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Markets plummet around the world

European stocks sink on bank fears; DJIA below 10000

By Peter McKay and Neil Shah

Global markets plunged in a fearful spiral Monday as investors focused on the weakened state of the global economy, ignoring recent steps by government officials around the world to shore up the financial system.

The Dow Jones Industrial Average fell 3.6% to 9955.50, dropping below 10000 for the first time since late 2004. Asian markets slumped to multiyear lows and the pan-European Dow Jones Stoxx 600 Index had its worst percentage-point drop in its 20-year history as a wave of emergency government measures failed to stem concerns about the region's financial system and economy.

Trading in Russia was halted after the dollar-denominated RTS Index plunged 19.1%, its biggest-ever one-day loss, and emerging markets elsewhere also tumbled. The Russian central bank was forced to use $4 billion to $5 billion of its reserves to support the ruble amid the rout, traders said.

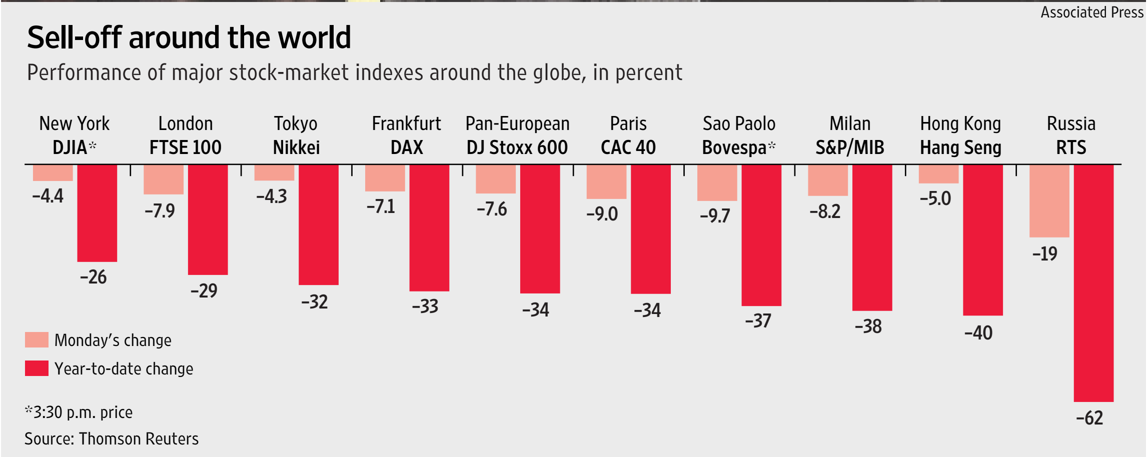
"The question now seems to be how bad a recession we are in, not whether we are going into a recession," said Oliver Stevens, head of dealing at IG Markets in Australia.

Investors around the world are in-

Please turn to back page

Traders working on the New York Stock Exchange floor

Associated Press



What's News—

Business & Finance

Fear gripped world markets as investors looked past steps to shore up the global financial system. U.S. blue chips fell below 10000 for the first time since 2004 and the U.K. FTSE-100 index had its largest one-day percentage decline since 1987. The price of crude oil traded below $90 a barrel. Pages 1, 22, 23

■ **The Fed took steps** to loosen credit markets, including making plans to pay interest on commercial banks' reserves. Germany's central bank will lend against a wider range of collateral. Pages 1, 2

■ **U.K. Treasury officials met** with the CEOs of several big British banks to discuss a plan to shore up their capital. Page 3

■ **Russian stocks tumbled** 19.1%, hurt by falling oil prices and worries that Moscow's bailout plan won't work. Page 21

■ **The dollar surged** against the euro amid heavy demand for the U.S. currency from foreign banks. The yen jumped against the dollar and euro. Page 21

■ **Iceland prepared** for a vote to put its banking system in government hands. Page 2

■ **BNP's move** to acquire Fortis's Belgian and Luxembourg assets indicates a possible recipe for consolidation in Europe's financial industry. Page 4

■ **A deal to sell Wachovia** was expected to be near as U.S. regulators stepped in to resolve the battle between Citigroup and Wells Fargo. Page 5

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	9955.50	-369.88	-3.58
Nasdaq	1862.96	-84.43	-4.34
DJ Stoxx 600	241.50	-19.93	-7.62
FTSE 100	4589.19	-391.06	-7.85
DAX	5387.01	-410.02	-7.07
CAC 40	3711.98	-368.77	-9.04
Euro	$1.3499	-0.0305	-2.21
Nymex crude	$87.81	-6.07	-6.47

Money & Investing > Page 21

World-Wide

European leaders came under pressure to deliver a more coordinated response to the crisis threatening the financial system. The EU pledged to support the region's banking system after a series of rescues and Germany's bank-deposit guarantee failed to reassure the public. Page 1

■ **The World Bank's president** called for expanding the G-7 industrialized nations to include major developing nations such as China, Russia and India. Page 12

■ **Obama and Biden hold** a six-point lead over Republicans McCain and Palin in a new Wall Street Journal/NBC News poll. Obama and McCain meet in a debate Tuesday. Pages 10, 11, 12

■ **A powerful quake struck** near the Kyrgyzstan-Tajikistan border, destroying a Kyrgyz village and killing at least 72. A 6.6-magnitude quake also hit Tibet west of Lhasa, killing over 30 people.

■ **Pakistan ordered** the expulsion of 50,000 Afghan refugees in a tribal region, alleging many have links to militant groups. A suicide bomber hit a lawmaker's house, killing 15.

■ **France's Luc Montagnier** and Françoise Barre-Sinoussi won the Nobel Prize in medicine with Germany's Harald zur Hausen for discoveries of viruses that cause AIDS and cervical cancer. Page 10

■ **China canceled** some U.S. military and diplomatic contacts to protest a planned U.S. arms sale to Taiwan, U.S. officials said.

■ **A suspected Tamil Tiger** rebel suicide bomber hit a political party office in Sri Lanka, killing 27, including an ex-general.

■ **Ethnic Bodos** and mostly Muslim settlers clashed again in eastern India, leaving 19 people dead.

Editorial & Opinion

Think global, act global

Europe's piecemeal approach to the financial crisis is falling desperately short. Pages 13, 15

Efforts to stem financial crisis largely fall flat

By Jon Hilsenrath and Carrick Mollenkamp

Markets around the world issued a massive vote of no confidence Monday in governments' best efforts to contain a deepening financial crisis.

The U.S. Federal Reserve, 12 months into a makeshift campaign that is rewriting textbooks on central banking, unveiled still more measures Monday to eliminate the blockage that has plagued short-term money markets for the past few weeks. One step—a decision to begin paying interest on the reserves that banks leave on deposit with the central bank—puts the Fed in a position to vastly expand its lending programs. Interest-rate cuts by the Fed look increasingly likely to follow.

Meanwhile, European Union countries made a renewed effort to coordinate their response to the crisis after a series of unilateral moves by European nations failed to have the desired effect. French President Nicolas Sarkozy, whose country now holds the EU's rotating presidency, read on television a common statement by the 27 EU nations that each "will adopt all the necessary measures to protect the stability of the financial system."

The declarations followed the

Please turn to page 35

Pressures mount on Europe to develop bank-rescue plan

By Marcus Walker in Berlin and David Gauthier-Villars in Paris

As stock markets around the world tumbled on Monday, Europe's leaders came under rising pressure to deliver a more coordinated response to the crisis threatening the Continent's financial system.

The European Union produced a joint statement on Monday pledging to support the region's banking system, after a series of bank rescues and Germany's guarantee of bank deposits failed to reassure the public—or investors—that the EU can temper the crisis that began in the U.S. but has taken hold in Europe.

European countries' economies have become deeply intertwined in recent years, including a single market, a common currency and a central bank used by 15 nations. So far EU governments have found little they can do together to react to the worsening turmoil, raising questions as to whether the bloc has the political means to manage the financial crisis.

"Europe must prepare to put in place a collective line of defense,"

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THE FINANCIAL CRISIS

Iceland moves on banks

State steps in to take control of system, revive falling krona

BY CHARLES FORELLE

REYKJAVÍK, Iceland—Iceland's prime minister warned that his nation was near bankruptcy and prepared to give financial regulators authority to restructure the country's banks amid a worsening financial crisis that has all but cut off the island nation from the global financial system.

Credit lines to Iceland's banks closed down suddenly on Monday, Prime Minister Geir Haarde said in a televised address. He said Iceland's parliament would vote Monday evening on an "emergency law" that puts the entire banking system under government control.

"There is a very real danger, fellow citizens, that the Icelandic economy, in the worst case, could be sucked with the banks into the whirlpool and the result could be national bankruptcy," Mr. Haarde said. Nationalization of the banks appears likely, analysts said.

In years of easy credit, Iceland's banks swelled until their assets rose to some 10 times the nation's economic output, lending abroad as well as at home. That has left them vulnerable to fears their home country would be unable to bail them out if trouble struck.

Mr. Haarde said many parties bore responsibility for the situation. Asked whether the government should have reined in the banks years ago, he said: "With a bit of hindsight we can say that this should not have been allowed to happen." The banks "should have provided more for a rainy day...and been more careful," Mr. Haarde said.

Those fears have paralyzed lending and bled into the broader economy. The Icelandic krona is already down about 47% against the euro this year, and had fallen about 10% on Monday. That has set the stage for a yet greater inflation rate—recently at 14%—on the import-dependent island.

Mr. Haarde said the situation required the government to step in. In his address, he offered few specifics but said the banks would shrink in size by selling foreign assets. That could give some support to the krona.

Under the bill being presented to Parliament on Monday evening, the Icelandic financial regulator and central bank would be able to take over financial companies, create new ones and fix the powers of the companies' boards. A state fund would have the authority to take over the banks' mortgages.

