

Midafternoon Tuesday: **$2.19**

Year-to-date change: **down 67%**

Source: WSJ Market Data Group

Ford spokesman Mark Truby referred calls for comment to Tracinda, saying only, "We remain confident in and focused on our plan to transform Ford into a lean global enterprise delivering profitable growth for all."

Mr. Kerkorian may not want to pull out completely but may have believed he had to disclose his intentions in light of a settlement last month with the U.S. Securities and Exchange Commission over an earlier sale of **General Motors** Corp. stock. When Tracinda two years ago reported the sale of 14 million GM shares, it failed to disclose that it had planned to sell twice as much but didn't because of low bidding. Days after Tracinda reported the first sale, it sold the rest of its GM stock.

Tracinda quietly amassed 100 million Ford shares earlier this year for a 4.7% stake and announced a tender offer in late April for 20 million more shares at $8.50 each. In contrast to his previous Detroit forays, Mr. Kerkorian didn't push Ford to shake up management or ramp up its turnaround plan. Eventually, he held at least 6.43% of available Ford common stock, according to regulatory filings.

Jerome York, a close adviser to Mr. Kerkorian, repeatedly said Tracinda was pleased with the progress Mr. Mulally had made cutting costs and focusing the business. "I think he has the skill set, the passion, the vision to succeed. We have a lot of confidence in him," Mr. York said at the time of the initial investment.

In the 1990s, Mr. Kerkorian acquired a stake in Chrysler Corp. and pressured management to return more value to shareholders, which helped prompt Chrysler's since-dissolved merger with Daimler-Benz AG. In 2005, he bought nearly 10% of GM and tried to force a change in management and an acceleration of GM's restructuring efforts. Eventually Mr. Kerkorian gave up, selling his GM stake at a modest profit.

Ford, though, is insulated from activist shareholders, in part because the family of founder Henry Ford controls about 40% of shareholder votes.

Company Chairman Bill Ford, Mr. Mulally and Chief Financial Officer Don Leclair met with Mr. Kerkorian, his attorney Terry Christensen and Mr. York for more than an hour in Las Vegas over the summer. They haven't met in person since but have continued to communicate by phone, according to a person familiar with the matter.

Mr. Kerkorian, the majority shareholder of gambling giant MGM Mirage, recently put up a large chunk of MGM Mirage shares as collateral for a $600 million loan he used to buy Ford shares. According to the latest SEC filing, Mr. Kerkorian has put up a total of 100 million of his 149 million MGM Mirage shares to back the loan.

Like the entire gambling industry, MGM Mirage has seen its stick price plummet as consumers reduce spending and Las Vegas continues to see sales decline. There's a bright spot for Mr. Kerkorkian's gambling investment, however: Detroit, where MGM Mirage's new casino is increasing revenue and grabbing market share.

—Tamara Audi contributed to this article.

Nissan to cut production as demand for cars wanes

By John Murphy

TOKYO—**Nissan Motor** Co. is cutting back production in the U.S., Japan, U.K. and Spain as the global financial crisis and fears of recession damp world-wide auto sales.

Nissan, which is 44%-owned by **Renault** SA, of France, Tuesday announced plans to cut production in Japan by 65,000 vehicles from November to March and lay off 780 temporary workers at two plants in its home country, where it makes Infiniti luxury models and sport-utility vehicles for the U.S. market. Nissan's production goal in Japan for the fiscal year ending March 2009 is 1.39 million units.

Japan's third-largest auto maker by sales volume also said it would stop production for three days this month at its U.S. plants in Tennessee and Mississippi as demand weakens for the Maxima sport sedan and the Altima sedan.

The cutbacks come amid a global slowdown in car sales, which is pushing many of the world's top auto makers from the U.S. to Europe and Japan to shutter plants, lay off workers and slow production as they reevaluate their sales targets for the year.

Nissan's sales in North America dropped 37% in September as a credit crunch and worsening economic conditions pushed U.S. auto sales to their lowest level in 15 years.

In Europe, Nissan's sales are also weakening, slipping 5.5% in September. In the U.K., where sales fell 27% in September, Nissan this week announced plans to halt production at its plant in Sunderland, northeast England, for two weeks and shorten the working hours for three weeks as demand for the small cars Micra and Note has dropped off.

In Spain, sales plummeted 23% last month, prompting Nissan to announce earlier this month that it would cut 1,680 jobs at its assembly plant in Barcelona, where it makes the Pathfinder and Navara four-wheel-drive vehicles, light trucks and vans. Nissan says it will cut the work force through voluntary departures and layoffs through September 2009.

Nissan aims to sell 3.9 million vehicles during the fiscal year. Sales were up 6.9% for the April-to-June quarter, boosted by strong growth in China, Russia and the Middle East. Nissan wouldn't comment on whether it plans to revise its sales target when it announces financial results for the April-to-September period on Oct. 31.

Agence France-Presse/Getty Images

Workers protested last week in front of **Nissan's factory in Barcelona** after job cuts were announced.

CORPORATE NEWS

Euro Disney shrinks loss

Visitor numbers hit record as families scale back vacations

By Max Colchester

PARIS—**Euro Disney** SCA, Europe's biggest theme-park operator, attracted a record number of visitors in the fiscal year ended Sept. 30, helping narrow its loss to €2.8 million ($3.7 million).

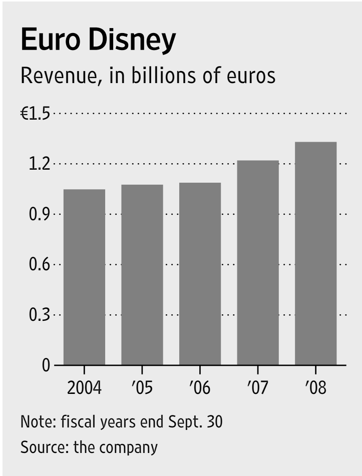
The sharp improvement from a year-earlier loss of €38.4 million came amid a slowdown in France and surrounding European economies. As a result, the park benefited as families avoided longer, more distant vacations that cost more.

The number of visitors from noneuro countries, such as Britain also rose, despite the strong euro, which makes the park more expensive for such visitors.

"Being a short-break destination is our competitive advantage," said Chief Financial Officer Ignace Lahoud.

Euro Disney's revenue for the year rose about 9% to €1.33 billion from €1.22 billion a year earlier.

The company, which is 40%-owned by **Walt Disney** Co. of the U.S., hasn't turned a profit since 2001, the year before it opened Walt Disney Studios, its second theme park in France. The second park is located next to the older Disneyland in Marne-La-Vallée, east of Paris.



Euro Disney is targeting parents with young children by offering discounts. It has also invested €240 million over the past three years into building new attractions, such as the Tower of Terror.

Visitors enter the Tower of Terror through a fake hotel, board an elevator, and are then dropped several stories, before the elevator stops. Such attractions helped to boost combined attendance at the two parks to a record 15.3 million visitors in the latest fiscal year. The theme parks' combined revenue for the year increased 9% to €715.8 million.

