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U.S. lawmakers reach deal on bailout

Plan would include executive-pay curbs, taxpayer protections

By Damian Paletta, Deborah Solomon And Greg Hitt

WASHINGTON—The Bush administration and the U.S. Congress took a historic step over the weekend, reaching a deal to authorize the biggest banking rescue ever in the U.S.

The $700 billion program, which awaits votes this week in the House of Representatives and the Senate, would effectively nationalize an array of mortgages, loans and securities backed by such assets, whose deteriorating value represents the rot at the heart of the nation's financial system.

The move is an attempt to stem the crisis that threatens to strangle the U.S. economy and came to fruition only after all sides made concessions. Behind the deal was a marathon weekend negotiating session that included calls to lawmakers from President George W. Bush, the two presidential nominees and billionaire investor Warren Buffett.

Much was still unknown. Not included in the legislation are details as to how the bailout would work, including prices and the purchase mechanism. The Treasury is expected to hash out those details in coming days.

As a result, it is hard to ascertain how many financial institutions will look to participate. From big Wall Street houses to small community banks, executives have expressed a willingness to sign up, depending on critical details, such as whether they would have to take further write-downs.

The agreement will include significant oversight of the Treasury's purchases of troubled assets, restrictions on executive compensation, the potential for equity stakes in firms that participate in the asset-sale program, and other taxpayer protections.

A summary of the tentative agreement released by House Speaker Nancy Pelosi's office said the plan "gives taxpayers an ownership stake and profit-making opportunities with participating companies; puts taxpayers first in line to recover assets if a participating company fails; [and] guarantees taxpayers are repaid in full—if other protections have not actually produced a profit."

The $700 billion will be available in phases. The first $250 billion will be "immediately available" to the Treasury secretary,

Please turn to back page

Surveying the landscape

Associated Press

Henry Paulson, center, **Nancy Pelosi,** left, and **Harry Reid,** right, announce a tentative deal to bail out financial markets.

What's News—

Business & Finance

Policy makers rushed to resolve the fate of two stalwarts of Europe's local banking markets. Discussions took place to broker a sale or nationalization of Fortis, while plans were being finalized for a government takeover of Bradford & Bingley. Page 1

■ **The U.S. is looking** beyond its borders to sell a good chunk of the Treasury debt that would be sold to finance the financial-system rescue. Page 17

■ **The U.K. financial industry**'s job cuts are expected to gain steam over coming months, a new CBI survey says. Page 20

■ **J.P. Morgan's shares surged** 11% after the company bought the assets of collapsed Washington Mutual. Page 4

■ **The ECB is unlikely** to cut its key rate before seeing evidence inflation threats are waning. Central banks took steps to calm money markets. Page 20

■ **HSBC Holdings cut** 1,100 jobs, or 4%, of its global banking and markets division. Page 4

■ **Money managers looking** for the best opportunities in today's markets are buying corporate bonds, not stocks. Page 17

■ **Steelmakers face** a sharp pullback from buyers spooked by the credit crisis and a slowdown in construction. Page 6

■ **U.S. GDP was revised** down to 2.8% annualized growth for the second quarter from 3.3% as spending weakened. Page 15

Markets

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11143.13	+121.07	+1.10
Nasdaq	2183.34	-3.23	-0.15
DJ Stoxx 600	265.92	-5.09	-1.88
FTSE 100	5088.47	-108.55	-2.09
DAX	6063.50	-109.53	-1.77
CAC 40	4163.38	-63.43	-1.50
Euro	$1.4597	-0.0070	-0.48
Nymex crude	$106.89	-1.13	-1.05

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World-Wide

U.S. policy makers reached a deal to authorize the country's biggest banking rescue ever. The $700 billion program awaits votes this week in Congress. The first $250 billion would be "immediately available" to the Treasury, with $100 billion more available "upon report to Congress" and $350 billion requiring further action by lawmakers, according to a summary. Page 1

■ **Obama and McCain indicated** they were inclined to support the bailout deal. They clashed over taxes, war and the economy in their first election debate. Page 9

■ **Bavaria's conservatives were** likely to lose their decades-old grip on power in a state election, according to projections. Page 8

■ **Austria's Social Democrats** were poised to win parliamentary elections, projections indicated, but two far-right parties may be the real winners. Page 8

■ **Sudan's military said** kidnappers of 11 European tourists and their Egyptian guides led soldiers on a chase, ending in a firefight that killed six gunmen, with the hostages now in Chad.

■ **The U.N. Security Council** unanimously approved a resolution reaffirming previous sanctions on Iran for refusing to halt its uranium-enrichment activities.

■ **Syrian state media hinted** at foreign involvement in a car bombing Saturday that killed 17 people near Damascus.

■ **Three Chinese astronauts** returned from a mission carrying out China's first spacewalk.

■ **Died: Paul Newman,** 83, Oscar-winning actor, activist, race-car driver and philanthropist, of cancer in Connecticut. WSJ.com

Editorial&Opinion

Cigars and balance sheets

How J.P. Morgan—the man, not the bank—would have solved this credit crisis. Page 13

How letting Lehman fail sparked a chain reaction

By **Carrick Mollenkamp** and **Mark Whitehouse** in London, **Jon E. Hilsenrath** in Washington and **Ianthe Jeanne Dugan** in New York

Two weeks ago, Wall Street titans and the U.S. government's most powerful economic stewards made a fateful choice: Rather than propping up another failing financial institution, they let 158-year-old **Lehman Brothers Holdings** Inc. collapse.

Now, the consequences of that decision look more dire than almost anyone imagined.

Lehman's bankruptcy filing in the early hours of Monday, Sept. 15, sparked a chain reaction that sent credit markets into disarray. It accelerated the downward spiral of giant U.S. insurer **American International Group** Inc. and precipitated losses for everyone from Norwegian pensioners to investors in the Reserve Primary Fund, a U.S. money-market mutual fund that was supposed to be as safe as cash. Within days, the chaos enveloped Wall Street pillars **Goldman Sachs Group** Inc. and **Morgan Stanley.** Federal Reserve and Treasury Department officials, reversing course, rolled out a $700 billion financial-markets bailout plan that was negotiated with congressional leaders Sunday.

The genesis and aftermath of Lehman's downfall illustrate the difficult position policy makers are in as they grapple with a deepening financial crisis. They don't want to be seen as too willing to step in and save financial institutions that got into trouble by taking big risks. But in an age when markets, banks and investors are linked through a web of complex and opaque financial relationships, the pain of letting a large institution go has proved almost overwhelming.

Leading to collapse

Lehman Brothers daily share price

Source: WSJ Market Data Group

In hindsight, some critics say the systemic crisis that has emerged since the Lehman collapse could have been avoided if the government had stepped in. Before Lehman, federal officials had dealt with a series of financial brush fires in a way designed to keep troubled institutions such as Fannie Mae, Freddie Mac and Bear Stearns Cos. in business. Judging them as too big to fail, officials committed billions of taxpayer dollars to prop them up. Not so Lehman.

"I don't understand why they didn't understand that the markets would be completely spooked by this failure," says Richard Portes, professor of economics at London Business School and president of the Centre for Economic Policy Research. Rather than showing the government's resolve, he says, letting Lehman fail only exacerbated

Please turn to page 31

Fortis, B&B face rescues as crisis grows

By Sara Schaefer Muñoz, Alistair MacDonald And Joellen Perry

The latest wave in the global banking crisis reached European shores over the weekend, as some of Europe's highest-ranking policy makers rushed to resolve the fate of two stalwarts of the region's local banking markets.

European Central Bank President Jean-Claude Trichet and Belgian Prime Minister Yves Leterme took part in discussions Sunday, as policy makers brokered a sale or nationalization of Dutch-Belgian bank and insurer **Fortis** NV. In London, Treasury chief Alistair Darling and Bank of England Gov. Mervyn King worked late into Sunday finalizing plans for a government takeover of mortgage lender **Bradford & Bingley** PLC, in what would be the country's second bank nationalization this year.

In both cases, government officials were aiming to sell all or parts of the banks to private buyers, either before or after taking control. Taxpayers could be stuck holding some of the banks' bad assets.

ING Groep NV, the big Dutch financial firm, is among the banks that could step in to buy part or all of Fortis, a person familiar with the situation said. Spanish banking giant **Banco Santander** is likely to buy B&B's roughly £20 billion ($37 billion) of deposits and its brick-and-mortar assets, people familiar with the matter said.

Representatives for ING and Santander declined to comment.

Please turn to page 2

THE FINANCIAL CRISIS

Rescues loom for Fortis and B&B

Continued from first page

Fortis didn't immediately respond to requests for comment. A spokesman for B&B confirmed the bank was in talks with U.K. authorities to clarify its future.

The problems of Fortis and B&B, each of which has roots dating to the 1800s, underscore the dramatic pace with which the financial crisis is reshaping the global banking industry, as weaker institutions lose the trust of investors and are overtaken by healthier competitors.

That shakeout has accelerated in recent days, as the financial chaos unleashed by the downfall of U.S. securities firm Lehman Brothers Holdings Inc. has seized up the markets on which banks depend to borrow money.

The consolidation is already threatening to bump up against European antitrust rules. A combined ING-Fortis would have 42% of the Belgian banking market and 52% in Holland, according to one of the people involved in a possible deal. Earlier this month, U.K. Prime Minister Gordon Brown waived U.K. antitrust rules to pave the way for a takeover of U.K. bank **HBOS** PLC by **Lloyd's TSB Group** PLC; the combined bank would have about a third of the U.K.'s mortgage and retail deposit markets.