Mr. Haarde said the bill gave the government broad powers to take control of banks. The mounting troubles were accelerated last week, when the government effectively nationalized **Glitnir Bank** hf, one of Iceland's three big banks, by putting in €600 million. Ratings agencies quickly cut Iceland's sovereign-debt ratings.

Spokesmen for the two other large banks, **Kaupthing Bank** hf and **Landsbanki Íslands** hf, didn't immediately comment on the prime minister's speech Monday.

Bundesbank's Hypo help may use a lower standard

BY JOELLEN PERRY AND MIKE ESTERL

In order to extend funding to prop up German lender **Hypo Real Estate** AG, Germany's central bank may have lowered the standards on the collateral it accepts.

German Finance Minister Peer Steinbrück said in an interview on German radio on Monday that in order to extend short-term funding for Hypo, Germany's central bank, the Bundesbank, is "prepared to lend against additional securities, which were not previously accepted at central banks."


Peer Steinbrück

That's something the Bundesbank is allowed to do, under a little-used provision of European central banking that lets national central banks make emergency loans. National banks in the euro zone have made such emergency loans to individual banks in the past. But they have typically been kept secret.

On Sunday, Germany's government arranged a bailout for Hypo, a giant property lender that came close to collapsing after private lenders pulled out of an earlier €35 billion ($47.31 billion) aid plan last week. The newest Hypo rescue package involves a second loan of €15 billion by German banks and insurers, atop the original €35 billion.

On Monday, the Bundesbank confirmed it will provide the original €35 billion loan directly to Hypo temporarily. Then, private-sector lenders will step in to replace €15 billion of the loan with funds of their own. In a statement, the Bundesbank said the "special liquidity help" is being extended against "securities with value." The terms of the Bundesbank's loan remain unclear. *—Marcus Walker contributed to this article.*

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.

INDEX TO PEOPLE

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

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U.K., banks in talks to lift capital

In contingency plan, four might issue shares to government

BY SARA SCHAEFER MUÑOZ AND ALISTAIR MACDONALD

LONDON—U.K. Treasury officials met Monday evening with the chief executives of several top U.K. banks to discuss a plan to shore up their capital that, if agreed upon, could be unveiled as early as this week, said a person familiar with the matter.

The plan, likely geared for banks with major U.K. operations—**Barclays** PLC, **The Royal Bank of Scotland Group** PLC, **HBOS** PLC and **Lloyds** TSB—would be aimed at helping the banks' capital cushion, possibly by issuing preference shares to the U.K. government, said the person.

It was still unclear as of Monday night whether the four would participate or how many shares might be issued.

The measure is one of several contingency plans that the U.K government has been looking at to prop up its banks, if needed, people familiar with the matter said.

The meeting comes after shares of U.K. banks took a beating Monday, as stocks around the world plunged. Treasury Chief Alistair Darling spoke about the financial crisis in Parliament, but the markets took little comfort in his mostly general promises with few details.

Alistair Darling

The pan-European Dow Jones Stoxx 600 Index tumbled 7.6% to 241.50, the largest percentage-point drop in its 20-year history. The U.K. FTSE-100 index fell 7.9% to 4589.20, its largest one-day decline since Oct. 20, 1987. Shares of HBOS and RBS both fell about 20% to close at 160.80 and 148.10 on the London Stock Exchange Monday.

The plan may not appeal to some banks since it would require issuing stock at a time when their shares are depressed, and letting in the government as a shareholder.

Some U.K. bankers aren't convinced that the idea of purchasing shares is the best solution because it would do little in the short term to improve the bank-borrowing market, according to a person familiar with the situation.

Standard & Poor's Ratings Services lowered its long- and short-term counterparty credit ratings for RBS to A+/A-1 from AA-/A-1+, citing a deterioration of credit risk and concern about how the bank would complete plans to raise capital.

In an address to the House of Commons, Mr. Darling said he was "willing to make further resources available as necessary" to maintain stability in the financial markets. Responding to moves from other European countries to guarantee all consumer bank deposits, Mr. Darling noted that the U.K. has raised its guarantees on deposits to £50,000 from £35,000, and said markets regulator Financial Services Authority was reviewing whether to raise the limit further.

Any announcement this week of a government plan to buy shares may also include raising the limit on deposit guarantees, said a person close to the matter.

Mr. Darling called for cooperation among European Union member states. He was scheduled to meet with EU ministers Tuesday. He also said he will meet with leaders in the U.S. later this week to look at issues including the effectiveness of credit rating agencies and how to increase the transparency of financial institutions.

He said he is looking at every aspect of issues plaguing banks, including capital, liquidity and regulation. Mr. Darling declined to comment on talk about a plan to buy preferred bank shares Monday, saying "all practical options must remain open to us."

In a jab at the U.S. struggle to pass its $700 billion bailout package, he said in Parliament recent events there showed that "nothing is worse than coming forth with a plan that isn't sufficiently developed."

India joins fight against squeeze but cutting ratio

BY SUBHADIP SIRCAR AND NEELABH CHATURVEDI

MUMBAI—The Reserve Bank of India cut the amount of deposits that banks have to set aside in cash with it, joining central banks across the world in injecting liquidity as the global financial crisis escalates.

The cash-reserve ratio will be lowered by one-half of a percentage point to 8.5% with effect from Saturday. The move is ad-hoc and temporary and will be reviewed on a continuous basis, the central bank said in a statement Monday.

In a separate move to enable more foreign fund flows into India, the capital-markets regulator said it will remove a ban imposed in October on the issue of participatory notes with derivatives as underlying assets by foreign institutional investors.

Such notes are used by investors, including hedge funds, who aren't registered with Securities and Exchange Board of India to invest in Indian stocks.

THE FINANCIAL CRISIS

Profumo's defiance tarnishes UniCredit

CEO is on defense over 'misjudgment' about capital needs

By Stacy Meichtry
And Sabrina Cohen

When a financial analyst asked **UniCredit** CEO Alessandro Profumo in the spring whether there was "zero" need for his bank to raise capital, he replied with a firm "yes."

Again and again over subsequent months, Mr. Profumo denied UniCredit needed funds. Last week he went on Italy's evening television news to say so.

Now, after Sunday's announcement that UniCredit plans to raise €6.6 billion, Mr. Profumo's defiance is coming back to haunt him. It risks tarnishing his reputation as one of Europe's most celebrated bankers, and further denting investor confidence in the ability of bank chiefs to predict the scope of the deepening global financial crisis.

"To be honest, there has been a misjudgment on our side on the depth and length of the crisis," Mr. Profumo said in an interview a day after UniCredit announced a capital increase, issued a profit warning and said it would pay its dividend in shares.

Earlier in the day, analysts had upbraided Mr. Profumo during a conference call. UniCredit stock fell as much as 15% before being suspended several times throughout the day and closing down 6% at €2.90.

Associated Press

Many are criticizing **CEO Alessandro Profumo** for not coming clean earlier about UniCredit's financial standing.

Trying to send a reassuring signal, Mr. Profumo spent more than €400,000 to buy shares in the bank on Monday, and other executives also bought stock.

Despite the scramble to raise capital, UniCredit remains financially stable, analysts say. Even amidst the market turmoil, the bank is expected to deliver a 2008 net profit of more than €5 billion.

The board is also standing solidly by their CEO. "Our faith in Mr. Profumo is absolute. You can't blame him for the instability of the markets," said board member Piero Gnudi, the chairman of Italian energy company Enel SpA.

Still, many are criticizing Mr. Profumo for not coming clean earlier, especially considering the broad lack of investor confidence that is accelerating the global credit crunch.

"Profumo has lost a lot of credibility," said Davide Pasquali, chairman of Swiss fund Pharus SICAV, which sold all its UniCredit stock in 2007.

"Why didn't they admit they were in trouble before the stock was hit by speculation?" Centrosim analyst Luca Comi wrote in a research note.

The past week marks a dramatic turn of events for Mr. Profumo.

For years, the 51-year-old Mr. Profumo cultivated the image of an iconoclast in Italy's conservative banking sector. The executive tooled around Milan on a yellow BMW motorcycle, shunning the social company of other Italian bankers.

While rivals banks merged to create domestic powerhouses such as Intesa Sanpaolo SpA, Mr. Profumo pursued cross-border mergers that extended UniCredit's operations into Central Eastern Europe.

In 2005, Mr. Profumo engineered a tricky cross-boarder merger with Germany's **HVB Group** AG, creating the euro zone's fourth-largest bank by market value. The acquisition of Italian bank **Capitalia** SpA two years later gave UniCredit a market value exceeding €100 billion, or $135 billion at the time, propelling the bank to the top of the world's bank rankings.

Although the Capitalia acquisition helped strengthen UniCredit's retail operations in Italy, Mr. Profumo says investors have now begun to take aim at UniCredit for becoming too foreign, too fast.

Unlike Italian rivals, which have mainly stuck to retail banking in Italy, UniCredit has retail and investment banking activities spread throughout Europe. "The real topic is the fact that (other Italian banks) are more focused on Italy," Mr. Profumo said in the interview.

Still, investors and analysts also fault Mr. Profumo for struggling to come to terms with UniCredit's weaknesses as the credit crisis deepened.

When questions about UniCredit's capital levels emerged as the company reported first-quarter results this spring, a Goldman Sachs analyst asked Mr. Profumo: "From where UniCredit stands, there is zero need for a capital raising?" - to which Mr. Profumo answered affirmatively.

The CEO and other bank executives repeatedly refuted suggestions that Unicredit needed to raise capital over the following months.

A wake up call, Mr. Profumo said in the interview, came with the collapse of Lehman Brothers. Banks came under extreme pressure as they scrambled to gain access to funding as credit dried up. At the same time, the cost of bank-default insurance sharply increased to never-before seen levels, he said.

Still, Mr. Profumo believed UniCredit's capital was strong enough to ride out the crisis. Investors disagreed, sending the bank's share price on a turbulent ride last week with the stock at one point reaching a ten-year low.