In addition, more guests spent the night at the parks, boosting occupancy rates at the company's seven themed hotels. Guests spent an average of €211 a room, up from €197 the previous year. Revenue from the hotels and from Disney Village, a shopping and restaurant complex, rose 7% to €515.6 million. Sales for the resort operating segment increased more than 7% to €1.28 billion.

"Our revenues, theme parks attendance and hotel occupancy contributed to our performance which is noteworthy given the economic environment," Philippe Gas, Euro Disney's Chief Executive said in a statement. Despite the darker economic outlook, the park will open a new attraction next spring aimed at young children.

Mr. Lahoud, the finance chief, said the company's biggest short-term worry was a drop in purchasing power in France, the home of 44% of the parks visitors. "The visibility after Christmas is uncertain," he said. "We are not immune to a deep and long recession."

Nokia still expects gains in China's mobile market

By Aaron Back

BEIJING—While China's blistering economic growth is cooling, **Nokia** Corp. said it still expects fast expansion of its business there and in other emerging markets because there are still plenty of people who don't yet have mobile phones.

China is the world's largest mobile market, with more than 600 million mobile-phone users. But with a population of 1.33 billion, the country offers a large pool of other potential customers.

Chief Financial Officer Rick Simonson said Finland-based Nokia sold 70.7 million phones in China last year, ranging from first-time users to high-end buyers, for a total of €6.2 billion ($8.3 billion) in revenue.

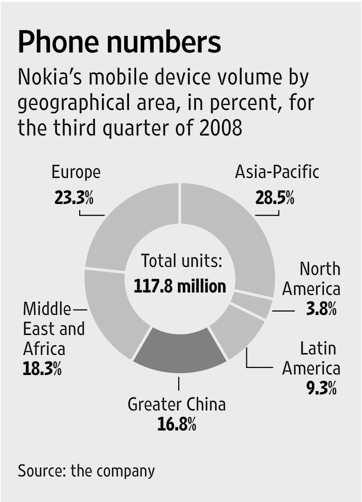
"There's still a lot of penetration to go in the China market before it's saturated," Mr. Simonson said.

"It's the same in India and Indonesia, and it's the same in markets like Brazil and Latin America—all of them aren't [fully] penetrated yet."

Nokia, the world's largest mobile-phone maker by unit sales, leads its competitors in selling inexpensive handsets and holds a commanding market share in markets such as India and China.

Nokia's global market share for the first nine months of the year slipped to 38% from 40% as rivals slashed the prices of handsets to levels that the company said were "unsustainable." But Nokia said it expects to hold or gain market share in the fourth quarter.

Mr. Simonson also isn't concerned with slowing economic growth in China. The country's third-quarter gross domestic product rose 9% from a year earlier, slowing from the 10.4% expansion in the first half.



Phones costing less than €50 accounted for half of Nokia's sales volume in the third quarter, and a majority of those sold for less than €30, Mr. Simonson said.

Norsk Hydro's net sinks on weaker demand

By Elizabeth Cowley

OSLO—**Norsk Hydro** ASA said third-quarter profit fell 97%, weighed down by lower revenue, higher costs and currency fluctuations. The Norwegian aluminum company warned that the financial crisis will continue to hurt earnings in the fourth quarter.

Net profit fell to 202 million Norwegian kroner ($30.6 million) from 6.32 billion kroner a year earlier. Revenue fell 9.2% to 21.77 billion kroner from 21.97 billion kroner.

The year-earlier earnings were boosted by revenue from the company's oil-and-gas operations, which were sold last October to Statoil ASA, now called StatoilHydro.

The latest results were hurt by lower demand in weakening markets and falling aluminum prices, as well as high costs for raw materials such as alumina, the company said.

Unfavorable currency fluctuations also took a toll. Norsk Hydro booked a 1.98 billion kroner expense on foreign-exchange losses in the third quarter, compared with a year-earlier gain of 1.54 billion kroner.

Norsk Hydro shares fell 12% to 27 kroner each. The shares are down nearly 70% from a year earlier.

"The global financial crisis and uncertainty in world commodity markets have affected our results for the third quarter and will continue to do so in the coming quarter," said Chief Executive Eivind Reiten, adding that managing costs remains a key priority for Norsk Hydro. Still, the company's "solid" financial position will enable it to pursue growth opportunities that may arise as a result of the crisis, he said.

In its outlook, Norsk Hydro said it expects continued significant weakening of European and U.S. market conditions, on top of an already-steep drop in aluminum prices since July.

London Metal Exchange aluminum prices are now a bit over $2,000 a metric ton, down from $3,380 a ton at their July peak.

Associated Press

Carlos Ghosn, who serves as CEO of both Nissan and Renault, has long expressed interest in adding a North American partner such as Chrysler to the alliance.

Chrysler weighs alliance with Renault-Nissan

By John D. Stoll

Chrysler LLC may join an existing manufacturing and development alliance between Japan's **Nissan Motor** Co. and France's **Renault** SA, according to people familiar with the matter.

But a sale of the Auburn Hills, Mich., company to **General Motors** Corp. is still its preferred path, according to these people.

Cerberus Capital Management LP, Chrysler's majority owner, is discussing having Nissan, and possibly Renault, acquire a minority stake in Chrysler, these people said.

It isn't clear whether Chrysler or Cerberus also would be asked to purchase an interest in the Japanese and French auto makers in order to maintain a cross-shareholding relationship, they said.

Nissan has taken the lead in talks with Cerberus and Chrysler executives, although any partnership would include Renault as well, one person familiar with the matter said.

For now, Cerberus prefers a deal in which GM takes control of Chrysler. That would reduce the investment group's exposure to the volatile global auto industry.

But, GM has been unable to secure financing for a deal amid continued credit-market worries and the immediate costs of such a merger. As a result, Cerberus is continuing to pursue the option of having Chrysler team up with Nissan.

Chrysler would have a better chance of keeping much of its operations intact in an alliance with Nissan and Renault than in a merger with GM, because of overlapping brands and North American manufacturing plants with the Detroit auto maker.

Some analysts believe more than half of Chrysler's 66,000 employees would lose their jobs if the company is acquired by GM.

Nissan executives believe Chrysler could reap considerable cost savings by cooperating with Nissan and Renault in purchasing, new-vehicle development and production, people familiar with the matter said. It is unlikely that such an arrangement would lead to the same degree of job cuts and structural-cost reductions that would take place if GM were to take over Chrysler, people familiar with the proposal said.

But joining the Franco-Japanese alliance could also tie Cerberus's fate to the performance of three auto makers on three continents, and hand most control of decision-making to officials at other auto makers that may have different goals than Cerberus, these people said.