While the financial crisis has already taken a heavy toll on European banks, Fortis's troubles mark the first time it has threatened the failure of an institution quite so powerful in its home market. Fortis is the largest insurer in Belgium and the largest issuer of credit cards in the affluent "Benelux" region of Belgium, the Netherlands and Luxembourg.

Fortis has struggled in recent days amid the broader crisis of confidence in lending markets. Its share price fell 20% Friday, and its shares are down 71% this year.

On Friday, the bank unexpectedly replaced its interim chief executive, Herman Verwilst, just hours after he tried to reassure investors that the bank remains on sound footing. Fortis named Filip Dierckx, currently head of the Belgian-Dutch company's banking unit, as its new CEO.

Officials from the Belgian central bank, the Dutch central bank and Belgium's Banking, Finance and Insurance Commission, or CBFA, began meeting Saturday in person and on the phone to hammer out a solution for Fortis. The ECB's Mr. Trichet met Sunday afternoon with Mr. Leterme to discuss the situation, said a spokesman for the Belgian prime minister.

Mr. Leterme has also called Belgium's government ministers to an emergency meeting Sunday evening to present the range of solutions being discussed. Some of the solutions on the table would require government involvement, for which Mr. Leterme would need the ministers' approval. Dutch central bank Gov. Nout Wellink canceled a keynote speech at the Federal Reserve Bank of Chicago on Friday and was in Brussels Sunday with Dutch Finance Minister Wouter Bos to work on a Fortis solution.

Officials from the Dutch central bank declined to comment Sunday. The Belgian National Bank couldn't be reached for comment.

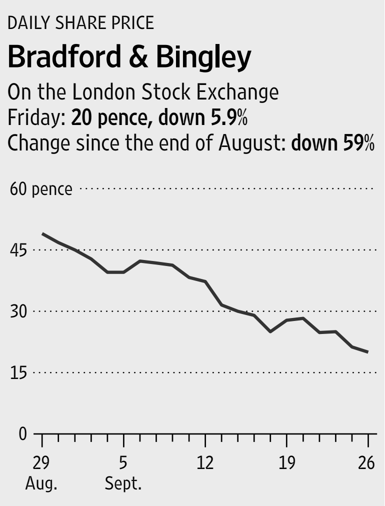
Fortis managers and government officials were considering several options for the bank, the people said, including a sale to a single buyer, or a breakup of the bank. Either of those options could depend on the willingness of government and central-bank officials to provide financial assistance or take on bad assets. Fortis management still was holding out some hope of selling assets in a last-ditch effort to remain independent, a person familiar with the situation said.

Meanwhile, the nationalization of B&B would come after the company's stock price fell 28% in the past week as investors fretted it wouldn't be able to access the funding it needed to stay afloat. Like many mortgage lenders, B&B depends on markets, rather than customer deposits, for a significant portion of the funding it needs to do business.

In one example of the troubles the bank has had in getting wholesale funding, a recent Credit Suisse report estimates that 15% of B&B's funding for major loan books comes from the Bank of England's emergency liquidity mechanism, which is set to expire in January.

The nationalization of B&B would follow a weekend of intense talks as the government grew increasingly anxious about the state of the mortgage lender. **Morgan Stanley**, on behalf of the Treasury, called around to possible bidders Saturday afternoon and told them to submit bids by 9 a.m. Sunday, according to a person familiar with the matter.

Associated Press



Source: Thomson Reuters Datastream

Bradford & Bingley building in London

Meanwhile, the bank saw an upsurge in deposit withdrawals during the weekend as jittery customers feared for their money; a bank spokesman on Sunday assured depositors that their money was secure.

B&B would be the second U.K. mortgage lender to be nationalized this year, likely wiping out all shareholder equity. In February, the government took control of lender Northern Rock PLC, which last year became the target of the nation's first bank run in more than a century. That nationalization was a major embarrassment for the government of Mr. Brown, which was seen as having been slow in responding to the lender's troubles.

The failure of B&B underscores the toll that the slumping housing market is taking on the financial sector. B&B grew rapidly in recent years as a new housing market—the buy-to-let market of people purchasing homes to rent out—took off.

Buying-to-let had been one of the drivers of the country's property's boom as people saw rapidly appreciating properties as a good investment. Now, however, it's considered too risky amid worries that owners of rental properties are more likely to fall behind on mortgage payments for their rental home during the downturn.

B&B tried to shore up its position over the summer and, in a series of events helped by the government, a group of investors stepped in to rescue its capital-raising effort after U.S. buyout firm TPG pulled out of a deal to take a stake in the bank.

—Carrick Mollenkamp and Dana Cimilluca contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Merrill Lynch has agreed to be bought by **Bank of America**. A Financial News page article in the Friday-Sunday edition incorrectly said the target bank was **Morgan Stanley**.

The median amounts for CEO severance and change-of-control packages reported in a 2007 study didn't include deferred compensation or pension. A Sept. 15 Managing column incorrectly said they included those amounts.

INDEX TO BUSINESSES

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

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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

Wachovia is latest bank to seek a merger

Possible acquirers include Wells Fargo, Citigroup, Santander

By Robin Sidel, David Enrich And Dan Fitzpatrick

Wachovia Corp. has entered into preliminary talks with a handful of possible buyers—the latest in a parade of banks to look for safety in the arms of a suitor amid concerns that the weak U.S. economy is pushing them deeper into peril.

The talks came as **Washington Mutual** Inc.'s failure late Thursday rattled the shares of other troubled banks. Shares of Wachovia fell 27% on Friday as investors fretted about its massive mortgage portfolio.

Investors are growing concerned that a host of banks nationwide, both large and small, could come under fresh pressure to either raise more capital or find someone willing to buy them. The trouble stems in part from the fact that a broad range of borrowers, not just mortgage holders, are starting to default on their debt. For instance, about 2.4% of payments on credit cards are more than 90 days overdue, according to the Federal Deposit Insurance Corp., the highest level since 1991.

Wachovia is talking to potential buyers including **Wells Fargo** & Co., **Banco Santander** SA of Spain and

A range of borrowers are starting to default on their debt.

Citigroup Inc., according to people familiar with the situation. Wachovia officials don't believe they need to rush into a deal, and the bank isn't feeling immediate pressure on its financial condition, people familiar with the company said.

Wachovia declined to comment on the discussions. Friday, a spokeswoman said the bank is "aggressively addressing our challenges." Since June, Wachovia has opened 745,000 new checking accounts, she added, indicating confidence among its customers.

Banco Santander, Citigroup and Wells Fargo declined to comment.

In a sign of the depth of tension among financial institutions broadly, banks on Friday remained very skittish about making short-term loans to each other—a crucial ingredient in the banking business. The rate on three-month loans between banks eased slightly, to 3.7%, on Friday. Still, that is nearly double the level that would be expected if the market were more stable.

This reluctance to lend has implications for a broad swath of the business community: Interest rates on short-term loans that corporations routinely use to fund day-to-day expenses also remain extremely elevated.

For financial institutions, "the clock is ticking a heck of a lot faster today," said Matthew Kelley, a bank analyst at investment-banking firm Sterne, Agee & Leach Inc. The federal government's seizure of WaMu in the largest bank failure in U.S. history shows that regulators are "not going to mess around" with shaky banks and thrifts, especially given the chaos gripping financial markets.

The structure of **J.P. Morgan Chase** & Co.'s purchase of WaMu's banking operations sent shudders through the market for investment-grade bonds. In the deal, bondholders—who typically have a priority claim over common-stock shareholders—are likely to recover between zero and 50 cents on the dollar, according to an analysis by independent research firm CreditSights. That could sour investors' appetite for a wide range of financial-industry bonds.

U.S. leaders and bank executives hope that the $700 billion government bailout package being hammered out in Washington will help steady the industry by giving banks a way to shed some of their most toxic mortgage assets. The vast majority of U.S. banks remain well-capitalized, giving them a cushion against the sluggish economy and further declines in housing prices.

Across the country, WaMu's branches opened as usual Friday morning, albeit under new owner J.P. Morgan, which bought WaMu's banking operations for $1.9 billion.

WaMu's seizure by the government eliminated one of the shakiest institutions. But the fact that no one was willing to buy its vast consumer-banking business until the institution failed shows how deep the industry's woes are. In recent years, its prized network of more than 2,200 branches would likely have triggered a bidding war among suitors.

In recent weeks, Wachovia had been in talks about a potential merger with Morgan Stanley. But that scenario was apparently put on hold by Morgan Stanley's move last week to convert into a bank holding company from an investment bank.

In addition to the problem of widening defaults on credit-card debt, delinquent loans on nonresidential real estate rose 20% in the second quarter from a year earlier. Late payments on bread-and-butter business loans, which account for the bulk of the loan portfolios at many banks, jumped 15%. All those percentages are expected to keep rising.

"The housing thing is kind of behind us" in terms of the write-downs, said Ted Salter, chief financial officer of Gateway Financial Holdings Inc., a bank-holding company in Virginia Beach, Va. Now it has "moved into commercial loans, construction loans, development loans," he said. "Next week, it'll be something else."

The 13 bank failures this year don't come close to the savings-and-loan crisis of the late 1980s, when hundreds of shaky institutions failed, costing taxpayers about $130 billion. By other measures, though, some bank executives say the current turmoil is worse, since it is more geographically widespread and involves a broader mix of loans.

After generating record profits during the housing boom, the banking industry saw its profitability evaporate in only a year. Second-quarter profit fell to $5 billion from $36.8 billion a year earlier, its second-lowest level since 1991.