The bank called an extraordinary Sunday board meeting, during which board members approved a €3 billion capital increase, the placement of a €3 billion bond and a plan to pay its dividend in shares. The bank also cut its 2008 earnings per share target. According to two people at the meeting, Mr. Profumo apologized to the board for the spiraling of events.

—Carrick Mollenkamp contributed to this article.

BNP deal could offer future path

By David Gauthier-Villars

PARIS—The weekend purchase by France's **BNP Paribas** SA for the Belgium and Luxembourg assets of rival financial group **Fortis** NV indicates a possible recipe for consolidation in Europe's financial industry: purchase by a private bank of heavily discounted assets with the blessing of national governments.

After an intense weekend of negotiations, BNP Paribas said it had reached an agreement with the governments of Belgium and Luxembourg to acquire most of Fortis's banking and insurance assets in those countries. The deal will be financed with a cash-and-share offer worth nearly €15 billion ($20.23 billion).

The BNP Paribas transaction "will ensure that Fortis Belgium fulfils the conditions necessary for sustainability and its development," Belgian Prime Minister Yves Leterme said in a statement on Monday. The purchase agreement comes after Fortis ran into liquidity problems two weeks ago, and after subsequent government-sponsored rescue plans foundered.

As the financial crisis sweeps through Europe, the Continent is full of banks which, like Fortis, appear to need support. On Monday, French and Belgian governments were scrambling to reassure investors that Franco-Belgian municipal lender **Dexia** SA wouldn't be allowed to fail, after its shares dropped more than 21% during the day.

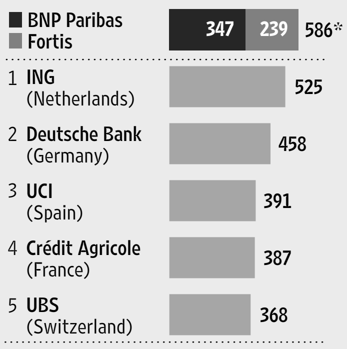
Still, to make deals such as BNP Paribas's work, European governments need to find healthy banks willing to bail out ailing institutions, and analysts say such banks are in short supply. "There are not many banks left in Europe with a strong signature, strong enough that they can be on the buying side," said Alain Dupuis, an analyst with Oddo Securities.

BNP Paribas traditionally had been more risk averse than many U.S. and European banks, limiting its exposure to the U.S. subprime crisis. BNP Paribas said it would issue €9 billion of new shares to acquire the banking operations of Fortis in Belgium and Luxembourg. It would also spend €5.5 billion in cash to acquire Fortis's Belgium insurance business. Upon completion of the transactions, the Belgian government will own 11.6% of BNP Paribas, and Luxembourg 1.1%.

Buying cash

BNP Paribas's purchase of Fortis's operations in Belgium and Luxembourg will make it the largest bank in the euro zone by deposits.

Top five banks by deposits as of December 2007, in billions of euros



*Pro forma

Source: BNP Paribas; the companies

Hartford to get $2.5 billion from Allianz

By Donna Kardos

Hartford Financial Services Group said it will receive a $2.5 billion capital investment from German insurer **Allianz** SE while also warning of a big third-quarter loss and announcing a 40% cut to its quarterly dividend.

The investment from Allianz "strengthens our ability to weather volatile markets and continue to invest and vigorously compete in our businesses," Hartford Chief Executive Ramani Ayer said in a statement. With the investment, Hartford will finish the year with a capital margin about $3.5 billion in excess of its requirements to maintain AA level credit ratings.

The move comes as Hartford's stock has tumbled in recent weeks amid industry investor worries concerning problems in the stock and credit markets. Shares closed Friday at $27.40, down 69% for the year. On Monday morning, they rose to about $30.50.

Monday, Hartford said it expects a third-quarter net loss of $8.50 to $8.80 a share, hurt by $7.05 to $7.25 a share in net realized capital losses. The company said the "vast majority" of the losses are write-downs on its investment portfolio, with about 75% of the them related to investments in the financial-services sector amid recent market turmoil. Amid those losses, Hartford announced a new investment chief.

Still, Allianz Chief Executive Michael Diekmann said the German company expects "a favourable return on our investment."

U.S. probes aspects of Lehman's pre-collapse health

By Amir Efrati
And Susan Pulliam

At least three U.S. attorneys offices are probing whether **Lehman Brothers Holdings** Inc. misled investors before its bankruptcy filing, as pressure grows to hold individuals accountable for the financial crisis.

Criminal prosecutors from two New York City boroughs and from New Jersey are drilling into issues that relate back to a central question: Was Lehman saying publicly that its financial condition was sound while acknowledging behind the scenes that its financial situation was dire? Such a disparity at Lehman could allow prosecutors to bring a case charging that executives had fraudulently misled shareholders and other parties.

Justice Department officials in Washington may need to sort out how the three offices handling the Lehman investigations will split up the duties or it may referee any conflicts between them. The intertwining probes come as the U.S. Securities and Exchange Commission, which can pass along information to criminal prosecutors, has been probing for months how Wall Street firms valued their holdings of mortgage-related securities.

The U.S. attorney's office for New York's Southern District of New York, in Manhattan, is investigating whether Lehman valued its assets at artificially high levels, say two people familiar with the matter. That office has issued subpoenas to individuals that focus, among other things, on what the firm told investors and other parties about its valuations for roughly $32.6 billion in commercial-real-estate holdings, according to people familiar with the matter.

The Manhattan prosecutors are also interested in whether Lehman improperly moved $8 billion from its London operations to New York just ahead of its bankruptcy filing, a move that has drawn criticism from creditors and accountants, according to two people familiar with the matter. A spokeswoman for the Manhattan U.S. attorney's office declined to comment.

The U.S. attorney's office in New Jersey, in Newark, is investigating whether Lehman misled New Jersey's pension fund when it provided information about its financial health in connection with a $6 billion offering in June. New Jersey invested $180 million in the offering. Its loss on the investment totals about $116 million, because it sold some of its stake.

Finally, prosecutors in the U.S. attorney's office for New York's Eastern District, in Brooklyn, are probing whether Lehman executives misled investors by misrepresenting the firm's condition by making upbeat comments during conference calls with analysts and investors.

The Brooklyn office also is investigating whether individuals at Lehman defrauded the firm's customers by dumping auction-rate securities into their accounts before the market for those short-term securities, which trade through auctions, broke down amid the credit crisis.

THE FINANCIAL CRISIS

Citi, Wells Fargo in talks over Wachovia

One plan proposes splitting branches on geographic basis

BY DAN FITZPATRICK, DAVID ENRICH AND JESSICA HOLZER

Negotiations between **Citigroup** Inc. and **Wells Fargo** & Co. to resolve the battle for **Wachovia** Corp. resumed, with Federal Reserve officials acting as a broker, and one federal regulator predicted a compromise is likely to be reached soon.

Federal Deposit Insurance Corp. Chairman Sheila Bair said she expects a deal to sell Wachovia, of Charlotte, N.C., to be settled Monday. One person briefed on the discussions said a resolution may be reached late in the day.

"We're all working together with regulators...to come at a solution and outcome that serves the public interest, and I think we will have one today," Ms. Bair said. The FDIC isn't driving the negotiations between Wachovia and its two suitors, though it is talking with all parties, she added.

While the exact status of the talks wasn't known, one plan discussed Sunday night had Citigroup and Wells Fargo divvying up Wachovia's 3,346 branches along geographic lines, with Citigroup getting Wachovia's branches in the Northeast and mid-Atlantic regions and Wells Fargo taking those in the Southeast and California, according to people familiar with the talks.

Wells Fargo also would take over Wachovia's asset-management and brokerage units. Unlike Citigroup's original agreement to take over Wachovia's banking assets, in which the FDIC agreed to shoulder potentially hundreds of billions of dollars in toxic loans, the plans discussed Sunday night didn't entail either buyer receiving financial assistance from the U.S. government, according to people briefed on the talks.

Even as negotiations to split up Wachovia proceeded, lawyers for Wachovia and Citigroup continued to spar over the validity of an "exclusivity agreement" Wachovia had signed when it agreed to sell its banking business to Citigroup for $2.1 billion. A New York state appeals court Sunday night reversed a lower-court ruling from the day before that had extended the expiration of that agreement to Friday from Monday.

On Monday, Citigroup said it is seeking more than $20 billion in compensatory damages and more than $40 billion in punitive damages from Wells Fargo for tortious interference with Citigroup's deal with Wachovia.

Friday, Wells Fargo announced a $15.1 billion deal to buy all of Wachovia. By agreeing to upend the deal with Citigroup, Wachovia breached the terms of the Sept. 29 exclusivity agreement with the New York bank, according to the suit.

If not for Citigroup's willingness to sign that agreement Sept. 29, the lawsuit alleged, "Wachovia would have failed the following day and the debt issued by its holding company would have collapsed, with potentially devastating implications for the stability and security of the financial markets."

Citigroup also claims in its suit that the Wells Fargo deal "triggered the golden parachutes of Wachovia Chief Executive Robert Steel and its other senior executives," enabling the executives to "bestow upon themselves a $225 million windfall."

In a statement, Wachovia spokeswoman Christy Phillips-Brown said Citigroup's lawsuit "appears" to be at odds with a temporary restraining order issued Sunday by a state-court judge in Charlotte, N.C. The judge in the North Carolina case ruled that "there is significant evidence that Citigroup has taken and continues to take actions designed to cause the seizure or collapse of Wachovia," according to a copy of Sunday's order.

Paulson adviser to oversee U.S. rescue effort

WASHINGTON—U.S. Treasury Secretary Henry Paulson named Neel Kashkari, a key adviser on whom he has come to rely heavily during the financial crisis, to oversee Treasury's $700 billion program to buy distressed assets from financial institutions.