Nissan isn't interested in taking over Chrysler. Carlos Ghosn, who serves as chief executive officer of Nissan and Renault, has long expressed interest in adding a North American partner to the alliance. In an interview earlier this month, he reiterated that "it would be logical" to add a third partner but said his companies aren't interested in mergers or acquisitions. "We are not looking to save anyone," he said.

Renault and Nissan have shown that companies can work together to reduce costs "without threatening the independence of either company," he said. "We know what works and what doesn't [in an alliance], where the synergies are."

An arrangement could thrust Mr. Ghosn, who has cultivated an image as a hard-charging cost cutter since becoming Nissan's CEO in 2001, back into the center of the global auto industry's spotlight.

In 2006, Mr. Ghosn and GM Chief Executive Rick Wagoner discussed a potential alliance that was estimated to be capable of resulting in billions in cost savings. Mr. Wagoner, who was pressured into the talks by GM shareholder and billionaire investor Kirk Kerkorian, ended up dismissing the alliance as unnecessary and a bad deal for shareholders.

The Nissan-Renault alliance is a rare successful auto partnership.

Since the talks between GM and Renault-Nissan broke down, the U.S. auto industry has taken a major tumble, crimping profit for Nissan and sending GM deeper into restructuring mode.

The Nissan-Renault alliance is a rare automotive partnership that has proven successful. Together they rank as the fifth-largest auto maker in the world, with a global market share of about 9%.

Earlier this year, Renault invested in Russian auto maker Avtovaz in order to grab more of the fast-growing eastern European market. The two companies also have strong balance sheets. In North America, a Nissan-Renault-Chrysler alliance would have relatively little overlap, with Chrysler strong in trucks and minivans, and Nissan in small cars.

—Neal E. Boudette and Jeffrey McCracken contributed to the article.

CORPORATE NEWS

Boeing, machinists union to resume negotiations

Talks mark attempt to end 7-week strike, forge new contract

By J. Lynn Lunsford

Boeing Co. and its striking machinists union will resume negotiations Thursday in the presence of a federal mediator, the latest attempt to resolve a protracted walkout that is now in its seventh week.

According to people familiar with the situation, Boeing and the International Association of Machinists and Aerospace Workers agreed to new talks following repeated conversations with officials from the Federal Mediation and Conciliation Service. The negotiations will be held at the mediation service's offices in Washington

The new round of talks will mark the second time since the strike began seven weeks ago that mediators have attempted to reach a settlement on a proposed three-year contract. Last week, two days of talks broke down after both sides refused to back away from their positions on the union's demands for greater job security. The union's 27,000 machinists walked off the job on Sept. 6.

Unlike previous strikes at Boeing, issues such as wages and pension payments have taken a back seat in recent years to subtle changes in contract language that enable Boeing to use contractors to replace union workers in certain jobs.

Union leaders say that under Boeing's proposed language, as many as 2,000 workers now involved in jobs related to packaging and delivering aircraft components could be replaced by contractors in coming years.

Boeing officials have balked at the union's calls for language that would guarantee jobs to those workers, saying they need the flexibility to react to an increasingly competitive industry. A company spokesman on Monday said Boeing officials are "obviously keen to end this strike, but we need to be sure we retain the ability to run this business as we see fit."

In a statement Monday, the machinists union said it hopes the meeting "marks a major step forward to resolve this strike. The union will continue to do everything possible to bargain a contract that addresses the concerns our members have identified."

Arthur Rosenfeld, director of the mediation service, called the strike "a priority matter for this agency."

Boeing officials have said that they offered the machinists union "the best contract in the aerospace business," including $34,000 in wage increases over the life of the contract, but union officials say the proposed agreement was filled with "take aways" that required workers to pay more for health insurance and threatened their jobs.

Before the strike, Boeing's assembly lines had been cranking out more than 40 airplanes a month. But the strike, in addition to costing Boeing an estimated $100 million in revenue each day, has also forced many of the company's suppliers to temporarily lay off workers. Boeing is expected to report its third-quarter earnings on Wednesday.

Lockheed net rises as revenue falls

By August Cole

Associated Press

Lockheed's aeronautics business, which makes the **F-16 fighter**, reported $2.92 billion in sales, down from $3.34 billion last year.

Lockheed Martin Corp. reported higher third-quarter profit but lower revenue as the Pentagon's biggest contractor by dollar value waits for sales of its latest fighter to kick in next year.

The Bethesda, Md., defense contractor's quarterly results underscored the growing importance of its nonaerospace businesses. But production of the F-35 Lightning II Joint Strike Fighter will become a crucial part of the company's revenue picture in the coming years, a top company official said.

"From a revenue perspective, and from a strategic perspective, it's very important for us in 2009," Lockheed Chief Financial Officer Bruce Tanner said in an interview. The plane, being developed under a $300 billion Pentagon contract, will account for about 10% or more of the company's annual revenue in coming years.

When the biggest U.S. defense companies report third-quarter results this week, the shifting balance between traditional weapons programs and nonmilitary government businesses will be on display as investors fret that the industry's record sales and profits during the Bush administration may be winding down.

The Pentagon's fiscal 2009 base budget of $512 billion "provides a solid foundation and visibility at work in calendar years 2009 and 2010," said Mr. Tanner, but "there's more variability after that."

Lockheed's third-quarter revenue fell 5% to $10.58 billion amid lower sales at three of the company's four divisions. Net income rose 2.1% to $782 million, or $1.92 a share, from $766 million, or $1.80 a share, last year. Lockheed's profit was helped by a $44 million gain from its space business.

Analysts expected a profit of $1.89 a share, according to a survey by Thomson Reuters, and sales of $10.74 billion.

Lockheed's earnings guidance for 2009 was below the consensus estimates from Wall Street analysts, which Mr. Tanner attributed to differences in pension accounting.

Lockheed expects earnings next year in a range of $7.65 a share to $7.90 a share with revenue of $44.25 billion. Analysts expect a profit of $8.39 a share with sales of $45.73 billion, according to Thomson Reuters.

Among Lockheed's four business units, the company's Information Systems and Global Services group brought in the most sales for the first time with $2.95 billion in sales, up from $2.71 billion a year earlier. Profit was $267 million, up from $245 million. The group is indicative of how Lockheed's growth plans count on moving beyond its traditional businesses.

Lockheed's aeronautics business reported $2.92 billion in sales, down from $3.34 billion last year. Profit for the division fell 9.4% to $375 million.

Caterpillar profit falls 6.4% as higher steel, oil costs nip

By Ilan Brat And Doug Cameron

Caterpillar Inc.'s third-quarter net income fell 6.4%, weighed down by higher costs for steel, oil and other commodities, and the company's short-term outlook for the global economy turned increasingly gloomy despite strong sales in developing countries.

The Peoria, Ill., maker of heavy equipment said it expects global economic growth to drop a percentage point to 2.8% in 2008 from a year earlier, then fall further in 2009 to less than 2.5%. Meanwhile, the U.S. and Canada will grow less than 1% in 2009, the company projected.