About 18% of federally insured lenders lost money in the second quarter. Dividends paid to bank-stock investors plunged by $35 billion in first six months of 2008.

Third-quarter results could show the industry's first overall loss since the fourth quarter of 1990. One big reason: Banks need to set aside more money to cover loans

Bloomberg News/Landov

The failure of Washington Mutual rattled the shares of other banks, including Wachovia, which has entered into preliminary **talks with possible buyers**.

that have gone sour, a move that cuts deeply into profitability.

Forced to conserve capital in order to cover ballooning losses, commercial banks are far more reluctant to lend money than they were a few months ago. Of 3,000 companies surveyed by RBC Capital Markets, 25% said it is harder to borrow money than 90 days ago.

There isn't a clear way out of trouble. There aren't many investors willing to take a bet on banks right now, particularly given WaMu's example: In April, it received a $1.35 billion investment from the giant investment firm **TPG**—which lost the entire amount this week when WaMu failed.

Aside from J.P. Morgan's purchase of WaMu, few weak banks have been snapped up by stronger ones, partly because would-be buyers have their own headaches.

Some banks are paying unusually high interest rates on deposits to replenish their capital levels. That strategy raises red flags with many bankers because it is often viewed as a sign of desperation.

It can also be a double-edged sword: Banks that don't want to compete on rates can't attract deposits that are critical to making loans. In any case, that strategy didn't work for WaMu, which paid some of the highest rates in the country.

Saddled with a mountain of troubled adjustable-rate mortgages inherited through its 2006 takeover of Golden West Financial Corp., Wachovia has seen its financial condition weaken. The bank's CEO, Robert Steel, has said the bank has ample capital, noting that it added $20 billion to its certificate-of-deposit balances last summer due in part to a high-interest-rate promotion that began in June.

"I spend a lot of time trying to lay out the fact that we believe we're liquid," he said earlier this month. "We believe we have the ability with our current financial position to respond to issues, and we also have some other levers to pull" to improve its financial position, he said.

Banco Santander, Wells Fargo and Citigroup all pored over WaMu's books before the Seattle thrift was seized Thursday. Their interest in Wachovia is a further sign that the banking industry's turmoil is triggering opportunism by the relatively few banks that consider themselves strong enough to make a deal, even though it likely means absorbing a slew of troubled loans from the acquired bank.

—Carrick Mollencamp, Ilan Brat and Liz Rappaport contributed to this article.

CORPORATE NEWS

TELECOMMUNICATIONS

TeliaSonera takes stakes in Nepal, Cambodia firms


TeliaSonera

AS PART OF an effort to boost its presence in Asia, Nordic telecom operator **TeliaSonera** SA said it acquired controlling stakes in mobile operators in Nepal and Cambodia in a deal valued at 3.2 billion Swedish kronor ($482.2 million). The company is paying Kazakhstan-based Visor Group to acquire 51% of TeliaSonera Asia Holding BV, a holding company for 80% of Spice Nepal and 100% of Cambodia's Applifone. Visor Group will have a 49% stake in the holding company. The deal is expected to be completed Oct. 1. TeliaSonera Chief Executive Lars Nyberg said the step is part of "our strategy to expand into new high-growth emerging markets."

—Adam Ewing

ENERGY

Inpex-Total LNG plant to be built in Australia

Associated Press

INPEX HOLDINGS Inc. of Japan and **Total** SA of France will spend US$20 billion on a liquefied-natural-gas processing plant near Darwin in Australia's Northern Territory.

The plant, in which Inpex has a 76% stake as operator, will process natural gas piped from the Ichthys field in the Browse Basin offshore Western Australia state. It is one of nine LNG projects planned for Australia.

The new plant will produce eight million metric tons a year of LNG, 1.6 million tons a year of liquefied petroleum gas and 100,000 barrels of condensate, with a final investment decision due late next year or in early 2010, Inpex said Friday.

FASHION

Benetton finance chief to step down from post


Benetton

ITALIAN clothing company **Benetton Group** SpA said Chief Financial Officer Emilio Foà will step down following the approval of the company's third-quarter results.

Benetton said Mr. Foà will return to work in London.

He was hired by Benetton in 2006 from London-based Burberry PLC, where he had been deputy finance chief since 2005.

Benetton said the functions of Mr. Foà will be temporarily reassigned within the company's managerial structure.

—Luca Di Leo

J.P. Morgan bets on the consumer

Takeover of WaMu is $1.9 billion hedge against more turmoil

By Robin Sidel
And Dan Fitzpatrick

THE LARGEST bank failure in U.S. history sent barely a ripple through financial markets on Friday after **J.P. Morgan Chase** & Co. stepped in quickly to pick up the pieces of collapsed **Washington Mutual** Inc. and promised to move quickly to clean up the wreckage of the thrift's troubled portfolio of mortgage loans.


James Dimon

In doing the $1.9 billion government-assisted deal, J.P. Morgan is making a bet that American consumers, even those in shaky condition, will help cushion the bank from future market turmoil. J.P. Morgan's last deal, buying Bear Stearns when it was similarly struggling for survival, boosted the bank's presence in the volatile world of Wall Street.

J.P. Morgan moved to further cushion its business by selling $10 billion of common stock, which was snapped up by investors, who bid up the bank's shares by 11%. The bank had announced that it would sell $8 billion of stock in conjunction with the WaMu deal. J.P. Morgan shares rose $4.78, to $48.24 in New York Stock Exchange composite trading Friday at 4 p.m.

WaMu collapsed under the weight of bad mortgages, and J.P. Morgan said it would write down $31 billion of the loans in the deal, which will protect depositors. WaMu shares plunged 90%, or $1.53, to 16 cents.

The price tag came at a substantial discount to what J.P. Morgan was willing to pay for WaMu earlier this year. In March, J.P. Morgan offered to buy the Seattle-based thrift, suffering at the time from deterioration in its mortgage portfolio, for roughly $4 to $8 a share, or $7 billion to $9 billion. Those talks failed when WaMu instead accepted a $7 billion capital infusion from a group of investors led by private-equity firm **TPG**. (Please see related article on page 25.)

Holders of the thrift's common stock are likely to be wiped out, since J.P. Morgan bought essentially all of WaMu's assets, leaving the holding company under Federal Deposit Insurance Corp. control. WaMu's holding company is likely to be liquidated.

With the deal, a growing portion of J.P. Morgan's revenue and earnings are now likely to come from its vast consumer network that includes branch-banking, mortgages, home-equity loans and credit cards.

J.P. Morgan's nonconsumer businesses include capital-markets activities, investment and commercial banking, and asset management.

"We are going to sort out the mechanics over next week or two and then go full steam ahead to take advantage of the opportunity," said Charles Scharf, who runs J.P. Morgan's retail business.

J.P. Morgan Chairman James Dimon has long hailed the value of J.P. Morgan's retail operations as a way for the bank to attract new customers. Although the firm is well-known for providing a slew of financial services to the wealthy and corporate customers, J.P. Morgan is also tied to the mass-market consumer through its retail branches.

That concentration is expected to grow significantly with the acquisition of WaMu, the nation's largest savings-and-loan by assets, that didn't have significant relationships with commercial or high-end borrowers.

The retail business "may grow slower than some other businesses, but it is very stable," Mr. Dimon told reporters Friday on a conference call. The combined company will be the nation's largest deposit-gatherer with $911 billion of deposits, outranking **Citigroup** Inc.'s $804 billion and **Bank of America** Corp.'s $785 billion. Previously, J.P. Morgan ranked as the third-largest after those two banks, with $723 billion.

The deal also catapults J.P. Morgan to the second spot as measured by its 5,410 branches, ranking behind Bank of America and leapfrogging both **Wells Fargo** & Co. and **Wachovia** Corp.

From demise to deal

Along with a mountain of bad loans, J.P. Morgan Chase & Co. will get more than 2,000 branch offices as part of its $1.9 billion takeover of the banking operations of Washington Mutual. Here is a look at the combination in selected states:

State	Combined deposits (billions) ■ J.P. Morgan Chase ■ Washington Mutual	Rank	Market share	No. of branches
New York	$88.2	1	21.7%	888
California	75.7	3	12.2	691
Texas	37.7	1	13.0	722
Illinois	22.9	1	9.0	463
Arizona	16.3	1	23.6	308
Michigan	13.8	2	10.8	298
Washington	13.0	2	14.6	188
Ohio	12.7	4	7.6	285
Florida	12.4	5	3.9	274
New Jersey	10.8	6	8.2	253

Note: Deposit data as of June 30, 2007, and exclude deposits greater than $500 million in a single branch; branch data as of Sept. 18, 2008

Source: SNL Financial via J.P. Morgan Chase

J.P. Morgan is also heavily exposed to the consumer through its credit-card business, which will become the nation's largest after the WaMu deal with $181 billion of receivables. Much of WaMu's $28 billion credit-card portfolio, however, is made of subprime customers. J.P. Morgan has largely steered clear of those high-risk consumers and isn't expected to devote much effort to retaining them.


Charles Scharf

The integration of WaMu carries substantial risks for J.P. Morgan. Although the bank is betting on the consumer, Americans are having a tougher time paying their mortgages and credit-card bills—leading to rising delinquencies and defaults on those loans. Furthermore, WaMu's $176 billion home-loan portfolio is largely comprised of adjustable-rate mortgages, subprime and home-equity loans. J.P. Morgan is trying to prepare for the blow of rising defaults in those loans by marking down their value by $31 billion, but estimates that there could be $54 billion of losses if housing prices deteriorate further.