Mr. Kashkari was designated by Mr. Paulson on Monday as interim assistant secretary for financial stability.

"In this capacity, Kashkari will oversee the Office of Financial Stability including the Troubled Asset Relief Program," Treasury said.

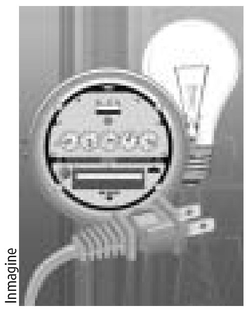
Mr. Kashkari, 35 years old, is a Treasury assistant secretary for international affairs and a former Goldman Sachs Group Inc. banker.

His new position confers substantial power on Mr. Kashkari, who will oversee Treasury's effort to buy bad loans and other distressed securities clogging the books of financial institutions and making them reluctant to lend.

CORPORATE NEWS

ENERGY

U.K. regulator doesn't see evidence of power cartel


Inmagine

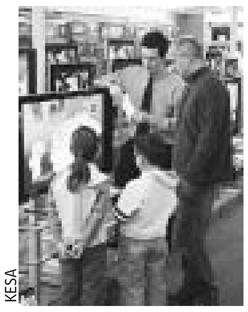
U.K. GAS and electricity market regulator Ofgem said that while some electricity customers are overpaying there's no evidence of a supply cartel.

"Initial findings from our energy market probe give us grounds to demand that companies end practices that hinder customers," Ofgem Chief Alistair Buchanan said. "But we have found no evidence of a cartel."

The regulator said it was concerned with supplier behavior that penalizes the 4.3 million customers without a gas supply, mainly in rural areas. Utilities are charging customer higher margins on electricity supply than gas supply, Mr. Buchanan said.

ELECTRONICS

Kesa hires PPR executive as downturn erodes sales


KESA

CONSUMER-electronics retailer **Kesa Electricals** PLC appointed **PPR** SA executive Thierry Falque-Pierrotin as its chief executive, effective Jan. 5, a month after reporting poor sales as a result of the consumer-spending slowdown.

At French luxury-goods and retail company PPR, Mr. Falque-Pierrotin has headed the Redcats unit, a home-shopping business for fashion and home décor. At Kesa he will succeed Jean-Noël Labroue, who is retiring. Shares in U.K.-based Kesa have fallen 60% since January amid declining sales as consumers seek out less-expensive goods or put off purchases altogether to save money. *—Lilly Vitorovich*

INTERNET

EBay to cut 1,000 jobs, take restructuring charge


Associated Press

ONLINE AUCTION and shopping site **eBay** Inc. said it will lay off 1,000 people, or approximately 10% of its global work force, and take a restructuring charge of as much as $80 million, in an effort to make its businesses more competitive.

EBay also announced several acquisitions. It is acquiring PayPal rival **Bill Me Later** Inc., a Timonium, Md., online-payments company, for about $820 million in cash and $125 million in outstanding options. It also acquired Danish online-classifieds site operators Den Bla Avis and Bilbasen for approximately $390 million.

—Mylene Mangalindan

WPP wins agreement to buy Taylor Nelson

Acquisition will help ad giant branch out into market research

BY AARON O. PATRICK
London

ADVERTISING

MARKET RESEARCHER **Taylor Nelson Sofres** agreed Monday to be bought by **WPP Group** for £1.1 billion ($1.95 billion), in a deal that will reduce WPP's reliance on advertising ahead of an expected industry downturn.

WPP Chief Executive Martin Sorrell has been talking for more than a decade about steering his company away from the volatile ad market into research and other marketing fields with more predictable profits. But, until now, his prolific deal making, including the 2004 acquisition of Grey Global Group, kept adding to advertising operations.

On Monday, the Taylor Nelson board reversed months of opposition to WPP's offer and advised shareholders to accept it. The bid, which can be extended, closes Wednesday. But it has already attracted 61% of Taylor Nelson's shares.

Sir Martin may have gotten an edge by bidding just as the financial crisis hit, scaring off rival buyers and thwarting Taylor Nelson's push for a higher bid. "I don't think it's an over-the-top price," said Andrea Azzimondi, a media analyst at Pali International in London.

Taylor Nelson's steady income should make WPP less vulnerable to a downturn in ad spending if the U.S. and other big economies enter a recession, analysts say. Many research products, such as television ratings and retail market-share data, typically continue selling well even when advertising demand slackens. In addition, the research industry is growing fast in the developing world, and global companies often prefer to use a single research firm in hopes of getting comparable data on a range of countries.

Next year "is going to be a difficult year," for the ad industry, Sir Martin said in an interview Monday.


AFP

"In a slowdown [research] does better, but on the upturn it is not growing quite as fast" as advertising.

Taylor Nelson also has been finding new work online, using MySpace.com and other Web sites to gauge demand for consumer products like carbonated beverages. MySpace is owned by **News Corp.**, which also publishes The Wall Street Journal.

"When the going gets tough, [information] gives comfort you are on the right track," said David Lowden, Taylor Nelson's chief executive.

Combining Taylor Nelson with WPP's research unit, Kantar, would make Kantar the second-biggest market researcher by revenue, behind **Nielsen**, which is based in New York and Haarlem, the Netherlands. It would also make WPP the world's biggest marketing company by revenue, overtaking **Omnicom Group**.

Taylor Nelson and Kantar, both based in London, are a good fit geographically. Taylor Nelson is strong in Western Europe, while Kantar's research division is bigger in the U.S. Taylor Nelson has 15,000 employees; Kantar has 13,000.

With WPP's financial backing, Taylor Nelson could be better placed to take on Nielsen. Taylor Nelson has tried unsuccessfully for years to break Nielsen's dominance in the U.S. television-ratings business. This year it began selling data about U.S. viewing habits based on information collected from the set-top boxes of satellite-television provider DirecTV. A Nielsen spokesman declined to comment.

Complicating the picture, Nielsen and WPP work together to measure TV ratings outside the U.S. through a jointly owned Swiss company, AGB Nielsen Media Research.

To satisfy antitrust concerns, WPP will have to sell either its stake in AGB Nielsen or Taylor Nelson's European TV-ratings business, Sir Martin said.

WPP has signed an optional agreement to sell the Taylor Nelson ratings business to Paris-based **Ipsos**, another big research company, but hasn't decided which business it wants to get rid of, he said. WPP will also have to sell assets in Ireland.

WPP, which typically operates its acquisitions as separate units, has forecast savings of £52 million a year from the Taylor Nelson deal. It plans to cut costs by combining the two companies' Internet panels—panels of survey respondents recruited through the Web. Such panels are increasingly being used as a fast way to poll consumers.

One of the top priorities for WPP will be to hold on to key Taylor Nelson staff. Mr. Lowden, the Taylor Nelson CEO, says he would be open to taking a job at WPP but doesn't expect to be offered one. Sir Martin said it was too early to say what would happen to Mr. Lowden or how many Taylor Nelson employees would lose their jobs. "We haven't even got the deal done," he added.

For Facebook, departures indicate evolution

BY ROBERT A. GUTH AND JESSICA E. VASCELLARO

The departure last week of a **Facebook** Inc. co-founder highlights a cultural shift that the Internet company faces as it tries to navigate the path from start-up to big business.

The Palo Alto, Calif., company said Friday that Dustin Moskovitz, a co-founder and head engineer, will leave Facebook to start his own Internet service. He will be joined by Facebook manager Justin Rosenstein.

The two are the latest Facebook managers—including the chief technology officer and an executive who once served as chief operating officer—who have left the company this year.

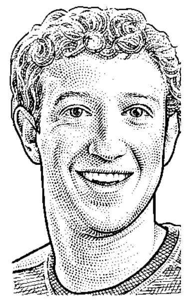
As some of Facebook's earliest employees move on, its ranks are being stacked with senior executives from **Google** Inc., **Yahoo** Inc. and other established technology companies.

Among the changes they have brought are new guidelines for performance reviews, new recruiting processes and training programs.

The company also is expanding overseas and recently said it plans to open an international headquarters in Dublin.

Facebook is moving through the "type of evolution you see among young growing companies and specifically young growing companies in Silicon Valley," said Larry Yu, a Facebook spokesman.

Founded in 2004 by Mr. Moskovitz and Facebook Chief Executive Mark Zuckerberg while undergraduates at Harvard, Facebook was part of a rise of social-networking Web sites, which let people host their own Web pages, connect with other members of the service and share information.


Mark Zuckerberg

Facebook's popularity has exploded: It now has more than 100 million users and 700 employees.

The company is trying to tap into the growing value of advertising dollars flowing online. It has made progress: This year Facebook's revenue is expected to reach $300 million to $350 million, according to remarks Mr. Zuckerberg made to employees in January, roughly double its 2007 revenue. Much of the revenue comes through a display-ad sales agreement with **Microsoft** Corp., which has a small stake.

Facebook is trying to expand its advertising business by using information gleaned from people who use its site—such as what college they went to—to tailor advertisements to them.

The pressure for the system to succeed is heightened by expectations partially set by an investment Microsoft made in the company in 2007, which valued Facebook at $15 billion.

Facebook employees now want to lock in some of that wealth for themselves. Brokers this year have been pitching shares held by Facebook employees to wealthy individuals, hedge funds and other investors, say people familiar with the matter.

On Nov. 1, the company will begin allowing employees to sell a portion of their Facebook shares at the company's internal accounting valuation, currently $4 billion, say people familiar with the plan. These people add that the valuation could change by the time the program starts.

The company is expected to line up outside investors to buy the shares and has a right of refusal to purchase the shares themselves.

CORPORATE NEWS

Credit crunch squeezes small oil companies

Firms sell assets, consider merging to finance drilling

BY GUY CHAZAN

The stress in global credit markets is forcing some smaller European oil companies to sell assets and renegotiate debt, while turning the weakest into acquisition targets for bigger rivals.