"Next year, no doubt, will be a challenge," Caterpillar Chief Executive Jim Owens told investors in a conference call Tuesday.

Net income for the quarter ended Sept. 30 fell to $868 million, or $1.39 a share, from $927 million, or $1.40 a share, a year earlier. Revenue climbed 13% to $12.98 billion amid higher prices and a weaker dollar. On average, analysts polled by Thomson Reuters were expecting a profit of $1.41 a share on $12.43 billion in revenue.

As the downturn in the U.S. housing market and wider economy has spread, Caterpillar has increasingly relied on sales in developing countries such as China, Brazil and Russia to boost sales and earnings.

With sales volume of machinery declining in Europe and North America and growth expected to temper in developing economies, Caterpillar's profit prospects look more uncertain than they have in years. In an unusual step, the company delayed forecasting its 2009 profit until January because "economic turmoil" forced it to change its projections.

Caterpillar did estimate that 2009 sales of its earthmoving machines and engines that power ships, tractors, electricity generators and oil-drilling rigs will be about even with 2008, at roughly $50 billion. The company's shares fell $1.54, or 3.8%, to $39.36 in afternoon New York Stock Exchange trading Tuesday.

In recent years, growth mostly outside the U.S. has helped Caterpillar offset weakening demand in developed countries. In the region Caterpillar calls Europe, Africa and the Middle East, sales of engines used to make electricity jumped 20% in the third quarter, with demand in Africa and the Middle East offsetting drops in Europe.

But in the developing world, "problems are emerging," Caterpillar CEO Mr. Owens said. Some major infrastructure projects probably will be delayed amid financing troubles, he said.

In late 2009 or 2010, Mr. Owens said he expects economic growth in the U.S. to begin rising again.

CORPORATE NEWS

Drug makers trim costs

Pfizer profit triples; Shering-Plough net declines as sales rise

By Peter Loftus

Drug makers **Pfizer** Inc. and **Schering-Plough** Corp. posted mixed third-quarter results, as both companies cut costs amid weakness in the market for cholesterol drugs.

Pfizer's profit tripled from a year-earlier period weighed down by heavy costs for a scrapped product, but flat quarterly sales reflected generic competition in the U.S. Schering-Plough's profit declined 21% from a year-earlier quarter that was boosted by one-time gains, while sales jumped 63% thanks to its acquisition of Organon BioSciences late last year. Both companies reported earnings excluding one-time items that were ahead of analysts' expectations.

Pfizer and Schering-Plough displayed their "ability to manage their cost structure," said Edward Jones analyst Linda Bannister. Also, both companies posted strong sales outside the U.S., partly due to favorable exchange rates.

New York-based Pfizer said it was ahead of schedule in a cost-cutting program launched last year, and boosted its targeted reductions for 2008. Among other measures, Pfizer has cut its work force by 14,600 positions since January 2007.

Pfizer, the world's biggest drug maker by sales, has been battling generic competition for its top drugs, and its best-selling drug, the cholesterol-lowering Lipitor, loses patent protection in 2011. At the same time, it has had trouble bringing new products to market and has responded by cutting costs and revamping its drug research efforts.

Reuters

Pfizer's **battle against generic competition** and its trouble bringing new products to market have left it cutting costs and revamping research efforts.

For the third quarter, Pfizer said net income rose to $2.28 billion, or 34 cents a share, from $761 million, or 11 cents a share, a year earlier. The latest quarter included a charge of $640 million for Pfizer's settlement of litigation surrounding its pain drugs Celebrex and Bextra, and a charge of $150 million tied to product-returns liabilities. The year-earlier quarter included a charge of $2.1 billion related to Pfizer's decision to stop selling inhaled insulin Exubera.

Excluding the one-time items, earnings would have been 62 cents a share in the latest quarter, up from 58 cents a share a year earlier. The mean earnings estimate of analysts surveyed by Thomson Reuters was 60 cents a share.

Pfizer's third-quarter revenue eased to $11.97 billion from $11.99 billion. U.S. revenue declined 15% to $4.9 billion, while sales outside the U.S. rose 13% to $7.1 billion.

Lipitor sales fell 1% to $3.1 billion, reflecting a 13% decline in the U.S. The drug's sales have been under pressure from the availability of cheaper, generic options for cholesterol treatment.

Pfizer also said the global market for cholesterol drugs is facing decelerating market growth "and increasing cost constraints."

Schering-Plough, Kenilworth, N.J., reported third-quarter net income of $589 million, or 34 cents a share, down from $750 million, or 45 cents a share, a year earlier. Excluding a divestiture-related gain and acquisition-related costs, earnings rose to 39 cents a share from 28 cents. The mean earnings estimate of analysts surveyed by Thomson Reuters was 31 cents a share. Sales rose to $4.58 billion from $2.81 billion.

Combined sales of Vytorin and Zetia, the cholesterol drugs Schering-Plough co-markets with **Merck** & Co., dropped 15% to $1.1 billion, with lower U.S. sales partly offset by increased sales outside the U.S.

—Mike Barris contributed to this article.

U.S. regional banks see profits decline

By Dan Fitzpatrick

Glum third-quarter earnings reports from five large regional banks underscored how loan woes are spreading throughout the U.S.

The banks, whose business is concentrated in the mid-Atlantic, Upper Midwest and Southeast, reported a combined $166 million net loss, down from a year-earlier gain of $2.01 billion. The amount of money set aside for bad loans was a combined $3.7 billion, more than four times the year-earlier total of $865 million.

Even Minneapolis-based **U.S. Bancorp**, which has largely sidestepped the woes afflicting many of its rivals, reported a 47% profit fall as its loan-loss provisions mushroomed amid weaknesses in residential mortgages and home building. Net income at Birmingham, Ala.-based **Regions Financial** Corp. plunged 80%, while Cleveland-based **KeyCorp** and Cincinnati-based **Fifth Third Bancorp** swung into the red and losses swelled at Cleveland-based **National City** Corp.

The results showed that bank executives are retreating further from riskier loans, slashing jobs and dumping bad real estate at steep losses, with few signs of a letup. KeyCorp Chief Executive Henry Meyer III called the situation "the most severe financial crisis any of us has known in our business lifetime." Regions CEO Dowd Ritter called the quarter "the perfect storm for financial companies," while National City CEO Peter Raskind described the "unprecedented challenges" now facing the industry as "largely unthinkable six months ago."

National City announced plans for $500 million to $600 million in cost cuts through 4,000 job reductions over the next three years, or 14% of the bank's work force. Amid uncertainty about the U.S. financial system, deposits at National City dropped 5.5% in the third quarter from the second quarter. The company attributed the outflow to external events and said it mainly occurred among large corporate customers. A lifting of a federal cap on insured accounts announced last week should help, Mr. Raskind said.