Despite those risks, WaMu has long been at the top of J.P. Morgan's acquisition list. Indeed, the company's top executives have been talking about the prospect of a WaMu purchase for several years, according to a person familiar with the matter.

Former WaMu CEO Kerry Killinger was criticized for not accepting J.P. Morgan's initial offer. Earlier this month, Mr. Killinger was suceeded by Brooklyn, N.Y., banker Alan Fishman. During his first week on the job, Mr. Fishman got a congratulatory call from Mr. Dimon, according to a person familiar with the situation.

The thrift lost roughly $5 billion in retail deposits between the end of June and the end of August. Starting Sept. 15, customers yanked an additional $16.7 billion in deposits, according to the Office of Thrift Supervision.

—Joann S. Lublin contributed to this article.

HSBC slashes 1,100 positions in banking unit

By Nisha Gopalan
And Jeffrey Ng

HONG KONG—**HSBC Holdings** PLC became the latest global banking giant to lay off staff as it cut 1,100 jobs in its global banking and markets division world-wide.

The jobs, about half of which are in the U.K., account for 4% of the division's work force, HSBC spokesman Gareth Hewett said. HSBC's global banking division includes investment-banking, treasury and trading operations.

About 100 of the job cuts are in Hong Kong, representing 0.7% of HSBC's total work force of more than 15,000 in the city, he said.

The layoffs in HSBC, which has headquarters in London but makes about a third of its earnings from Hong Kong, come as the market turmoil and wounded balance sheets by banks led to large layoffs world-wide.

"The steps we have taken today are in light of the current global business and economic environment and our cautious outlook for 2009," Mr. Hewett said. "Markets continue to be challenging and difficult, but our strategy leaves us well-positioned for the next wave of global growth, when it comes."

HSBC's current job cuts mainly involve back-office and contract staff, including technology-support personnel, though some front-office employees have lost their jobs, Mr. Hewett said. Contract staff numbered about 450.

The U.K.'s largest bank by market capitalization reported in August a 29% drop in first-half net profit amid deepening losses in the U.S. mortgage market.

Mr. Hewett said, however, that "there is no change in strategy" at the global-banking and markets division, "which is to be a leading emerging-markets-led and financing-focused wholesale bank."

For the first half of the year, the division posted pretax profit of US$2.7 billion, down 35% over the first half of 2007 but 37% higher than in the second half of 2007.

AIG

To our customers, agents, brokers, advisors and other partners:

Thank you for sticking with us. All 116,000 AIG employees appreciate your confidence in us and are working tirelessly, with a renewed commitment to serving your needs.

Be assured that our insurance companies remain strong and well capitalized. The financial issues of the AIG parent company do not affect our insurance companies' ability to pay claims and underwrite new policies. Regulations ensure that the assets of our insurance companies are there to back up each policy. You are protected. Your policies are safe.

I'll be communicating with you as we mold AIG into a strong, nimble and vital organization focused on exceeding your expectations and securing your future.

Edward M Liddy

Edward M. Liddy
Chairman & CEO
American International Group, Inc.

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CORPORATE NEWS

Glaxo takes 3% of Addex

Stake prompts talk about possible deal with Swiss company

By Hans Schoemaker

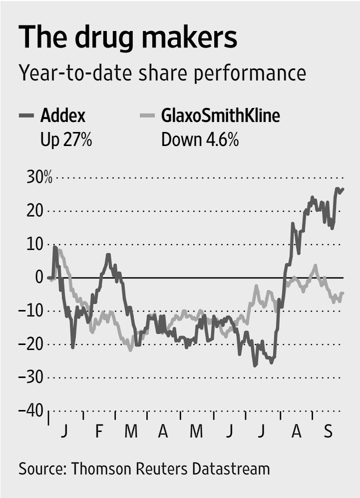
ZURICH—**Addex Pharmaceuticals** SA said **GlaxoSmithKline** PLC of the U.K. has built up a 3% stake in the Switzerland-based biotechnology company, a move analysts say could lead to a licensing deal or even a takeover.

Addex shares closed at 49.95 Swiss francs ($45.82) in Zurich, up 20 centimes. At current market prices, Glaxo's 3% stake is valued at about 8.8 million francs. The Swiss company has a market capitalization of about 289.7 million francs. Addex spokesman Chris Maggos said the company isn't currently in active merger talks.

Glaxo spokeswoman Gwenan White declined to comment on whether the company's 3% stake, held through its venture-capital fund SR One Ltd., could lead to further investments or be used to help establish a licensing deal. Glaxo's venture-capital fund does "a lot of these investments" in biotech companies that it thinks have solid potential drug candidates in the pipeline, Ms. White said.

Geneva-based Addex has been looking for a partner for its most advanced drug candidate—ADX10059, aimed at treating acid reflux as well as preventing migraine headaches—before the drug enters late-stage clinical trials, which could be as early as 2010. Recent positive data on the drug were supportive of further clinical development, analysts said.

Glaxo's increased stake in Addex shows that the U.K. drug company considers Addex to be undervalued, Helvea analyst Olav Zilian said. Glaxo also could be specifically interested in one of the compounds Addex is developing and trying to gain a head-start for a license deal, Mr. Zilian said, adding that a licensing deal for ADX10059 could run into the billions of francs.



U.S. auto sales feel credit squeeze

By John D. Stoll

An increasing inability of car buyers to find credit is adding to the concerns hanging over a U.S. auto industry blistered by high gasoline prices and a weak economy.

Auto makers are to report September sales Wednesday, and the pace of new-vehicle deliveries is expected to keep tracking at about a 15-year low. Research firm J.D. Power & Associates estimates light-vehicle sales to fall to a seasonally adjusted annual pace of 12.6 million vehicles, compared with 16.2 million last September.

Such an outcome would shatter any notion that the auto industry hit bottom during the dismal summer selling season.

Since the industry hit the rocks last year, the sluggish demand largely has been pinned to an unwillingness of buyers to enter the new-car market when gasoline prices are escalating, and the economy is shaky. In recent months, domestic auto makers have mostly abandoned vehicle leasing, and lenders—many of whom are mired in red ink—have tightened terms on buyers.

Dusan Petricic

This is leading to hard times for already-struggling car companies as "decreased credit availability [is] constraining sales even at prime levels of credit quality," Goldman Sachs auto analyst Patrick Archambault said in a note last week.

John Bergstrom, owner of the Bergstrom Automotive Group dealership chain in Wisconsin, said the buyers having the most trouble affording a vehicle right now are the people who have owned a car for a few years and are looking for a new one. Because they have owned their car for a short period, these people don't have any equity and banks aren't financing loans that equal 100% of the value of new cars.

"The challenge is affordability," Mr. Bergstrom said. "People's bills are getting higher. And then they're squeezed on gasoline, and they're squeezed on milk and so forth."

Earlier this month, **General Motors** Corp., which had nearly 25% of the market in August, acknowledged that tighter credit conditions were crimping demand, costing the auto maker about 10,000 to 11,000 sales last month alone. When stretched out across the entire industry, the credit crunch could have pulled 40,000 vehicle sales from last month's total.

Steel demand ebbs amid credit crisis

By Robert Guy Matthews

Steelmakers in the U.S. are experiencing a sharp pullback from buyers who are spooked by the credit crisis and a slowdown in automobile and construction markets, causing inventories to rise and prices on some key products to drop 10%.

Although weakening demand and prices are being partially offset by falling raw-material costs, particularly of scrap, some steelmakers already are cautioning that robust earnings from earlier in the year won't be sustained in the year's second half.

"The instability of financial markets and the general slowdown in the commercial building sector are cause for concern in coming quarters," said George Stoe, chief operating officer for **Worthington Industries** Inc., an Ohio-based steel processor.

Demand for rebar steel, often used to build roads, bridges and office buildings, has fallen dramatically in the U.S. because some projects are being delayed or put on hold amid the uncertainty in financial markets, steelmakers said. Exports for rebar steel fell in July, after six straight months of increases, indicating that demand from foreign markets likely won't be a substitute for weak domestic growth.

The Precision Metalforming Association reported in its latest outlook that more incoming orders from steel fabricators, which shape and form steel for items such as appliances, are expected to drop over the next three months largely because of the uncertainty in the credit markets.

Steel service centers, which act as middlemen between steelmakers and steel end users, also are reporting that their inventories have been ticking steadily upward over the past few months. Steel users are limiting their steel purchases and only buying what they immediately need, fearing that they will be stuck with high-priced steel sitting in their factories.

"It is a smart move," said steel analyst Charles Bradford, of Bradford Research Inc. He pointed out that steel prices are falling and likely to continue to drop as steel service centers themselves cut purchases and work through inventories.

Hot-rolled steel, a basic building block for most all steel products, is selling for about $1,000 a short ton, off about $110 from earlier this year. That is still relatively high, which should cushion steelmakers' profits.

Many steelmakers are using the slowdown to schedule maintenance outages in hopes that demand will pick up later in the year. **ArcelorMittal**, the world's biggest steelmaker by production, said that it aims to reduce output by about 15% in certain countries this year. Other steelmakers are likely to follow suit.

Despite the gloomier outlook, some steelmakers said some markets that consume steel to make pipes and tractors, such as the energy and agriculture sectors, are expected to stay strong.

AIG to expedite approval of U.S. government deal

By Liam Pleven

American International Group Inc. said it will give the U.S. government control of 80% of the company without seeking shareholder approval, saying the board's audit committee determined that the "delay" needed to get shareholder approval "would seriously jeopardize the financial viability" of the company.