Most at risk are small outfits focused on exploration and production that urgently need cash to keep drilling. Even a few months ago, these companies had no trouble borrowing money and selling stock to finance operations, based solely on the value of their reserves. But with access to capital drying up, their funding opportunities are dwindling rapidly.

"Smaller oil companies will feel the crunch," said Aidan Heavey, head of **Tullow Oil** PLC, a midsize oil company based in London. "There's going to be a big shakeout."

The squeeze comes amid a broad selloff of shares in global oil companies as the world economy's outlook darkens. A steep fall in oil prices is driving the decline. Since peaking at $145 a barrel in July, U.S. benchmark crude has fallen 39% to $87.81 Monday. European integrated oil majors, such as **Royal Dutch Shell** PLC and **Total** SA, have seen their share prices fall an average of 25% over that time.

But at least the majors, with strong revenues from operations and significant amounts of cash on their balance sheets, are more or less immune to the chaos in capital markets. Highly leveraged independents are much more vulnerable—especially heavily-indebted ones that have tended to outspend their cash flow—and have seen a much steeper selloff in their shares. Over the past three months, shares of exploration and production companies trading on the AIM, the U.K. market for small or high-risk companies, have tumbled 50%.

There are already signs that this could lead to consolidation as small competitors are gobbled up, often by state-run companies from Asia. **ONGC Videsh** Ltd. of India is buying London-listed **Imperial Energy** Corp., whose assets are in Russia. **China Petroleum & Chemical** Corp, better known as Sinopec, is acquiring **Tanganyika Oil** Ltd., which operates in Syria.

Smaller companies also are bulking up. Last week, London-based **Salamander Energy** PLC proposed a takeover of **Serica Energy** PLC, which is focused on Western Europe and South East Asia. And last month **Victoria Oil & Gas** PLC, London, said it was in discussions to acquire **Bramlin** Ltd., which operates in Indonesia, Africa and South America.

Not all small and midsize oil companies are experiencing financial difficulties. "It's a case of haves and have-nots," says Simon Lockett, chief executive of London-based **Premier Oil** PLC. He says Premier has most of the cash and financing in place for its exploration and production needs over the next three years. But other companies that raised money on the AIM "were undercapitalized and will have problems over the next couple of years," he says.

Tullow's Mr. Heavey says his company also isn't affected by the credit crunch. Last year it tidied up its balance sheet, selling off some assets for $1.2 billion and clearing all the company's debt. Tullow is finalizing a $2 billion long-term credit facility but is "in a position where we can carry out all our major projects without banks," Mr. Heavey said. "We have good strong cash flow and no debt."

But those in a weaker position are having to sell assets or find partners for their most promising projects to get the cash infusions they need. That will create opportunities for majors that want to rebalance their portfolios by entering new countries. "Companies will sell down and that's good news for the asset market," says Premier's Mr. Lockett. "The caveat is that the industry has really struggled to get deals done because of the volatility of the oil price."

Among those divesting is London-based **Sterling Energy** PLC, which recently was forced to raise funds to meet bank requirements by placing new shares and farming out a slice of its oil field in Iraqi Kurdistan to rival **Addax**. It also entered into an agreement to sell its U.S. assets.

Urals Energy OOO, a heavily indebted Russian oil producer, confirmed last week that it was looking for a partner for its Siberian production unit, after a Russian newspaper said it was in talks with Shell on selling a stake. Shell denied the report.

Oilexco Inc., a small oil-and-gas company that operates in the North Sea, lowered its 2008 production targets and said it was having difficulty raising its credit lines to $1 billion from $700 million, citing the "unprecedented liquidity and volatility issues facing the credit markets."

Others have been forced to reduce their exploration budgets and shelve expansion plans. **Connacher Oil & Gas** Ltd., based in Calgary, Alberta, said it was postponing plans to expand capacity at its refinery in Great Falls, Mont., citing uncertainty in the capital and credit markets.

Discounts lure few takers in U.S.

BY JENNIFER SARANOW AND RACHEL DODES

As the financial crisis spread last month, some U.S. retailers hit the panic button, offering more generous discounts than they did at this time last year.

But the promotions did little to persuade cautious shoppers to open their wallets. When they report September sales this week, many retail chains are expected to show big drops in sales at stores open at least year, a key measure of retail performance, according to analysts polled by Thomson Reuters.

That augurs poorly for the coming holiday season, which some predict will be the worst for retailers since 1991. Even before the most recent financial turmoil, retailers had been planning conservatively for inventory and seasonal hiring. But September's performance could mean even more inventory cutbacks in coming months as retailers try to preserve their margins.

A wild card is whether U.S. Congress's passage of a financial bailout plan boosts consumer confidence in the months ahead.

In September, same-store sales overall are expected to rise an average 1.9%, according to analysts polled by Thomson Reuters. That number is buoyed by **Wal-Mart Stores** Inc., which analysts expect to post a gain of 2.8%, and discount membership clubs **Costco Wholesale** Corp. and **BJ's Wholesale** Club Inc., which are expected to post large gains.

Department stores are expected to post the worst showing, with same-store sales falling an average of 6.1%, Thomson Reuters said.

The numbers don't include results at **Macy's** Inc., the Cincinnati-based department-store chain, because the company stopped reporting monthly sales.

But Michael Gould, chief executive of Macy's upscale Bloomingdale's chain, said in an interview: "Let's be honest. The business is difficult."

Spending on apparel and other discretionary items, however, appears to have declined more last month than it did during the summer, according to MasterCard SpendingPulse, a **MasterCard** Inc. data service that tracks spending of all types and is set to release September figures this week.

The problem for many retailers is that shoppers balked in the second half of the month as the daily drumbeat of bad news from Wall Street and Washington gripped consumers.

"I feel guiltier shopping in this environment," said Charlotte Houghteling, a 28-year-old New York attorney who is spending less freely as a result of the credit-market woes.

Some consumers are becoming hardened to retail claims of "last chance" and "final sale." Katie Ertel, 30, a La Jolla, Calif., counselor, said she has begun to tune out. "Every week it's the same 'last minute sale.' Eventually it's like 'Ha, ha. You are not getting me this time,' " Ms. Ertel said.

> 'I feel guiltier shopping in this environment,' says an attorney.

The increased discounting doesn't seem to be luring consumers to stores. **ShopperTrak RCT** Corp., which tracks retail sales and traffic, estimates that shopper visits to U.S. retail stores and enclosed malls was down about 9.2% last month compared with 2007.

In late September, retailers usually try to sell their fall merchandise at full price. But after the bankruptcy-protection filing by **Lehman Brothers Holdings** Inc. Sept. 15 and the $85 billion bailout of **American International Group** Inc., stores stepped up their promotions in an effort to attract shoppers.

"We started seeing email messaging around sales and special values very quickly" after the news hit, said Wendy Liebmann, chief executive officer of New York consulting firm **WSL Strategic Retail**.

AnnTaylor Stores Corp. began touting an "unprecedented" sale with discounts of as much as 60%, which a spokeswoman attributed to this year's "significantly different retail environment."

Gap Inc.'s namesake chain and its Banana Republic stores advertised discounts of as much as 40%. A spokeswoman called the markdowns "incremental promotions versus last year."

By the end of the month, some retailers resorted to citing the crisis directly. Posters at **Steven Madden** Ltd. footwear stores, for example, depicted a declining stock chart and implored shoppers to "Sell Stocks, Buy Shoes." To sweeten the offer, the company knocked 20% off all products. A spokeswoman declined to comment.

Restoration Hardware Inc., meanwhile, sent out a blast email Thursday saying it "unanimously approves [the] bailout bill" and offering $100 off purchases of $400 or more at the home-furnishings chain.

J.C. Penney Co., Plano, Texas, took a different tack, moving up an additional 50% off promotion to last Wednesday from its originally scheduled start date of this week. And **J. Crew Group** Inc. on Wednesday sent out emails declaring it "just added new styles to our final sale." The missive followed a Sept. 27 email advertising an "extra 20% off" in a "final sale." A spokeswoman declined to comment.

Wal-Mart is already cutting prices for the holiday season, saying last week it had cut prices to $10 on 10 popular toys.

Target Corp., Minneapolis, also is emphasizing value more than in the past. "Since 1994, we've had the brand promise 'Expect more. Pay less,' " said a spokeswoman. "Now we are focusing more on the 'Pay less' side of that promise."

Prices may have to go even lower to get consumers interested again. At Costco, where sales of nondiscretionary items such as food and gasoline have increased and consumers have cut back on discretionary purchases of furniture, apparel and electronics, Chief Financial Officer Richard A. Galanti said last week, that if a purchase "can be put off, it will be put off."

CORPORATE NEWS

India gears up for huge role in small cars

Exports seen surging to half million units within three years

By Eric Bellman

MUMBAI—India is becoming a small-car manufacturing hub for some of the world's biggest auto makers.

Annual passenger-car exports from India have jumped fivefold in the past five years. Industry analysts predict exports over the next three years will surge nearly 300% to more than half a million vehicles a year.

India's homegrown auto innovation—**Tata Motors** Ltd.'s $2,500 Nano minicar—has attracted global attention, but the export wave consists mainly of small cars built in local plants by Japanese and South Korean car makers, including **Suzuki Motor** Corp., **Hyundai Motor** Co. and **Nissan Motor** Co.

In late September, India's biggest car exporter, Hyundai, added a midnight shift at its southern India plant to boost production 40% and meet booming demand for its i10 minicar abroad. Both Hyundai and Suzuki unveiled subcompacts at the Paris auto show, targeting consumers in Europe, their main market for made-in-India exports.

"Right now, India has everything—the local market, the quality and the companies," says Shohei Kimura, managing director of Nissan Motor India, who moved to India last month to start building Nissan's capacity here to 200,000 units annually over the next three years.