Despite U.S. Bancorp's net loss in the quarter, Chief Executive Richard Davis said the bank is benefiting from the troubles of its rivals. Deposits rose 3.2% between the second and third quarters and 10% compared with a year earlier. That trend "accelerated" in October, he said, especially on the West Coast and in Ohio. "I don't think there's been a day in October we haven't seen a net flow of an exceptional level."

Talk of a freeze-up in lending is "overrated," Mr. Davis added, saying "we are making loans to everybody who qualifies."

All five regional banks said they would consider the possibility of a capital infusion from the federal government as part of a rescue package announced last week. KeyCorp's Mr. Meyer said his company was eligible for $1.1 billion to $3.3 billion, while Regions' Mr. Ritter said his bank should be able to get as much as $3.5 billion.

Further involvement from the federal government would likely lead to more consolidation in the industry, Mr. Meyer said. He predicted more "shotgun" marriages as the market stabilizes over the next 18 to 24 months.

National City's Mr. Raskind, speaking on a conference call, didn't respond directly to questions about the possibility of a sale or merger, but did say, "We will always do what is best for our shareholders."

GLOBAL BUSINESS BRIEFS

GlaxoSmithKline PLC

Treatments for dry mouth to join consumer business

Aiming to strengthen its consumer business, **GlaxoSmithKline** PLC Tuesday said it is buying Biotene, a brand of products that treat dry mouth, for $170 million. The Biotene brand, which GlaxoSmithKline is acquiring from closely held California-based **Laclede** Inc., reported sales of about $50 million in 2007, up 17% from the previous year. The products—ranging from toothpaste to gum, mouthwash and mouth spray—treat dry mouth that occurs because of a lack of saliva. GlaxoSmithKline's current oral-care consumer portfolio includes brands such as Aquafresh and Sensodyne. The move is part of GlaxoSmithKline Chief Executive Andrew Witty's strategy of diversification into consumer health care, as well as vaccines and emerging markets, to help the business grow despite a tough industry environment.

Roche Holding AG

Roche Holding AG reported a 1.6% rise in third-quarter sales, as solid demand for its cancer medicines was partly offset by currency fluctuations and fewer orders for flu drug Tamiflu. Switzerland-based Roche, which reports profit figures only for the half year and full year, said total sales rose to 11.3 billion Swiss francs ($9.82 billion) from 11.12 billion francs a year earlier. The sales growth was slower than analysts had expected, partly because of the rise in the Swiss franc against other currencies. Cancer drugs such as MabThera, Herceptin and Avastin remained Roche's top-selling products, each bringing in more than $1 billion. The drug maker also reaffirmed its offer for California-based Genentech Inc., of which it already owns about 56%.

Actelion Ltd.

Swiss biotechnology company **Actelion** Ltd. posted a 25% increase in third-quarter net profit, thanks to higher sales, and it lifted its full-year forecast. Net profit jumped to 111.8 million Swiss francs ($97.2 million) from 89.1 million francs a year earlier, while sales were up 23% to 394 million francs. The company, which recently gained blue-chip status in Switzerland, also raised its full-year outlook and said it now expects sales to increase by 16% to 19% when measured in local currencies, up from the 15% growth it predicted in July. So far, Actelion has two drugs on the market—its flagship product Tracleer for high blood pressure, and Zavesca, which treats Gaucher disease, a condition caused by enzyme deficiency. Tracleer again drove Actelion's top line in the latest quarter, generating 341 million francs in revenue.

Enel SpA

Italy's two largest energy companies by market value, **Eni** SpA and **Enel** SpA, signed an accord Tuesday to cooperate on carbon-dioxide capture and sequestration. The companies will trap exhaust gases from Enel's coal-fired power plant in Brindisi and liquefy them for storage in the depleted Eni Cortemaggiore field, the companies said in a joint statement. The agreement marks Italy's first carbon-capture and storage, or CCS, project. The companies also joined Italy's environment minister, Stefania Prestigiacomo, in signing protocol to promote CCS.

Prudential PLC

Prudential PLC, one of the U.K.'s biggest life-insurers, posted a 24% rise in third-quarter sales and confirmed that it is interested in buying the Asian business of financially troubled **American International Group** Inc. In the three months ended Sept. 30, sales soared to £790 million ($1.36 billion) from £636 million a year earlier. Prudential credited its growth despite a difficult economic environment to its geographical diversity, with developing Asian markets doing particularly well. Excluding Taiwan, sales in Asia jumped 21% in the third quarter. Last month, the insurer also struck a £1 billion deal to provide a bulk-annuity policy to Cable & Wireless PLC, the biggest such agreement in the U.K. so far this year.

Randstad Holding NV

The U.K.'s Office of Fair Trading said it is investigating eight staffing agencies—among them a unit of the U.K.'s largest recruiter, **Hays** PLC, and businesses now owned by **Randstad Holding** NV—for price fixing and collective boycott. The watchdog is probing whether the companies distorted recruitment in the construction industry by boycotting a third party and whether they fixed fees for providing candidates between the end of 2004 and the start of 2006. The two Randstad businesses are Beresford Blake and ThomasHill McGlynn Associates, former units of Vedior, which the Dutch company bought this year. Randstad said it was fully aware of the probe at the time of the merger. Hays said it was cooperating with the investigation.

StatoilHydro ASA

The European Union cleared Norwegian oil company **StatoilHydro** ASA's acquisition of **ConocoPhillips**'s Jet-branded fuel stations in Scandinavia but said it had to sell some of them. StatoilHydro committed to sell all 40 Jet fuel stations in Norway and a network of 158 fuel stations in Sweden, which operate under the Jet, Hydro and Uno-X brands, said the European Commission, the EU's executive arm. The original deal would have strengthened StatoilHydro's position as the largest provider of motor fuels in Norway, the commission said. In Sweden the company's market share would have been more than twice as big as that of its second-largest competitor, it added. "Consumers are already confronted with very high energy prices," said Neelie Kroes, the commission's competition chief.

Coach Inc.

Leather-goods seller **Coach** Inc. said its fiscal-first-quarter profit dropped 5.8%, hurt by weakness in North American sales and by greater discounting at outlet stores. But the New York-based luxury retailer reiterated its full-year-profit forecast of $2.25 a share and gave a second-quarter earnings outlook that exceeded many analysts' estimates. Net income in the quarter ended Sept. 27 dropped to $145.8 million, or 44 cents a share, from $154.8 million, or 41 cents a share, a year ago. Sales rose 11% to $752.5 million on new store openings and gains in Asia. Second-quarter profit is forecast to be 77 cents a share, compared with 69 cents a year ago, on a sales increase of about 8% to $1.05 billion.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

CHINA

U.S. official calls Beijing 'ally' in financial turmoil

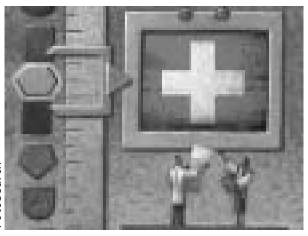

Associated Press

THE U.S. and China have been in active communication during the financial turmoil and Beijing has been "a responsible participant and ally" in dealing with the crisis, said David McCormick, U.S. Treasury undersecretary for international affairs.