AIG also said in a filing with the U.S. Securities and Exchange Commission that it is paying about 130 executives cash awards as part of a retention program for the insurer, which received the right to borrow as much as $85 billion from the government this month in a deal to avert possible bankruptcy. AIG said in the filing that one executive, Jay Wintrob, AIG's executive vice president of retirement services, would receive a $3 million award. The awards are payable 60% in December and 40% in December 2009.


Maurice 'Hank' Greenberg

The company's decision to move forward without getting shareholder approval, which the company said Friday was blessed by the New York Stock Exchange, deprives shareholders seeking alternatives of potential leverage. Some shareholders have been trying to find a way to repay the loan before the government took the stake. As of Wednesday, AIG had borrowed $44.57 billion from the Federal Reserve, the central bank said.

AIG also said Friday that it had struck a deal to buy reinsurance—which is basically insurance for an insurance company—from a unit of **Berkshire Hathaway** Inc.

Also Friday, Maurice R. "Hank" Greenberg, AIG's former chief executive, and a group of affiliated shareholders disclosed that they had shrunk their stake just below a key regulatory threshold. Mr. Greenberg and affiliated shareholders said in a filing with the SEC that they now own 9.99% of AIG's shares after selling 40 million shares Thursday. Moving under the 10% level gives Mr. Greenberg more room to maneuver as a potential buyer. Under New York law, shareholders who control more than 10% of an insurer's shares must apply to the New York state Insurance Department before making moves seen as exercising control over the company. Below that threshold, "you have more freedom of action without checking with us first," said a spokesman for the state insurance superintendent.

For example, shareholders below that level could explore trying to buy the company with outside investors with less risk of triggering the requirement.

—Lavonne Kuykendall contributed to this article.

FDA further delays decision on clearing Lilly heart drug

By Ron Winslow

The U.S. Food and Drug Administration for a second time delayed a decision on whether to approve a highly anticipated heart drug, handing **Eli Lilly** & Co. another setback in its quest to bring a potential blockbuster to market.

Lilly and the drug's co-developer, **Daiichi Sankyo** Co. of Japan, said Friday that the agency's review of the drug prasugrel is "very far along" and that they "remain optimistic" about the drug's prospects. But Jennifer Stotka, Lilly's vice president for global regulatory affairs, said in a news release the companies "will not speculate on the timing or what the outcome will be" of the agency's prasugrel review. "This is a very large, complex submission, and it should not be surprising that delays occur," she said.

The FDA said it couldn't comment on the status of the application. A Lilly spokeswoman said she couldn't comment beyond the company's release.

Friday's decision, which the companies announced after the markets closed, drove Lilly shares down $1.87, or 4%, to $44.95 in after-hours trading. Some industry analysts, though, said they don't think the application is in trouble. "No news is no news," said Catherine Arnold of investment bank Credit Suisse Group.

Cardiologists and investors alike are awaiting a final decision with high anticipation. If approved, prasugrel will compete against Plavix, a blood thinner co-marketed by **Bristol-Myers Squibb** Co. and **Sanofi-Aventis** SA that last year had global sales of $8.5 billion. Lilly needs a big new drug to compensate for the expected loss of revenue when its top-selling drug, Zyprexa, which treats schizophrenia, loses patent protection in 2011.

In a major clinical trial that provided the basis for Lilly's and Daiichi Sankyo's application for approval, prasugrel proved superior to Plavix in preventing life-threatening blood clots in heart patients—including clots that form in tiny devices called stents that are implanted to prop open diseased coronary arteries. But prasugrel also was associated with a heightened risk of dangerous bleeding, especially in elderly and frail patients, compared with Plavix.

Doctors say weighing the risks and benefits for individual patients will be challenging, assuming the drug reaches the market.

"It's a fine line that we wrestle with between excess bleeding and the risk of a blood clot," said Chet Rihal, director of the cardiac-catheterization lab at the Mayo Clinic in Rochester, Minn.

A decision was initially due in June, but the FDA said then that new analyses filed by the companies required additional time to review. In other decisions made in recent months, the FDA appears to be giving safety concerns intense consideration. The agency also has said turnover among experts who review drug applications has undermined its ability to meet deadlines.

CORPORATE NEWS

Foster's appoints chief

Acting CEO gets job; Deutsche Bank takes 5.3% stake in brewer

BY SUSAN MURDOCH

MELBOURNE—Australia's **Foster's Group** Ltd. said acting Chief Executive Ian Johnston will take up the role permanently as **Deutsche Bank** AG disclosed it had built up a 5.3% stake in the country's biggest brewer, prompting hopes of a takeover.

Mr. Johnston, a director of Foster's, stepped into the role in July following the exit of Trevor O'Hoy after a profit warning that forced a review of the group's wine operations.

The timing of the announcements sparked speculation Foster's could be preparing for a takeover battle. However, a person familiar with the situation said Mr. Johnston's appointment was in the works prior to Deutsche Bank's disclosure and a short list of internal and external candidates had been made.

But with rumors Deutsche Bank had been accumulating shares for some weeks, it was a likely factor in Chairman David Crawford's decision. Foster's had previously said an appointment would be made before the end of 2008. However, finding a chief executive while simultaneously conducting the wine group review was expected to create a quandary.

Deutsche Bank's disclosure was made to the Australian Stock Exchange after the close of trade Thursday. Most of the stock was acquired in relation to lending arrangements and stock borrowing for clients. Under exchange rules, shareholders must disclose stakes once they exceed 5%. Foster's shares rose 5.8% Friday to 5.66 Australian dollars (US$4.73).

Foster's beer assets are likely to attract the attention of global brewers including **SABMiller** PLC, which already has a local brewing joint venture with **Coca-Cola Amatil** Ltd., and **Heineken Holding** NV, but analysts have said its wine business offers less appeal.

After hitting a four-year low in mid-July, shares in Foster's have gained more than 30%.

"It's a classic candidate for a strategic breakup of its beer and wine operations and that's been speculated for some time," said Angus Gluskie, a portfolio manager at White Funds Management in Sydney. "Deutsche's reasons may be long term; they—or whoever they're acting for—may have no immediate intent to do anything."

Mr. Johnston, 61 years old, had been on the Foster's board for less than a year, but had previously held executive positions in food and beverage companies. A spokesman for Foster's declined to comment on Deutsche Bank's move. Deutsche Bank wasn't available to comment.

—David Rogers in Sydney contributed to this article.

Associated Press

Deutsche Bank disclosed it had built up a 5.3% stake in **Foster's Group Ltd.**, Australia's biggest brewer, prompting hopes of a takeover.

EU presses U.S. over 'open skies'

BY JOSH MITCHELL

WASHINGTON—The European Union pressed the U.S. to ease restrictions on foreign ownership of U.S. airlines in the latest round of deregulation talks. But the meeting produced few substantive proposals, in part due to uncertainty over who will be the next U.S. president.

Negotiators from both sides met in Washington for three days this week to discuss additions to the trans-Atlantic "open skies" treaty that went into effect in March. Under the treaty, European carriers can operate flights to the U.S. from any city in the EU, and vice versa.

Briefing reporters in Washington on Friday, the EU's chief negotiator, Daniel Calleja, said the agreement has already led to additional trans-Atlantic flights and more options for travelers.

But he said further deregulation is needed to stabilize the struggling airline industry. His team is pushing for the U.S. to remove rules that limit foreign investment in U.S. airlines to 25%. Removing barriers to foreign ownership would lead to industry consolidation and a "restructuring" of airlines in the U.S. and Europe, a process he called necessary to help ailing airlines.

Mr. Calleja, director of the Air Transport Directorate of the European Commission, characterized the latest round of talks as "collaborative," but said they were marked by presentations from each side rather than negotiations.

Paul Gretch, director of the U.S. Department of Transportation's Office of International Travel, said the issues discussed were "difficult" and can't be resolved without negotiators knowing the policies of the next president and Congress.

The administration of President George W. Bush, he said, has generally favored easing restrictions on foreign ownership of airlines, but the current Congress has not. "It's unlikely the really hard, brass tacks negotiations can take place until after our election," Mr. Gretch said.

He added that an EU initiative to permit European airlines to fly between cities within the U.S. is unrealistic because it would require a change in international laws.

Security measures are also part of the discussions. Mr. Calleja said the EU will aim for "one-stop" security checks by creating a uniform set of rules to prevent multiple checks of bags in different countries.

He said tightening credit markets, high oil prices and other economic pressures make the need for further deregulation urgent. "I think it would be important to have an early conclusion of these negotiations," he said.

The two sides will likely resume talks in the spring. The EU has said if no agreement is reached before November 2010, the EU could suspend some rights given to U.S. airlines under the open-skies pact.

Nokia to roll out touch-screen phone

BY ROGER CHENG

Nokia Corp. is expected to unveil a high-profile touch-screen phone, known by gadget aficionados as the "Tube," on Thursday, according to industry analysts.

In introducing the device, the world's largest handset maker by shipments takes a stab at Apple Inc.'s iPhone, which set off a wave of copycat devices that attempted to emulate its sleek user interface. Nokia is the last of the major handset makers to put out a touch-screen cellphone.

"Nokia is under enormous pressure to deliver something that's good," said Carolina Milanesi, an analyst at Gartner Inc. "People have been waiting for this for over a year now."

The device, which will be called the Nokia 5800, emphasizes music first and is more of a multimedia player than a full-blown smart phone. Key to the device will be Nokia's Comes With Music software, which takes on Apple's iTunes store. A Nokia spokeswoman declined to comment.