A rising tide of exports will create much needed Indian jobs. Unlike China and many other Asian nations, India's economic growth has been powered not by manufactured exports but by its service sector and local consumption. To continue the strong expansion—which has averaged more than 8.5% a year for the past five years—and to absorb millions of new workers, India needs more manufacturing.

Hyundai Motor Co.

Hyundai has boosted production in India to about 500,000 cars this year.

Despite the rapid growth, India is still a relatively small player in auto exports, shipping about 200,000 cars in 2007, most of them minis and subcompacts. Japan, by contrast, exports about five million cars a year, and South Korea about three million.

Not all big auto makers are rushing to export from India either. **Honda Motor** Co., which inaugurated the first phase of a new plant in India in late September, is delaying full-scale operations there by six months, citing concern about its car sales in India. The company also says it hasn't yet decided whether to make India a major export hub.

Politics can also derail big plans in India. Tata Motors last week decided to pull out of a new factory near Kolkata that was supposed to produce the snub-nosed Nano. It gave up on the site in response to violent protests demanding the return of part of the facilities' land to farmers. Full-scale production and export of the Nano will be delayed, analysts say, as Tata shifts production elsewhere.

Korean car maker Hyundai is at the forefront of the export drive, a position it earned by committing early to make cars in a then-unpromising market. When it began production 10 years ago, local consumers were purchasing only about 300,000 cars a year, despite the country's population of almost one billion.

At the time, most foreign companies couldn't count on much help from either the central government or local bureaucrats, who were often suspicious of overseas investors. Moreover, a decrepit transportation infrastructure and iffy power supplies often made it tough to keep factories running.

But Hyundai Motor India Ltd. started producing cheap subcompacts at a new plant with capacity of about 100,000 units a year near the southern city of Chennai. Hyundai trained most of the workers from scratch, often giving them two years of on-the-job training before hiring them full time.

Hyundai's timing turned out to be right. An emerging Indian middle class wanted an affordable car to squeeze the family into, and the $6,000 Hyundai Santro fit the bill. Soon the car was selling well, but Hyundai needed even more sales to soak up its excess capacity and keep costs low.

"That is why exports become not just a viable option but a necessary option" for anyone that wants to remain competitive in the Indian market, says Ashok Jha, the New Delhi-based president of Hyundai Motor India.

By 2004, Hyundai was India's biggest car exporter, selling 70,000 India-made cars a year overseas to more than 70 countries. Today, Mr. Jha says, Hyundai's smallest cars—the Santro and the i10—are produced only in India and exported mostly to Europe.

The company has boosted production in India to about 500,000 cars this year and plans to raise that to almost 650,000 next year. It plans to export about half the cars, up from about one-third now, as rising interest rates squeeze domestic demand and higher gasoline prices heighten the appeal of small cars abroad. The company is also studying the U.S. market as a possible target for its India-made cars.

"Our factories are producing the highest quality cars," Mr. Jha says. "As others have realized India's potential, they are all setting up here," he adds.

Indeed, so-called Little Detroits have sprouted outside Chennai and Pune, near Mumbai, where regulatory barriers have been lowered—along with tax rates and the cost of land and power for big factories.

Other manufacturers also plan to step up exports. Suzuki exported about 50,000 cars last year and hopes to increase foreign sales to 200,000 units in the next two years. When Nissan raises its output to more than 200,000 vehicles a year, about half will be exported, the company says.

"Previously, India was not taken into account by car companies, but now [it] has become the focus" as a market and a manufacturing base, says Paul Blokland, director at Segment Y, an emerging-market automotive consultancy in Goa.

—John Murphy contributed to this article.

U.S. steel buyers get price break

By Robert Guy Matthews

There is an upside to the weakening U.S. and global economies, at least if you are an American steel consumer: The commodity is more available, and prices have fallen 20% in the past three weeks.

Behind the shift is a surge of foreign steel into the U.S., with the latest figures from August showing that steel imports from Russia jumped 86%, from India 37% and from China 33%. Analysts believe that the influx continued through September.

The upshot is that steel buyers who have seen prices rise nonstop for nearly two years are finally getting some relief. The lower prices, in turn, will lower costs for steel users and help them better weather the current economic downturn.

Take Wayne Boeckman and his steel-stamping business, **QuickWay Stampings** Inc., of Euless, Texas. QuickWay hasn't suffered from the weakness of the U.S. economy, in large part because it makes steel assemblies for the energy, electronics and after-market automotive businesses. As more consumers hold off on buying new cars, they are making more repairs and improving the performance of existing cars.

"I hate to say it, because I know a lot of people are struggling, but we expect to see sales strong through the rest of the year," says Mr. Boeckman.

Imports had been down earlier this year, reflecting a weak dollar, strong foreign consumption and high freight-shipping rates. But that tide has begun to shift in recent weeks, with the strengthening U.S. dollar, softening demand for steel elsewhere and falling freight rates. The Baltic Dry Index, a key indicator of freight prices, has fallen about 65% in the last four months.

In addition, steel prices in the rest of the world are falling faster than they are in the U.S., prompting foreign producers to direct more of their output to the U.S. market. In India, for example, prices for some grades of steel have fallen 40% since June. In the Middle East, prices have fallen by as much as half.

Steelmakers have sought to cut production to bolster prices. Last month, **ArcelorMittal**, the world's largest steelmaker by production, said it would reduce output by 15% in some markets to keep supply tighter. Other steelmakers are pulling forward scheduled maintenance at some mills originally scheduled for later this year.

"We'd expect to see further production cuts in coming months," said Michelle Applebaum, steel analyst for MAR Inc. "Unlike prior cycles, production cuts these days come faster and more furious than in the past."

Up to now, Europe has taken up most of the foreign steel imports, because steelmakers could command higher prices there than in the U.S. But slowing demand in Europe has made steel prices in the U.S. and Europe nearly identical.

"You are starting to see negative GDP growth in Europe, and that is having a ripple effect," says Dave Phelps, president of the American Institute for International Steel, a group that represents both U.S. and non-U.S. companies that import and export steel products. "The U.S. market looks very attractive, and you will continue to see strong imports from China, but they are way down historically."

Inventories at service centers—which buy steel from mills and then resell it to smaller customers—are high. Those service centers are expected to curb purchases of steel until they work through their inventories. Some are reluctant to sell their steel, which they bought at high prices months ago, in the hope that prices will rebound.

Phillips auction house sells stake to Mercury

By Kelly Crow

In a deal likely to rattle the global art market, a Russian retailing giant has bought a majority stake in **Phillips de Pury** & Co., the world's third-largest auction house.

The transfer of ownership to Moscow-based **Mercury Group** gives London-based Phillips deep pockets to fund its events and financial arrangements with sellers and buyers of contemporary art. Phillips is the first company in years to threaten the duopoly of auction houses **Sotheby's** and **Christie's International**.

The sale also raises the art-world profile of Mercury's chief executive, Leonid Friedland, who is best-known for creating a high-end mall outside Moscow and is little-known in the art world. Simon de Pury will remain chairman and continue to manage the firm's art-related matters, including a possible plan to open a permanent salesroom in Moscow. Terms of the deal weren't disclosed.

Phillips's new owner could help the auctioneer ride out leaner years. The company went from $95 million in art sales four years ago to $308 million last year, largely by positioning itself as the auction world's hip upstart. By offering lucrative terms to sellers and specializing in newcomer artists from Russia and China, Phillips was increasingly able to win consignments away from Sotheby's and Christie's. But the company remained vulnerable to art-market mood swings because of its heavy focus on selling contemporary art, typically the most speculative end of the art market.

Phillips has suffered a spate of disappointing auctions this year following four years of steady growth.

The company has also struggled to keep pace with the global expansion of its rivals, who have lately staked new offices and salesrooms in locales across the Middle East and Asia. Last month, Phillips postponed its planned October sale of hip-hop jewelry, saying it wanted more time to consign extra "bling." Art-world experts saw the move as a sign that the auctioneer needed more capital instead.

Mercury is a luxury retail company whose holdings include the Tretyakov Projezd, a row of high-end boutiques near Red Square; Luxury Village, a mall complex located several miles south of Moscow; and the TSUM department-store chain.

Mercury executives initially offered a possible partnership in July, according to Phillips spokeswoman Ariel Childs, but both groups didn't agree to a final deal until Monday. She said the timing of the deal has no connection to the global financial crisis and doesn't indicate money troubles at Phillips.

CORPORATE NEWS

SanDisk-Samsung battle pivots on royalty dispute

New chip technology plays into valuation of $5.8 billion bid

By Don Clark
And John R. Wilke

An arbitration ruling affecting a powerful new chip technology could emerge as a big issue in **Samsung Electronics** Co.'s unsolicited $5.8 billion bid for **SanDisk** Corp.

The ruling, whose details hadn't been reported, discloses Samsung testimony that SanDisk's patents on an invention known as X4 could cost the South Korean company billions of dollars. A panel of arbitrators in May found that a SanDisk unit was within its rights in canceling a contract that gave Samsung rights to the technology, a ruling recently affirmed by a federal court in New York.

At issue is the proper valuation of SanDisk. The Milpitas, Calif., company was a pioneer in exploiting chips called flash memory, which store data in iPods, digital cameras and an increasing array of other devices.

Samsung, the biggest manufacturer of flash memory chips, disclosed its $26-a-share offer for SanDisk on Sept. 16. The company argues the price is fair given current stock-market conditions. SanDisk says the bid significantly undervalues the company.

Some analysts expect the deal to be challenged by government antitrust agencies. Partly for that reason, SanDisk's shares remain well below the offer price. The stock was down 7.1% at $17.07 in Monday-afternoon trading on the Nasdaq Stock Market.

SanDisk's patents are another key factor. Samsung is believed to be paying hundreds of millions of dollars in patent royalties a year to SanDisk under a licensing deal set to expire in 2009; the companies have held talks about renewing that pact as well as about a buyout.