Mr. McCormick is visiting China as Washington tries to rally support for its $700 billion bailout of the U.S. financial system. The bailout would likely involve major buyers of U.S. Treasury bills, such as China, buying even more U.S. debt. "It's in both of our interests for each of our economies to prosper. That's a consequence that's become clear after the events of the last 12 months," he said. *—Denis McMahon*

SWITZERLAND

September export drop confirms slowing growth


Fotosearch

SWISS September exports fell for the first time since January 2005, trade data adjusted for the number of working days showed, a sign economic growth is slowing. The Swiss trade surplus stood at 1.44 billion Swiss francs ($1.27 billion), down 17% from September 2007, Switzerland's customs office said.

Exports and imports rose, but only because the latest month had two more working days. Adjusted for working days and for inflation, exports fell 4.4%. "The figures confirm that trade dynamics are slowing, but on a rather gradual pace," said Fabian Heller, economist at Credit Suisse. *—Anita Greil*

GREECE

Air, rail and ferry traffic halted by general strike


Associated Press

AIR, RAIL and ferry traffic ground to a halt across Greece and public offices shut down as workers held a general strike to protest the conservative government's policies.

Riot police fired tear gas to disperse a small group of rock-throwing youths as thousands of demonstrators marched through central Athens. Protesters called for the minimum salary to be raised to €1,400 (about $1,880) a month from €701 and for the government to cancel pension-system changes. About 200 domestic and international flights were canceled, while all ferries were confined to port and the state railway company canceled most services. *—Associated Press*

Africa oil outlook sours

Global credit crunch, violence, price hikes pressure production

By Peter Fritsch
Cape Town, South Africa

THE PETROLEUM potential of Africa, a key contributor of oil barrels to thirsty markets, is beginning to look dimmer because of the credit crunch and a host of endemic challenges.

Certainly, Big Oil's continental land grab will continue. Countries such as Angola and those around the Gulf of Guinea continue to lease tantalizing exploration blocks in the deep waters off the Atlantic coast. That region has been the hottest play in a scramble that has doubled the acreage under exploration licenses in sub-Saharan Africa to an area 10 times the size of France in the past three years.

But the astronomical costs involved in developing those fields, combined with escalating violence in the oil-rich Niger Delta, the relatively short life span of West Africa's producing basins, unpredictable market prices and an expected culling of cash-poor small players means Africa's days as a reliable supplier of additional oil may be numbered.

"We have benefited from additional oil volumes from Africa, but given the production profile of offshore fields, we need to see significant new discoveries to sustain that trend," says Fatih Birol, chief economist for the International Energy Agency in Paris. "It's not clear that will happen."

Declining production will deprive a host of developing nations of sorely needed revenue. For countries such as Nigeria and Angola, oil exports account for the vast majority of government revenue and foreign-exchange earnings.

The continent is responsible for about 12% of global oil production of around 85 million barrels a day. But Africa's contribution has been crucial to tight oil markets given the continuing slide in production in non-OPEC countries such as Russia and Mexico. The IEA expects non-OPEC producers will add new supplies of just 150,000 barrels a day this year, down from the agency's original expectations of around 1 million barrels a day. Other analysts say non-OPEC supplies could actually fall this year.

For big state-owned and private oil companies, Africa has played an outsized role. It is responsible for adding nearly a quarter of the globe's total increase in reserves over the past decade. That has been a boon for companies such as **Royal Dutch Shell** PLC, **ExxonMobil** Corp. and **Total** SA, all of which have struggled to replace reserves on their books. Outside Africa, big new discoveries have proved elusive and host countries are tightening terms.

Africa's crude is highly prized by refiners in Europe and North America because it yields far more lucrative refined products than oil from the Middle East. Even before the credit crunch took hold, experts had been warning of challenges to maintaining Africa's upward trend in production, particularly in sub-Saharan Africa and the continent's two OPEC members, Nigeria and Angola.

Consultancy Wood Mackenzie sees production in West Africa beginning to fall as soon as 2013. PFC Energy in Washington estimates that trend could take hold after 2014 when West African production peaks at 7.1 million barrels a day, compared with the current 5.8 million barrels a day.

But even those modest gains could prove to be elusive. In Nigeria, which competes with Angola to be Africa's largest producer, deepening rebel and criminal violence targeting Western oil companies in the oil-rich Niger Delta is severely crimping supply. Nigerian Foreign Minister Ojo Maduekwe said last week Nigeria currently was producing just 1.5 million barrels of oil a day. That surprised observers who had pegged Nigerian production at closer to 2 million barrels a day.

The violence is also driving up costs. Chief Tunde Afolabi, chief executive of Nigerian oil company **Amni International**, says his production costs in the delta are 250% higher than those offshore once he factors in security outlays and kidnapping insurance for his employees.

The credit crisis and the falling price of oil will only deepen the Nigerian state oil company's chronic funding shortfalls. Nigeria is supposed to contribute roughly $60 billion in oil-development costs in the 2008 to 2012 period, its share of funding of joint projects with international oil companies. It will need to borrow more than half that amount—no mean feat in current conditions.

In Angola, China's largest single oil supplier, oil production recently fell to around 1.7 million barrels a day from a high about 2 million barrels a day earlier this year, the country's oil minister said last week, blaming an accident in one offshore block. Such supply pinches may be transitory as new fields come on line, but they highlight the region's production challenges.

Geology and project economics are a longer-term concern. The nature of oil reservoirs in West Africa's key offshore fields means production peaks quickly. Major oil companies have a financial incentive to pump oil fast, and that speeds decline rates and shortens a field's life.