With the Tube, Nokia will be entering a crowded field. Samsung Electronics Co. and LG Electronics Inc. have tried their hand with multiple touch-screen devices.

Motorola Inc. has its Ming product in China. Sony Ericsson plans to launch its Xperia X1, and Research In Motion Ltd. is working on a touch-screen BlackBerry.

GLOBAL BUSINESS BRIEFS

Alitalia SpA

Fifth union approves rescue; 4 others aren't yet on board

Alitalia SpA's Anpav union, representing mainly flight attendants, Friday became the fifth union to sign on to a government-brokered plan to rescue the airline through a sale to a consortium of investors. But four other unions, which represent pilots and flight crew, still hadn't come on board. Italy's largest union, CGIL, Thursday dropped its objections to the rescue plan, prompting an investor group led by businessman Roberto Colaninno to revive its €1 billion ($1.46 billion) offer for the carrier. Transport Minister Altero Matteoli said Friday that, although the accord would be weaker without the approval of all the unions, it was still poised to go ahead.

Arcandor AG

Shares in German retail and tourism company **Arcandor** AG fell to a record low Friday amid unease about a new refinancing deal and worries the company may have to sell assets at low prices. The company earlier in the week confused investors with conflicting statements about whether it plans to sell assets. Arcandor shares fell 24% to €1.91 ($2.79). The stock has shed more than 92% of its value over the past 12 months. Its retail operations have been hurt in recent years by overall weak German retail sales. The company's conflicting communication to investors and falling share price is likely to increase scrutiny of Chief Executive Thomas Middelhoff. The former CEO of Bertelsmann AG joined Arcandor, then called KarstadtQuelle, in 2005 and promised to turn the company around.

Deutsche Bahn AG

German national rail operator **Deutsche Bahn** AG said it is going ahead with an initial public offering despite the turmoil in global financial markets. It set Oct. 27 as the first day of trading of shares in its **DB Mobility Logistics** unit. The company plans to list 24.9% of the passenger transport, logistics and service unit in what the market expects to be the biggest IPO in Germany this year. Deutsche Bahn's chief executive, Hartmut Mehdorn, dismissed critics who said the IPO's timing was unrealistic given the market shakiness. "Despite the tough situation on the international financial markets, we are heading with confidence into the hot phase of the initial public offering," he said. "We have had a welcome number of positive responses to initial talks with potential investors," he said.

Qantas Airways Ltd.

Qantas Airways Ltd. poached a senior executive from the U.K.'s **Virgin Atlantic Airways** as it announced a shuffle of its senior management structure ahead of Alan Joyce's appointment as chief executive officer in November. Qantas said that Lyell Strambi, the current chief operating officer of Virgin Atlantic, will join the airline in a newly created role of executive general manager of operations from Dec. 1. The airline said Mr. Strambi will be responsible for the airline's engineering, pilots, airports, catering and flight-training divisions. The airline also promoted Bruce Buchanan, the current manager of commercial operations for Jetstar, to succeed Mr. Joyce as CEO of its discount carrier arm effective Oct. 1. The changes are being made ahead of Mr. Joyce succeeding Geoff Dixon on Nov. 28. Qantas said John Borghetti will remain an executive general manager at the airline.

Nomura Holdings Inc.

Nomura Holdings Inc. paid a nominal sum of $2 for the rump of **Lehman Brothers Holdings** Inc. in Europe and the Middle East, a person familiar with the situation said Friday. Earlier last week, Nomura said it had acquired Lehman's equities and investment banking franchises in Europe, which employ about 2,500, for a nominal sum that it didn't disclose. Separately, Nomura bought the Wall Street firm's operations in the Asian-Pacific region, with its 3,000-strong staff, for $225 million. A Nomura spokesman declined to comment further on the price it paid for the assets. The low prices reflect an effort by Lehman to save jobs.

InBev SA

InBev SA shareholders are scheduled to vote Monday on the company's takeover of U.S. beer giant **Anheuser-Busch** Cos., a deal that would create the world's largest brewer. InBev, which is based in Leuven, Belgium, is also asking shareholders to back a capital increase and the issuance of new shares to raise $10 billion to pay for part of the acquisition, which is valued at $52 billion. The deal, reached in July, would bring together the makers of Budweiser, Michelob, Bud Light, Stella Artois and Beck's. The new company's name will be Anheuser-Busch InBev. The transaction must be approved by InBev's shareholders.

KB Home

KB Home reported a sixth-straight quarterly net loss Friday amid weak demand for new houses. Orders fell 66% to 1,329 units in the home builder's fiscal third quarter. The company attributed the decline to the overall weak market and its own efforts to restrain development and hold the line on prices. For the three months ended Aug. 31, the Los Angeles home builder posted a net loss of $144.7 million, or $1.87 a share. The company had a net loss of $35.6 million, or 46 cents a share, a year earlier, when it booked a substantial gain on its sale of French assets. Revenue for the latest period dropped 56% to $681.6 million.

Hyundai Motor Co.

Hyundai Motor Co., South Korea's largest auto maker by revenue, Friday said its unionized workers have accepted the company's revised salary offers, sealing this year's wage deal. Hyundai welcomed the deal, which came after five months of negotiations with its union. Workers had been intermittently striking since July. Strikes held from July until Sept. 12 cost Hyundai 690.5 billion won ($596.1 million), Hyundai said. Hyundai will make a cash payment of four million won and give a 5.6% basic pay increase and three months of salary in performance-based pay to each worker. Work shifts will also be shortened.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

GERMANY

Airport raid spurs arrests of two men in terror probe


Associated Press

GERMAN police raided a plane in Cologne just before takeoff Friday and arrested two ethnic Somalis, saying they found a suicide note that claimed the men wanted to fight a holy war and die in a terror attack. A 23-year-old Somali man and a 24-year-old German man born in Somalia were removed from the plane without incident after the surprise raid at Cologne-Bonn Airport, a spokeswoman for North Rhine-Westphal state police said.

Katharina Breuer wouldn't reveal how authorities knew the men were on board, but said the 6:55 a.m. raid took place because of the alleged suicide note.

—Associated Press

AUSTRIA

Far-right parties gain in parliamentary election


Associated Press

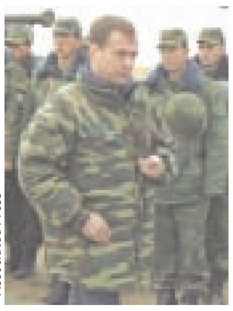
INITIAL projections from Austria's parliamentary elections indicate the Social Democrats are poised for victory, though the real winners may turn out to be the country's two far-right parties.

The SORA Institute for Social Analysis and Research said the Social Democrats had 29.8% of the vote, according to its preliminary projections after 82.7% of ballots had been counted. In second place was the People's Party, with a projected 25.6% of the vote, followed by the country's two right-wing groups: the Freedom Party with 18%, and the Alliance for the Future of Austria with 11%. The right's resurgence had been predicted by analysts.

—Associated Press

RUSSIA

Medvedev to upgrade nuclear-deterrence system


Associated Press

RUSSIAN President Dmitry Medvedev announced plans to create an upgraded nuclear-deterrence system for Russia by 2020, including a space-defense system and new nuclear submarines. He said the need for the upgrade was demonstrated by the conflict with Georgia last month.

"A guaranteed nuclear deterrent system for various military and political circumstances must be provided by 2020," Mr. Medvedev told Russian military chiefs after an exercise in the southern Urals region of Orenburg. He ordered commanders to present him with an action plan for implementing the changes by December.

—Reuters

Belarus opposition sees little gain at polls

Dissidents unswayed by democratic claims for Sunday's election

BY ANDREW OSBORN
Minsk, Belarus

HOW LONG does it take to dismantle a dictatorship? Belarus's autocratic president wants to convince the West that all it took was a three-month election campaign.

After 14 years of autocracy, Belarus on Sunday held an election that its president, Alexander Lukashenko, said was "unprecedented" in its fairness.

He allowed opposition candidates to take part in larger numbers than in the previous parliamentary vote, in 2004, and, unlike last time, left them unharrassed. A march Sunday by about 500 pro-democracy activists on Minsk's main thoroughfare was left unmolested by police—a change from two years ago when riot police used extreme violence to disperse a demonstration here to protest what observers called an unfair presidential election.

But opposition leaders maintain that beneath the showy gestures of loosening his grip, Mr. Lukashenko hasn't changed the rules at all.

"The decorations are being changed, but in principle nothing is changing," said Andrei Kim, an opposition activist recently released from prison. "Nobody really believes that people's votes will be counted."

The opposition said its members made up less than 1% of the country's 100,000 vote counters. In the five days before Sunday, people were allowed to cast their vote in advance, also raising fears of fraud.

For Mr. Lukashenko, the moment of truth will come Monday at a news conference by the Organization for Security and Cooperation in Europe at which its observers will pronounce their initial verdict.

Many leading opposition figures were in prison until a few months ago when the government freed them in a concession aimed at easing Western pressure on Belarus. But opposition activists report that they have had very limited access to the state-controlled media and little ability to campaign.

Alexander Milinkevich, another opposition leader, estimated Mr. Lukashenko's critics would win as many as 30 of the 110 seats in parliament in a truly fair election. He thinks Mr. Lukashenko will "appoint" up to five opposition candidates to please the West. "Our participation in these elections does not legitimize them," he said.

The elections pose a dilemma for the U.S. and Europe, which are eager to counter Moscow's influence in former Soviet states but have few truly democratic leaders in the region to support.