Most investors have been unaware of a separate struggle affecting the X4 technology, which is not yet in production. It was invented by msystems Ltd., an Israeli company that SanDisk purchased in 2006.

Many companies are advancing flash memory technology. But X4 is regarded as a breakthrough that could double the capacity, lower the cost and potentially extend the useful life of the widely used variety of flash memory known as NAND.

"There isn't really anything to compete with it," said Jim Handy, an analyst at Objective Analysis, a market research firm in Los Gatos, Calif.

Samsung was entitled to use the X4 technology under a 2003 agreement with msystems, which agreed to license patents in exchange for royalty payments and a supply of flash memory chips on favorable terms. Msystems canceled the pact in April 2006—a few months before agreeing to be acquired by SanDisk—on grounds that Samsung had not met its supply commitments.

The companies took the matter to arbitration, and a two-to-one majority of the arbitrators rejected Samsung's contention that the SanDisk unit acted improperly. Samsung in July challenged the arbitrators' decision in federal court in New York, but withdrew the suit Sept. 22 a few days after SanDisk moved to have the court affirm the arbitration award.

Up and down

Samsung Electronics' daily closing share price in Seoul

Monday's close: **517,000 won, down 2.1%**

Source: Thomson Reuters Datastream

Much of arbitration proceedings remain under seal. But the panel's 37-page ruling, filed by SanDisk, says testimony indicated the X4 technology has "significant implications for personal computers and all entertainment devices."

The document says Samsung argued "strenuously" that without the license under the 2003 agreement—which extends for the life of msystems' patents—Samsung would be forced to seek rights to the X4 technology by negotiating an extension of its separate licensing agreement with SanDisk. Samsung argued that a loss in the arbitration would give SanDisk leverage to press for additional royalties on X4 technology "that could potentially cost Samsung billions of dollars," the arbitrators wrote.

A spokesman for Samsung said the company lawyer who testified was "referencing royalty payments that SanDisk may have tried to demand over a prolonged period of time. This was certainly not any indication of what Samsung was willing to pay for a license."

He pointed out that SanDisk only paid $1.5 billion for msystems less than a year before the comments were made. "Samsung continues to believe that its $26 per share offer to acquire SanDisk represents full and fair value for the company," he said. Samsung withdrew the federal suit because the company concluded it was unlikely to succeed, he said.

A SanDisk spokesman offered a different interpretation. "Samsung made statements under oath about the value of our intellectual property and then, after making its lowball offer, suddenly pulled its own legal filing to avoid disclosure of its own testimony," he said. "We believe Samsung did this to avoid disclosing the potential value and royalty stream associated with our technology, including X4," which SanDisk believes "is substantial and potentially massive."

Most NAND flash chips hold one or two bits of data in each tiny storage cell. SanDisk has begun offering a technology called X3 that can store three bits per cell, while the X4 technology stores four bits per cell. Whoever holds rights to the X4 technology would have big cost advantages, Mr. Handy said. But he added that SanDisk also purchased rights to promising technology that can stack multiple layers of data-storage circuitry on a chip.

GLOBAL BUSINESS BRIEFS

Eli Lilly & Co.

Deal to acquire ImClone will boost biotech presence

Eli Lilly & Co. Monday signed a $6.5 billion deal to acquire **ImClone Systems** Inc., following two months in which ImClone Chairman Carl Icahn searched for a superior offer to **Bristol-Myers Squibb** Co.'s unsolicited bid. The move will increase Lilly's presence in selling cancer treatments and developing biotech drugs as the Indianapolis drug maker awaits generic competition in its key products in coming years. But the deal's success depends on ImClone's pipeline bearing fruit, and Lilly must tap the credit markets in a time of crisis. Meanwhile, Bristol-Myers is facing its own patent expirations and pressure to make another deal. In response to the announcement, New York-based Bristol-Myers said it was bowing out of the bidding.

Roche Holding AG

Swiss drug maker **Roche Holding** AG said adding cancer medicine Avastin to its drug Tarceva didn't prolong the lives of lung cancer patients, a late-stage study showed. There was, however, clear evidence that the time patients lived without their disease getting worse increased, said the Basel-based company. Both drugs are targeted therapies, modern medicines that act as "smart bombs" leaving healthy cells intact. They are already available for the treatment of patients with advanced non-small-cell lung cancer in the U.S. and Europe. In Europe, Avastin and Tarceva are sold by Roche, while **Genentech** Inc.—which is majority-owned by Roche and which the Swiss company intends to acquire in full—sells them in the U.S.

Alliance Boots PLC

U.K.-based **Alliance Boots** PLC, owner of the Boots health-and-beauty retail chain, said it will acquire French pharmaceutical-products distributor Depolabo from **Sagard Private Equity Partners**. Financial terms of the deal weren't disclosed. Depolabo distributes pharmaceutical products to wholesalers, pharmacies and hospitals on behalf of more than 50 manufacturers. The deal "will enable us to accelerate the expansion of our pre-wholesale and contract logistics services in Europe," said Ornella Barra, Alliance Boots's wholesale and commercial-affairs director. The transaction, which is subject to various conditions including approval by the French competition regulator, is expected to be completed in the coming months.

KazMunaiGas

Kazakh state oil and gas company **KazMunaiGas**, or KMG, said Sunday it has signed a memorandum of understanding with **ConocoPhillips**, of Houston, and **Mubadala Development** Company, of Abu Dhabi, for joint exploration and production of the N Block, an offshore field in the Caspian Sea. "The parties will now have until Dec. 31, 2008, to negotiate the definitive agreements for the assignment by KMG of a 49% interest in the subsoil use contract to be shared equally between ConocoPhillips and Mubadala," KazMunaiGas said in a statement. "KMG will remain the majority partner in the venture." N block covers approximately 8,100 square kilometers and is considered to have high prospects for both oil and gas, KMG said.

Zurich Financial Services AG

Zurich Financial Services AG tapped Philip Wilson, a former American International Group Inc. executive, to oversee global life-insurance underwriting for the Swiss insurer. The appointment of the 56-year old Australian citizen as chief underwriting officer for the unit comes amid market expectations that big insurers such as Zurich Financial, France's Axa SA and Italy's Assicurazioni Generali SpA could bid for AIG's life-insurance business. The unit is on the block as the U.S. insurer tries to generate cash to pay back an $85 billion government bailout. Mr. Wilson was slated to start his new position Monday. He will report to Mario Greco, the chief executive of the Global Life unit. Mr. Wilson most recently was chief underwriting officer for an AIG unit based in New York.

EasyJet PLC

EasyJet PLC said it carried 22% more passengers in September than it did a year earlier, partly thanks to the budget airline's acquisition of GB Airways Ltd. Britain-based easyJet said it flew 4.2 million people in September, compared with 3.4 million a year earlier. Over the same period, the load factor—a measure of how full an airline's planes are—rose 1.8 percentage points to 86.9%. On Friday, easyJet rival **Ryanair** PLC of Ireland reported a 20% rise in September passenger numbers, while **British Airways** PLC said it carried 5.6% fewer passengers. Shares in easyJet fell 6.9% to close at 305 pence ($5.41) Monday, off 22.50 pence in London. The airline's stock was hit by market concerns about a looming recession, which could decrease consumer demand in the coming months. The stock price is off about 50% since the start of the year.

E.ON AG

Germany's Federal Cartel Office said it stopped investigating six units of utility **E.ON** AG over inflated natural-gas prices, after the company made €55 million, or about $75 million, in financial concessions. The units, regional suppliers in which E.ON owns majority stakes, agreed to delay to December a gas-price increase planned for October. Also, customers will receive an average bonus of €35 on their next gas bills, the regulator said. The cartel office on Wednesday said it started an investigation of 35 natural-gas providers on suspicion of improperly inflating gas prices for industrial and household customers. The regulator launched the investigation after a nationwide comparison found differences in gas prices of between 25% and 45%. Results of the proceedings against the other gas suppliers will be published soon, the regulator said.

InBev SA

InBev SA said its major shareholders expect to buy up about one-tenth of new shares being issued to help pay for its planned $52 billion takeover of **Anheuser-Busch** Cos. Belgium-based InBev plans a capital increase this month to raise $9.8 billion for the purchase. It said its two main groups of shareholders each plan to take €600 million ($830 million) of the new shares, and may seek to buy more. About 60% of InBev is held by several Brazilian financiers—including investment banker Jorge Paulo Lemann—and a group of Belgian aristocratic families who founded the business.

Hewlett-Packard Co.

Hewlett-Packard Co. said it will cut 1,400 jobs in Germany over the next two years as part of a worldwide restructuring effort. Some 1,150 of the cuts are expected at its subsidiary Electronic Data Systems, while 250 jobs will likely come from the main company, said a spokesman. H-P, whose German base is in Böblingen, intends to work out a plan for the cuts with the labor union over the coming weeks, he added. Technology-services company EDS, whose German operations are based in Düsseldorf, currently has some 4,200 employees in the country, while H-P has 8,500. H-P, based in Palo Alto, Calif., said in September that it was planning to cut a total of 24,600 jobs over the next three years as part of the integration of EDS, which it acquired earlier in the year.

Amec Wind Energy Ltd.

Swedish state-owned electricity generator **Vattenfall Group** bought wind-farm developer **Amec Wind Energy** Ltd. for £126.6 million ($224.7 million), boosting Vattenfall's presence in the U.K. The deal will help Vattenfall reach its goal to become carbon neutral by 2050, the company said. Amec owns an onshore wind portfolio with a capacity of 573 megawatts. Thanks to assets in the seas off Sweden and Denmark, Vattenfall is one of the world's biggest offshore wind-power operators. It owns and operates an offshore wind farm with a capacity of 90 megawatts in Kent, England. Vattenfall said the economics of the British wind sector are attractive because the U.K. has higher wind speeds than much of continental Europe.