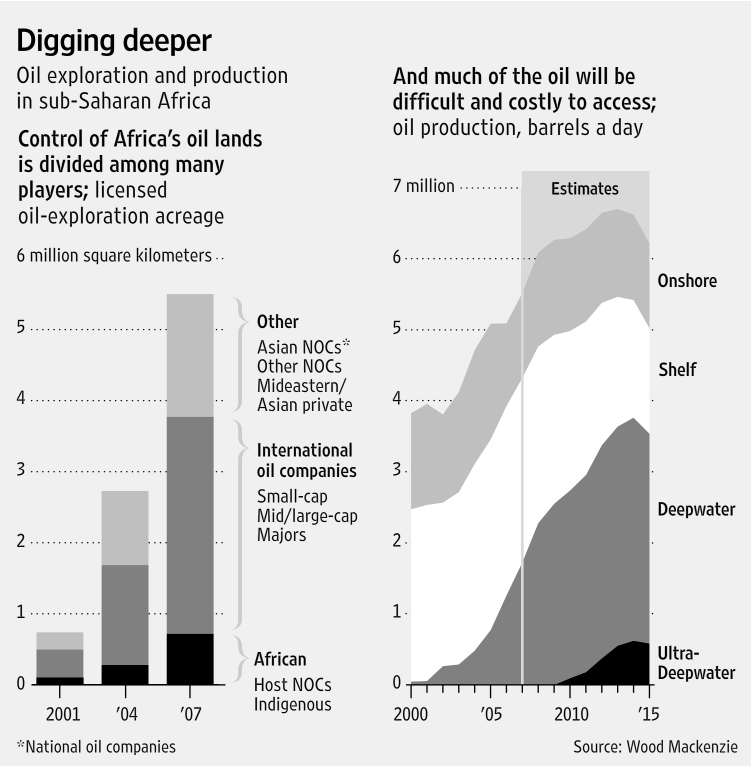
"The major oil companies want a quick ramp-up in those fields" to recoup their massive development costs, says David Kirsch of PFC. "One reason Angola joined OPEC was to give it some leverage in managing that." The Organization of Petroleum Exporting Countries assigns its members production quotas.

Africa's hundreds of smaller explorers—known as chongololos after the continent's scavenging millipedes—have been aggressive in picking up the scraps left by big oil companies and pushing into frontier regions.

But again, the global credit crunch is making the road to developing those plays much tougher.

Tullow Oil of the U.K. has been extremely successful with large oil finds offshore Ghana and on the Ugandan side of Lake Albert. But getting Uganda's oil to market will require construction of a 1,200-kilometer to Mombasa on the Kenyan coast. Company Chairman Aidan Heavey says that effort only pays if oil is found in sufficient quantities and if benchmark prices stay above $80 a barrel. The price of oil was at $71.04 a barrel in Tuesday trading, down 4.32% from Monday.

While he and other larger independent companies sitting on solid African prospects are likely to ride out the storm, others won't be so lucky. "This is a tough time for small companies that don't have production [to generate cash]," says Stewart Williams, senior analyst for sub-Saharan energy research at Wood Mackenzie. "Many will have trouble funding drilling programs."



Pakistan will need as much as $15 billion in aid

By Matthew Rosenberg

Pakistan will need as much as $15 billion over the next two or three years to extricate themselves from a severe financial crisis and will require up to $4 billion of that in the next month, senior officials from Pakistan and the International Monetary Fund said Tuesday.

The estimate of how much money Islamabad needs to refill its emptying hard-currency reserves and jump-start its stalled economy came as officials from Pakistan and the International Monetary Fund opened an annual meeting in Dubai to review Pakistan's economic health—and possibly hammer out an emergency aid package.

"I would encourage them to move fast but it's their call," said Mohsin Khan, the IMF's director for the Middle East and Central Asia, in an email. He said the country wasn't at great risk of defaulting on its debts. But foreign-exchange reserves are dangerously low, down to $7.75 billion as of Oct. 11—a level economists estimate would cover less than two months of imports.

Pakistani officials have publicly insisted they would seek IMF help only as a last resort. Instead, Pakistan is hoping for money from the Friends of Democratic Pakistan, a group including the U.S., Saudi Arabia, China and European powers. It's not clear those countries are willing to provide the money.

—Haris Zamir contributed to this article.

Russian official released

Politics infuse case of finance deputy detained for months

By Alan Cullison

Reuters

Deputy Finance Minister Sergei Storchak, center, was released from prison but still faces trial on **charges of fraud and abuse of office**.

MOSCOW—Prosecutors unexpectedly released a top Finance Ministry official from jail one year after he was arrested in a politically charged criminal case seen as a strike by Kremlin hard-liners against pro-market officials.

The official, Deputy Finance Minister Sergei Storchak, still faces trial on charges of fraud and abuse of office, and is forbidden to leave Moscow.

Mr. Storchak's release Tuesday comes as Russia's new president, Dmitry Medvedev, has called for a loosening of government interference in the economy and a reform to the country's tainted legal system.

But supporters of Mr. Storchak say it's too early to call his release a sign of any ideological change, and that it may just mark the heightened status of Finance Minister Alexei Kudrin, who has been Russia's point man in directing the response to the financial crisis.

A favorite of investors, Mr. Kudrin is credited with making sure the Kremlin saved up much of its oil windfall in recent years. Now, those reserves are helping the Kremlin soften the impact of the global crisis.

Mr. Kudrin welcomed Tuesday's ruling. "I consider the accusations are unjust and have no foundation," Mr. Kudrin said. "I think justice has prevailed."

The detention of Mr. Storchak 11 months ago sparked a rare and open clash of Kremlin clans.

Mr. Kudrin has repeatedly said his deputy did nothing wrong, and kept Mr. Storchak's job and fourth-floor office at the Finance Ministry open for him.

Mr. Storchak's friends charged the arrest was really a stab at Mr. Kudrin, an economic liberal and presumed rival for power of more hard-line factions in the Kremlin of Russia's security services.

Prosecutors said that his release was ordered Tuesday because the investigation was finished.

The probe itself has been awash in intrigue, with the chief investigator jailed this spring on charges of taking a $1 million bribe in an unrelated case.

Alexander Lebedev, a billionaire banker and friend of Mr. Storchak who has been one of his strongest public defenders since his arrest, said it is "too early to judge" whether Mr. Storchak's arrest signals a loosening of Kremlin control.

"If tomorrow there is an announcement that they have revised their control of (state) TV, registered some parties, and done a few more things, then I would see it as a trend," he said.

Another possible hint of Kremlin softening came last week as prominent members of the Civic Chamber, a semiofficial body, appealed to Mr. Medvedev to pardon a lawyer convicted in the OAO Yukos case.

The lawyer, Svetlana Bakhmina, was arrested in 2004 as dozens of midlevel officials were drawn into criminal cases widely viewed as politically motivated.

In September, a court turned down her appeal for parole. Her lawyers argued that she should be released because she has two young children and is pregnant with a third. This week, Ms. Bakhmina formally requested a pardon.

So far, the authorities have shown little leniency toward Mikhail Khodorkovsky, the billionaire former CEO of Yukos, or other top officials at the company.

This month, Mr. Khodorkovsky's lawyers said he was sent into solitary confinement for 12 days after giving a written interview to the Russian edition of Esquire magazine.

Mr. Khodorkovsky, once Russia's richest man and the founder of the now-dismembered Yukos oil empire, was convicted in 2005 of tax evasion and fraud in what Western courts have denounced as a politically motivated case.

Thai court convicts ex-premier

By James Hookway

BANGKOK—Thailand's Supreme Court convicted deposed Prime Minister Thaksin Shinawatra of abuse of power and sentenced him to two years in prison for helping his wife secure a land deal.

The verdict is likely to spur ongoing protests against a government aligned with the exiled Mr. Thaksin, further destabilizing this divided nation.