After years of manipulating the levers of a neo-Soviet state to repress his opponents, Mr. Lukashenko, a former Soviet farm boss, has begun to woo the West by allowing greater political freedom. Heightened geopolitical tensions with Russia may make him, an on-off Russian ally, a man worth wooing.

Mr. Lukashenko wants the West to lift financial and travel sanctions and to begin investing in an economy that has been propped up by billions of dollars of Russian subsidies in the form of cheap natural gas. But his intelligence service—still called the KGB—has repressed his opponents so thoroughly for so long that he is discovering that he can't create a viable opposition out of thin air.


Associated Press

Belarussian President **Alexander Lukashenko** said the parliamentary election Sunday was fair, but opposition leaders said little has changed.

"Their level of support is in the margin-of-error zone," Mr. Lukashenko told state TV before the vote. In words that would have been unthinkable even a year ago, he said that it might "even be good" if a few opposition candidates got seats—and that he wouldn't intervene to ensure that happened.

With a record of polls that the OSCE has called unfair, even electoral officials have trouble maintaining the appearance of neutrality. "Our opposition is a phantom," said Lidia Yermoshina, head of the Central Election Commission. "It doesn't really exist." She said the opposition amounted to not more than 1,400 people in a country of ten million.

"We're not expecting miracles," she said, talking of likely international reaction to the vote. A signal that progress and effort were made would be enough, she said.

Western analysts said the opposition has been cowed by an atmosphere of fear that has reigned in Belarus for years. Instead of one single opposition leader, there are at least three.

Some opposition members boycotted Sunday's vote in protest. Most said Mr. Lukashenko had pushed through some changes that made life easier for them—to campaign without harassment and to pitch their programs on state TV, albeit for only 10 minutes. But they said that the changes only scratched the service and that there had been no real campaign.

Another recently released political prisoner, Alexander Kozulin, said opposition candidates' programs appeared in small-circulation local newspapers only—not in the main pro-government "Soviet Belarus" newspaper. Opposition posters were restricted to small official notice boards, he said.

"This is all about Lukashenko clinging to personal power," he said.

Merkel ally is set back in Bavarian election

ASSOCIATED PRESS

BERLIN—Bavaria's governing conservatives were likely to lose their decades-old monopoly on power in a state election Sunday, projections indicated—a stinging setback for an important ally of German Chancellor Angela Merkel a year before national elections.

The conservative Christian Social Union was set to win 43% of the vote in Bavaria—down sharply from 61% five years ago—according to projections based on exit polls and early results for ARD and ZDF television. That likely would leave the CSU needing a coalition partner to run Bavaria for the first time in 46 years.

"It's a black day for the CSU," party General Secretary Christine Haderthauer said on ARD TV.

The projections found the center-left Social Democrats stuck at about 19%. The CSU appeared to have bled votes to two center-right rivals: the pro-business Free Democrats, with 8%, and the Free Voters, with 10% or more. Neither had seats in the previous state parliament.


Angela Merkel

The Greens were projected to win about 9%, while the new Left party was just short of the 5% needed to win seats.

The CSU—the Bavaria-only sister party to Ms. Merkel's Christian Democratic Union—has run the prosperous southern state since 1957 and has held an absolute majority in the state legislature since 1962.

The projected result could undermine Gov. Günther Beckstein and party leader Erwin Huber—triggering turbulence as Germany looks toward a national election next September. Bavaria traditionally has been an important source of votes for Ms. Merkel's conservative bloc in national elections, in which the CSU and the chancellor's CDU campaign together. The CSU's crushing victory five years ago came when an unpopular center-left government ran Germany, but the CSU is now part of Ms. Merkel's awkward "grand coalition" government of right and left in Berlin.

Under the CSU, Bavaria and particularly its capital, Munich, have become Germany's high-tech center.

However, in recent years, the party has suffered from problems including an unpopular reform of the school and administrative system, a messy change of leadership, a clumsily introduced smoking ban and losses at state-owned bank BayernLB.

CAPITAL JOURNAL ▪ GERALD F. SEIB

True tension in U.S. election surfaces in foreign-policy debate

FOR ALL THE startling news about the state of the financial markets preceding the first U.S. presidential debate Friday night, it was the state of the world that actually produced the drama, tension and real differences between the two men who would be president.

Fully half of the debate bumped along with Sen. Barack Obama and Sen. John McCain gently disagreeing—sometimes even gently agreeing—about what to do concerning the meltdown on Wall Street and its ripple effects.

Certainly they disagreed about tax cuts for corporations and the government's role in health care, but Sen. Obama said Sen. McCain was "absolutely right" often enough that bipartisanship actually seemed ready to break out.

But when moderator Jim Lehrer finally got to the world beyond Wall Street and the congressional offices where a Wall Street bailout is being negotiated, the real tension in this race for the White House became clear. Sen. McCain defended the war in Iraq; Sen. Obama gave no ground in condemning it as a waste of blood and treasure.

Sen. McCain said the U.S. will exit Iraq with honor and dignity. Sen. Obama said the conflict has cost 4,000 lives needlessly and imperiled the broader war against terrorism. Sen. McCain said Obama policies would have produced defeat in Iraq. Sen. Obama said McCain policies produced years of flailing and bloodshed there.

Suddenly and dramatically, the presidential campaign seemed to return to where it began many months ago. John McCain entered the fray as the candidate most prepared to defend the war in Iraq as the right fight in the right place at the right time. Barack Obama entered the same campaign as the candidate most willing to condemn the war in Iraq as the wrong fight in the wrong place at the wrong time.

With less than six weeks to go before Election Day, they were back where they started.

BUT IT WASN'T only Iraq. There were deep differences about negotiating with Iran, where Sen. McCain called Sen. Obama's impulse to engage Iran's leaders "naive" and "dangerous." Sen. Obama countered that President Bush's style of diplomacy, fully embraced by Sen. McCain, allowed both Iran and North Korea, through years of what he described as malign neglect by the U.S., to become more armed and more dangerous.

Sen. McCain portrayed his opponent as inexperienced and gullible. Sen. Obama nearly—though not quite—called his opponent reckless, at one point gently reminding the nation that Sen. McCain has talked about "extinction for North Korea" and has even reeled off a "song about bombing Iran."

Only on the threat from a resurgent Russia, and the threat it poses to the former Soviet republic of Ukraine, was there something approaching clear agreement on a problem atop the American priority list.

If anyone in the hall at the University of Mississippi, or in the national television audience, thought there was little difference in the world views of the two candidates, the second half of the debate should have shattered the notion. They made little effort to hide the distinctions.

The contrast with the first half of the debate, devoted largely to the crisis gripping Wall Street and how it will affect the broader economy, was stark. In that session, Sen. McCain seemed intent on stealing the two themes that have been the hallmark of Sen. Obama's candidacy—hope and change—in explaining how he would respond.

Suddenly Sen. McCain, widely portrayed in recent days as erratic and angry in his response to the collapse of Wall Street firms and the proposal to rescue them, was a beacon of hope.

Though he departed Washington with bipartisan negotiations on a rescue package teetering, Sen. McCain said he was confident a package would be approved soon. Though the pictures of Washington in the past two days were largely of a capital gripped by partisan bickering over that rescue package, he proclaimed bipartisanship was emerging from the mess. And though the theme has caused him great grief in recent days, he returned to his declaration that the American economy is fundamentally sound despite the shock waves moving through it.

AND FOR HIS part, Sen. Obama was caustic about the tax cuts Sen. McCain has proposed, saying they are both unaffordable and particularly ill-suited for a time when the country is talking about spending billions to bail out financial businesses.

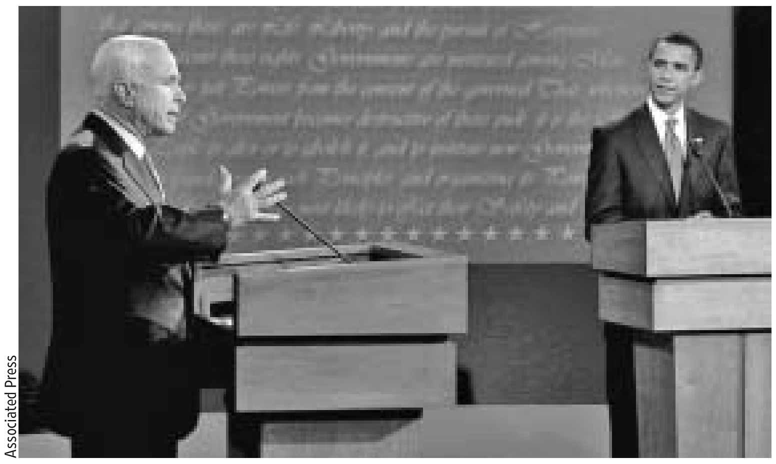
Yet it was the argument about America's role in the world for which this debate is more likely to be remembered. The deepest question about both candidates throughout the campaign has been about how they would project American power, and whether the McCain approach would be too strident, and the Obama approach too reserved. Would the McCain approach overemphasize confrontation and shortchange diplomacy? Would the Obama approach overemphasize diplomacy and shortchange strength?

They didn't resolve the questions in the debate, but rather illuminated them. In the closing minutes, Sen. McCain said his foe doesn't have the "knowledge or experience" to run national-security policy. Sen. Obama said his opponent doesn't seem to understand that it has been a mistake to focus so much American time and treasure on Iraq when, "In the meantime, [Osama] bin Laden is still out there." The differences are real, and weren't hidden on the Mississippi stage Friday night.