Saab AB

Swedish prosecutors have charged a man with industrial espionage and extortion against aerospace and defense company **Saab** AB. The 48-year-old man was a consultant in 2006 when he allegedly obtained confidential documents belonging to Saab's radar systems unit, Saab Microwave Systems. The charges filed Monday say he demanded $2.3 million to return the documents and received about a third of that amount. Prosecutors say the documents contained secret information about Sweden's defense that could have damaged the country if revealed to a foreign power. They say he isn't believed to have passed on the documents. Swedish news agency TT said the man denies the charges.

Parmalat SpA

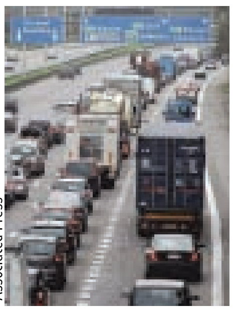
Italian prosecutors requested Monday a 13-year sentence for the founder of Italy-based dairy company **Parmalat** SpA, who has been charged with market rigging. "Manipulation of markets was taken into account," said prosecutor Eugenio Fusco in a Milan court, in the criminal trial linked to the group's 2003 collapse. Parmalat failed under the burden of more than €14 billion ($19 billion) in debt in one of Europe's biggest financial scandals. Parmalat founder Calisto Tanzi and 23 other former executives have been accused of fraudulent bankruptcy. There are two criminal trials involving former Parmalat employees—one in Milan and one in Parma. The Milan trial, directly associated with market manipulation, is expected to close first.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

BELGIUM

Strike for higher wages disrupts public transport

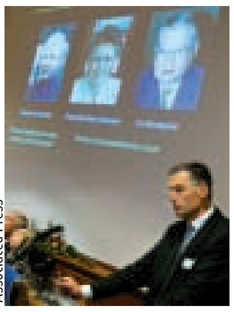

Associated Press

A NATIONWIDE strike over rising prices severely disrupted public transport in Belgium, forcing the cancellation of all high-speed-rail services in and out of the country.

The country's three main unions called the strike to demand higher pay amid high inflation. In Brussels, all tram services were scrapped and only a fraction of underground rail and bus services were running, a spokesman for public-transport company STIB said. Provincial train services also were hit, and the two main rail stations in the capital, Brussels Midi and Brussels Central, were closed. Motorways were clogged as more commuters drove to work. *—Roundup*

EUROPE

French, German scientists share Nobel in medicine


Associated Press

THREE EUROPEAN scientists shared the 2008 Nobel Prize in medicine for separate discoveries of viruses that cause AIDS and cervical cancer.

French researchers Françoise Barre-Sinoussi and Luc Montagnier were cited for their discovery of human immunodeficiency virus, or HIV. Germany's Harald zur Hausen was honored for finding human papilloma viruses that cause cervical cancer, the second most common cancer among women.

The German doctor and scientist received half of the 10 million Swedish kronor ($1.4 million) prize, while the two French researchers shared the other half. *—Associated Press*

RUSSIA

Extradition request sent to U.K. for ex-oil tycoon


Shutterstock

RUSSIA has asked Britain to extradite a former oil tycoon who fled after what he said was severe harassment by the government, a Russian official said.

Mikhail Gutseriyev, the former president of OAO **Russneft**, fled the country last year amid what he said was "unprecedented hounding" from the state, including a tax-evasion probe. Analysts linked his troubles to a dispute with state-run oil giant Rosneft over some oil fields. Russia has sent documents to Britain requesting his extradition, said Igor Tsokolov, spokesman for the Interior Ministry's Investigative Committee. Russia has unsuccessfully asked Britain to extradite other prominent people. *—Associated Press*

Independent voters move toward Obama

Financial crisis benefits Democrats, new poll indicates

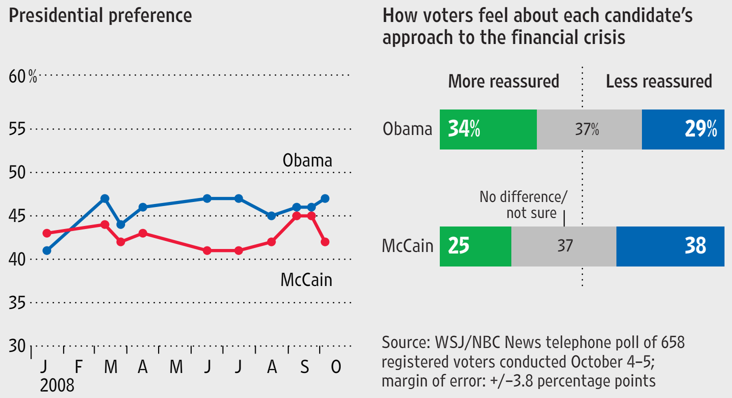
By Laura Meckler

INDEPENDENT VOTERS are starting to swing behind Democratic U.S. presidential candidate Barack Obama and his running mate, Joe Biden, who continue to benefit politically from economic turmoil, as well as public response to their debate performances, according to a new Wall Street Journal/NBC News poll.

The poll, conducted over the weekend, was full of good news for the Democratic ticket. Sen. Obama increased his advantage over John McCain on the question of which candidate voters prefer to handle economic issues at at time when a growing percentage of voters said that was their top concern heading into the election. More voters said they are "more reassured" by how Sen. Obama was responding to the financial crisis than by Sen. McCain.

Financial-crisis fallout

Barack Obama has widened his lead over John McCain as voters express greater comfort with the Democrat in dealing with the financial crisis.



Source: WSJ/NBC News telephone poll of 658 registered voters conducted October 4–5; margin of error: +/–3.8 percentage points

Overall, Sens. Obama and Biden have a six-point lead, with 49% of registered voters favoring them to 43% for Sen. McCain and Alaska Gov. Sarah Palin. That is up from a two-point advantage in the latest Journal poll, two weeks ago, and reflective of other national polls. The survey has a margin of error of plus or minus 3.8 percentage points.

"McCain has absorbed a very tough one-two punch—the financial crisis, then the debates," said Neil Newhouse, a Republican pollster who conducts the survey with Democratic pollster Peter D. Hart. "These two things have clearly led to a momentum shift in this campaign where Obama has started to slowly stretch his lead."

Still, with a month to go, the topsy-turvy presidential campaign could shift yet again. While voters said by a 50%-to-29% margin that they thought Sens. Obama and Biden did "a better job in the debates," two presidential debates remain.

There were cautionary notes for Sen. Obama. The poll suggests that the first African-American to win a major-party nomination could be vulnerable to race-based attacks tying him to unpopular black figures such as the Rev. Jeremiah Wright, his former pastor, and Al Sharpton, an outspoken and controversial figure.

Thirty-five percent of all voters—and 40% of white voters—said those connections bother them.

A focus group sponsored by the Annenberg Public Policy Center conducted last week by Mr. Hart underscored the point. Several said they knew people who wouldn't support Sen. Obama because he is black. "There's a whole lot more racism than we know, but they just keep quiet," said Bridget Cromer, 56 years old, a Democrat from Chesterfield, Mo. That sentiment was shared by nine of 12 participants.

The poll, taken just after Congress passed the financial rescue package Friday, showed that voters remained divided about the bailout. While voter anger helped lead to the bill's defeat in the House earlier in the week, the poll, taken after a week of slumping financial markets, showed that voters narrowly supported the package: 40% said they approved; 38% disapproved.

Independent voters are among the most important voting blocs because many of them would consider voting for either candidate. In the Journal/NBC poll two weeks ago, independents favored Sen. McCain by 13 points. The new survey finds Sen. Obama leading by four points.

Republicans seek Obama-funds audit

By T.W. Farnam

WASHINGTON—Republican Party officials said they would file a complaint with the U.S. Federal Election Commission on Monday asking for an audit of Barack Obama's campaign contributions.

In announcing the move Sunday, they said they were concerned that the Democratic presidential candidate may be accepting donations from foreign nationals, and may also be taking a large number of donations that exceed federal limits for individuals.

U.S. law prohibits foreign nationals from contributing to American candidates, but campaigns from both parties have sought money from Americans living abroad.

The Republican Party cited a large amount of money coming to the Democratic presidential candidate from overseas, and a small amount of money that he has returned from foreigners, in explaining their complaint.

The party's lawyers also pointed to news reports of foreigners giving money to Sen. Obama, although the Obama campaign says it has either rejected or returned the money.

"We see this as a wide-scale problem for the Obama campaign," said Sean Cairncross, chief counsel for the Republican National Committee. "This is more money than has ever flowed into a presidential campaign."

Obama campaign spokesman Bill Burton issued a statement saying that "no organization is completely protected from Internet fraud."

"We constantly review our donors for any issues and...we will continue to review our fund-raising procedures to ensure that we are taking every available step to root out improper contributions," Mr. Burton said, adding that the campaign went beyond requirements when it voluntarily released the names of its biggest "bundlers," individuals who gather checks from other donors. Sen. McCain's campaign has done that and also published a searchable database of all its contributors.

Because he is opting out of public financing for his campaign, Sen. Obama won't be subject to an audit unless the commission votes to approve an investigation, a move that is unlikely to come before the November election.

The Republican National Committee didn't provide evidence of widespread foreign contributions to the Obama campaign, but said a few examples were enough to justify an audit.

In addition to focusing on foreign contributors, Republicans also said Sen. Obama seemed to have a large number of donors contributing more than the $2,300 limit. Mr. Cairncross cited letters that the Federal Election Commission has sent to the Obama campaign inquiring about donors who appear to have exceeded contribution limits.


Reuters

Republican Party officials say they want the U.S. Federal Election Commission to audit contributions made to the campaign of **Sen. Barack Obama**.

The Obama campaign has recently stepped up its controls to limit foreign money. It has begun asking for passports at fund-raisers held overseas and has limited shipments of campaign paraphernalia to American addresses.

Sen. McCain also recently returned money that his campaign said may have been gathered by a foreign national.