After Mr. Thaksin was ousted in a military coup in 2006, he was charged with a number of corruption-related offenses, all of which he denied, and many of which remain unresolved. He jumped bail in August and fled to Britain, claiming he wouldn't get a fair trial in Thailand. He said Tuesday's conviction was "politically motivated" and "a carry forward of the coup d'état" against him, the Associated Press reported.

The Supreme Court ruled Mr. Thaksin abused his authority by helping his wife purchase a valuable piece of land near Bangkok's business district from a government agency in 2003. The verdict was the first in which a Thai politician was convicted of corruption that occured while serving as prime minister.

It's unclear whether Mr. Thaksin will serve prison time because of the nature of the existing extradition agreement between Britain and Thailand.

Political analysts say the verdict could intensify Thailand's political conflicts and weaken the survival prospects of its current government, which is comprised mostly of pro-Thaksin politicians and headed by Prime Minister Somchai Wongsawat, Mr. Thaksin's brother-in-law.

For the past three years, supporters and critics of Mr. Thaksin have competed in a sometimes violent tussle for power. In late August, thousands of demonstrators seized the main government complex in Bangkok. They are still occupying it in a bid to force Mr. Thaksin's allies from power. Their primary goal is to uproot Thailand's Western-style democracy, which they contend that cash-rich populists such as Mr. Thaksin can manipulate, and replace it with a system where bureaucrats and other civic groups have a greater say in selecting parliament.

"This verdict could weaken Mr. Thaksin's support base and embolden his opponents," says Panitan Wattanayagorn, a political science professor at Bangkok's Chulalongkorn University.

Army commander-in-chief Anupong Paochinda has suggested that Mr. Somchai step down to take responsibility for the Oct. 6 bloodshed, which is threatening to disrupt Thailand's $17 billion-a-year tourism industry.

The Constitutional Court last year ordered the dissolution of Mr. Thaksin's political party for alleged election violations. Last month, the same court ousted one of Mr. Thaksin's successors, former Prime Minister Samak Sundaravej, for unlawfully accepting payments to host a television cooking show.

In the coming weeks, Thailand's courts will also rule on whether the party Mr. Somchai leads, the People Power Party, should also be disbanded for alleged electoral fraud—a move that could prompt fresh elections.

"The judicial system's rulings might not be well understood by all Thai people, and the judges may face criticism and even violence," says Mr. Panitan.

Fed to lend money funds as much as $540 billion

By Jon Hilsenrath And Diya Gullapalli

In another move to bolster fragile credit markets, the U.S. Federal Reserve said it would lend as much as $540 billion to the money market mutual fund industry, which has been plagued by investor redemptions since September.

It is the third major step that Fed officials have taken in the past month to buck up money market funds, which in normal times are low-risk investments that earn modest returns by investing in short-term debt.

The Fed has already taken steps to backstop commercial paper, a kind of short-term debt that is widely held by many funds. The latest move enables the Fed to stand behind a broader array of financial instruments, including certificates of deposit, held by such funds.

The money market industry has been in a state of turmoil since mid-September, when a large fund called the **Reserve Primary Fund**, run by **Reserve Management** Co. of New York, was hit by losses from holdings of commercial paper issued by Lehman Brothers Holdings Inc., which collapsed last month.

After the fund's troubles became public, roughly $500 billion flooded out of the "prime" money market fund sector, which invests in instruments like commercial paper and certificates of deposit, straining the ability of some funds to meet investor demands for cash.

Under the new program backed by the Fed, the money market fund industry will team up to create five new investment vehicles, known in accounting parlance as "special purpose vehicles." These vehicles will be managed by **J.P. Morgan Chase** & Co. and will buy certificates of deposit and commercial paper held by money funds run by **Vanguard Group**, **BlackRock** Inc., **Federated Investors** Inc. and others.

The money market funds selling these instruments to the investment vehicle will get cash back in addition to a stake in the special purpose vehicles. The Fed will lend to the special purpose vehicles, with the assets they hold as its collateral.

In effect, the move ensures that money funds can raise cash quickly from the Fed. In all, the program can grow to up to $600 billion, with the Fed providing $540 billion in debt financing. It will backstop only high-rated A1/P1 short-term debt.

The money market industry is a $3.5 trillion business, according to the Investment Company Institute. Prime money funds, which rely heavily on the bank-issued commercial paper being acquired by the new vehicles, account for $1.58 trillion of that, according to iMoney-Net Inc.

The Fed has taken a wide range of steps to support credit markets in the past few weeks. Under one program, it will begin buying commercial paper directly from some firms next week. Under another, it will backstop a kind of debt called asset-backed commercial paper.

Money market fund officials came to the Fed last month arguing that the programs were too narrow for them to handle the wave of investor redemptions they have faced. A senior Fed staffer said some funds could run out of liquid resources to meet redemption demands without Fed action.

Money funds remain nervous about holding instruments with maturities any longer than seven days. Banks like **Morgan Stanley**, **Goldman Sachs Group** Inc. and **Merrill Lynch** & Co. typically play a big role as so-called market makers facilitating trades for money funds. However, as such banks have become preoccupied with their own financial problems, a lot of secondary trading has seized up. Merrill agreed to sell itself to **Bank of America** Corp. last month.

"The natural market makers in the money markets have not been making markets," said Deborah Cunningham, chief investment officer at Federated. "It started in September and continued through October." The new Fed facilities should help with that, she said.

European central banks also took new steps to unfreeze their credit markets Tuesday, flooding the European banking system with short-term funding. The European Central Bank, for example, extended $101.9 billion to 91 banks in the region through 28-day loans. The funds were offered at a fixed rate of 2.11%.

That and other moves helped to push down key interest rates, including the London interbank offered rate, or Libor, which is used as a benchmark for many business and consumer loans.

"Money market tensions are easing," said Lena Komileva, head of G7 market economics at Tullett Prebon. "Year-end money market spreads have tightened aggressively over the past week and the money market risk profile beyond the six-month horizon is more positive than it has been at any time since the collapse of Lehman Brothers."

Meantime, the Bank of England made $25.97 billion in dollar funds available, and the Swiss National Bank allotted $12.9 billion in 28-day loans.

—Monica Houston-Waesch and Keith Jenkins contributed to this article.

Canada contemplates guarantees

By Don Curren

The Canadian government is considering offering guarantees on interbank lending, people at large banks said.

The move would aim to keep the domestic financial sector competitive as other countries extend similar protections to their banks' creditors.

A guarantee could help keep the cost of consumer and business loans down by ensuring Canada's banks have access to cash at the same rates as overseas competitors.

While Canada's banks haven't suffered the same damage from toxic securities as their counterparts in the U.S. and Europe, the Canadian government is seen to be committed to ensuring a level playing field with banks that now enjoy government support.

The most recent Bank of Canada survey of Canadian senior loan officers, taken just before October's major rise in short-term interest rates, found "widespread tightening" in all dimensions of business lending.