Candidates spar on Iraq

Testy first debate highlights contrasts; no knockout punches

BY LAURA MECKLER, ELIZABETH HOLMES AND AMY CHOZICK



Associated Press

Sens. John McCain and Barack Obama had testy exchanges over Russia, Iraq and Iran in their first presidential debate Friday night at the University of Mississippi.

Sens. John McCain and Barack Obama showcased different priorities for the U.S. economy and foreign policy in the first of three presidential debates, an event that featured sharp exchanges, some agreement, and no knockout punches or major gaffes.

Their divergent views on the war in Iraq produced some of Friday's sharpest displays. Sen. McCain chastised Sen. Obama for opposing an increase in troops that helped turn the war around. Sen. Obama slammed Sen. McCain for supporting the war in the first place.

The Iraq dispute underscored the fundamental messages each candidate hoped to communicate in the foreign-policy debate. The 72-year-old Sen. McCain, the Vietnam war hero, tried to paint his 47-year-old rival as dangerously naive, while Sen. Obama tried to paint his rival as a dangerous hawk.

"There are some advantages to experience and knowledge and judgment, and I honestly don't believe that Sen. Obama has the knowledge and experience," Sen. McCain said at the debate's close. "I don't think I need any on-the-job training. I'm ready to go at it right now."

Earlier, Sen. Obama blasted Sen. McCain for off-the-cuff hawkish statements. "John, you're absolutely right that presidents have to be prudent in what they say," he said, addressing his opponent directly. "But coming from you who in the past have threatened extinction for North Korea and sung songs about bombing Iran, I don't know how credible that is."

The financial crisis turned the debate into one covering domestic issues, too. Much of it half centered on the economy, letting the men discuss taxes and spending.

The candidates met amid a crisis rocking the nation's financial infrastructure, and the moment transformed the debate—which was supposed to be devoted entirely to foreign policy and national security—into a clash over their domestic agendas as well. Much of the first half centered on the economy, giving each candidate the chance to spotlight his intentions regarding taxes and spending.

In addition to contrasting agendas, the 90-minute event showcased their differing styles, with Sen. McCain more folksy and quick to dispense a joke or an anecdote. Sen. Obama seemed sharper than in some past debates, quick on the attack and seemingly unintimidated by his rival's greater number of years on the world stage.

The debate featured numerous testy exchanges.

In contrasting economic agendas, Sen. McCain repeatedly vowed to eliminate federal spending sought out by special interests, while Sen. Obama highlighted his promise of a middle-class tax cut.

Sen. Obama, who was offered the first question on the economy, came out fighting, in effect blaming Sen. McCain for the crisis and tying him to the unpopular President George W. Bush, a crucial part of the Democrat's strategy in this campaign.

Sen. McCain turned a good portion of the debate on the economy into a discussion of one of his long-time crusades to curb "earmarks," referring to special-interest budget items. He said he would freeze nearly all discretionary spending to hunt for waste. And he slammed Sen. Obama for requesting hundreds of millions of dollars in earmarks himself.

"The first thing we have to do is get spending under control in Washington," he said. "It's completely out of control."

Both men worked to personalize the war, and each pointed to a bracelet he wears as a reminder of a young man who died in the war. Sen. McCain's bracelet came from a mother who doesn't want her son's death to have been in vain. Sen. Obama's came from a mother who asked that he prevent other mothers from suffering the same loss.

Sen. Obama suggested that the war in Iraq had become a distraction to the battles in Afghanistan. "We took our eye off the ball," Sen. Obama said, suggesting the need to use the military "wisely" and calling the current situation a "strategic mistake."

Presidential debates are often infused with drama, but Friday's session at the University of Mississippi was more dramatic than usual. It came a day after a tense White House meeting that included both of the contenders, as they wrestled over a $700 billion bailout package aimed at containing turmoil in financial markets.

Sen. McCain didn't make up his mind to attend the long-scheduled debate until mid-morning Friday, having originally promised to stay away if there were no agreement on the Wall Street bailout package.

The first debate came with just over five weeks before the election. Most polls show a tight contest. While Sen. Obama generally enjoys a slight edge, four in 10 of all voters said the debates would be important in making up their minds, according to last week'sWall Street Journal/NBC News poll.

According to rules agreed upon in advance, this first debate was to focus on foreign policy and national security. But it came after two weeks of economic turmoil, and the moderator, PBS anchor Jim Lehrer, said he didn't consider the dominant news of the day to be off limits.

The fact that much of the debate dealt with economic and domestic issues was in itself a boon to Sen. Obama, who is trusted more on these issues by voters, according to many polls. Foreign policy is considered Sen. McCain's strength.

In the early economic rounds, both candidates sought to represent Main Street rather than Wall Street with a populist bent. There were few differences over the bailout package, as both men have pressed for the same things.

When pressed about whether or not he would support the package, Sen. McCain said "sure," with an added, "I hope so." Sen. Obama also hedged, turning his answer into a critique of the current regulatory system.

Sen. McCain turned much of the economic discussion into a discussion of government waste. "I've got a pen," he said, raising one in his hand, "and I'm going to veto every single spending bill that comes across my desk" containing earmarks. For members of Congress who insert earmarks, "I will make them famous. You will know their names."

Unstated was that many members of Congress brag about the home-state projects that earmarks often represent, and may in fact be happy to have their work publicized.

Sen. Obama replied that earmarks, while often egregious, represent only a small portion of the total budget and would pay for a fraction of the McCain tax-cut plan.

Both candidates came into the campaign touting themselves as men who could change politics and transform the partisan divide that has marked Washington in recent years. Sen. McCain argued that Sen. Obama has little record to prove it.

—Corey Dade, T.W. Farnam and Brad Haynes contributed to this article.

U.S. Navy tracks pirates

Destroyer shadows hijackers off Somalia holding arms, crew

BY CHIP CUMMINS AND SARAH CHILDRESS

A U.S. Navy destroyer over the weekend caught up with pirates who commandeered an arms-laden cargo ship off the coast of Somalia, increasing pressure on the attackers in a standoff that began Thursday.

A Navy spokesman said the guided-missile destroyer USS Howard was maintaining visual and radio contact with the Faina, a Belize-flagged, Ukrainian-owned vessel that was carrying an arms shipment to Kenya. The ship was anchored Sunday near the central Somalia port of Hobyo, the Navy said.

The ship's cargo—tanks and other arms—is the most valuable known haul by organized bands pirates who prey on ships in the Gulf of Aden and along Somalia's east coast. Local pirates typically demand ransom for hijacked ships, crew and cargo.

The U.S. dispatched the Howard to track the vessel after it was attacked Thursday. Moscow said it was also sending a ship to the region after the hijacking. Still, it isn't likely the pirates would have been able to offload the heavy military equipment, even if the U.S. Navy wasn't watching them.

Lt. Nathan Christensen, a spokesman for the U.S. Fifth Fleet, based in Bahrain, said the pirates are conducting negotiations with the vessel's owner over the fate of the ship.

The Associated Press reported late Sunday that the captain of the cargo ship, speaking by satellite phone, said one crew member had died of hypertension. Lt. Christensen said he was aware of reports of a death aboard, but couldn't confirm them. "We're actively monitoring the situation," he said.

In a statement, the Fifth Fleet said two previously pirated vessels, the Capt. Stefanos and the Centauri, were anchored near the Faina.

The Navy said the Faina was owned by Kaalbye Shipping Ukraine and was carrying a cargo of T-72 tanks, a Russian model, and related equipment. The ship's crew included Ukrainian, Russian and Latvian sailors. The Ukrainian shipping company wasn't immediately reachable for comment.

U.S. Navy

Small boats cluster near the Ukrainian cargo ship Faina, **seized by pirates** off Somalia Thursday. A U.S. Navy destroyer caught up with the ship over the weekend.

Kenya's government said in a statement it wasn't negotiating with the pirates, but that efforts to recover its military cargo were "going on well."

The hijacking is the latest in a series along the Horn of Africa. The rising number of attacks this year in the Gulf of Aden, one of the world's busiest shipping lanes, have sent insurance rates higher for many ship owners along the route.

In August, the U.S. Navy designated a special patrol area in the gulf to help thwart pirates, but attacks have continued. The French military has intervened twice in the region. Last week, two unidentified boats menaced an American naval replenishment oiler, which fired warning shots to ward them off.

Piracy off Somalia also is disrupting the shipment of food aid to the country. "It's been an extreme challenge," said Peter Smerdon, a spokesman for the World Food Program in Nairobi. The group ships 90% of its food to Somalia by sea, but the increased threat of hijacking has left many carriers unwilling to make the trip.

The WFP says more than three million people in the country now need aid, a 70% increase since January. Rising global food prices and worsening economic conditions in Somalia, which for years has lacked a working central government, have exacerbated aid needs.

The increase in piracy attacks is "coming at a time that we need to double the tonnages we're taking to Somalia every month," Mr. Smerdon said.

After several pirate attacks in 2005 and 2007 on ships making WFP runs, shipping companies have been reluctant to make the trip unaccompanied, he said. Last year, the WFP was forced to cut in half the amount of aid it shipped.

Beginning last November, ships carrying WFP aid have been escorted by French, Danish and Dutch navy ships. Canadian ships are now escorting shipments, but their tour of duty is set to end late next month. The WFP has been unable to line up new volunteers, putting the shipments in jeopardy.

Money & Investing

Sharing the pain

More CEOs are pledging to take less pay or drop perks in a downturn > **Page 17**