News in Depth: Food companies cook up ways to combat rare sales slump

THE WALL STREET JOURNAL.

VOL. XXVII NO. 56 | EUROPE | WEDNESDAY, APRIL 22, 2009

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What's News

Banks need $875 billion

IMF says U.S., Europeans must raise more capital as huge losses loom

By Bob Davis And David Enrich

WASHINGTON—U.S. and European banks need to raise $875 billion in equity by next year to recapitalize banks to a level similar to the years before the current crisis—and twice that amount to match the level of the mid-1990s, the International Monetary Fund estimated.

The steep funding requirements reflect a financial crisis that continues to deepen with the global recession, the IMF said. The banking sector's woes have spread from the housing sector to commercial real-estate loans and emerging-market debt. Overall, the IMF estimates that the U.S., European and Japanese financial sectors face losses of about $4.1 trillion between 2007 and 2010. Of that, banks are confronting $2.5 trillion in losses, insurers $300 billion and other financial institutions $1.3 trillion.

The banking sector has already written down $1 trillion of those losses, said the IMF, which didn't estimate how much other financial firms, such as insurance companies and hedge funds, have written down thus far.

"Without a thorough cleansing of banks' balance sheets of impaired assets, accompanied by restructuring and, where needed, recapitalization, risks remain that banks' problems will continue to exert downward pressure on economic activity," said the Global Financial Stability Report, the IMF's twice-yearly review of the financial sector.

While problems in the U.S. mortgage sector are generally blamed for the global financial crisis, the IMF report shows that other regions played a big role too. About $2.7 trillion of the losses from 2007 to 2010 were attributable to the U.S. market, the IMF reported, while about $1.2 trillion came from bad loans and securities losses in Europe.

U.S. banks have written down roughly half their anticipated $1.06 trillion in estimated losses from 2007 to 2010, the IMF said, while euro-zone banks have written down just 17% of their $900 billion in losses. British banks have written down about one-third of their $310 billion in

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Thousands flee Sri Lanka violence as army advances on rebels

Associated Press

CAUGHT IN THE MIDDLE: Ethnic Tamil civilians who escaped Tamil Tiger-controlled areas have streamed into a 'no-fire zone' this week. Still, many civilians remain caught in the crossfire, and thousands have died as Asia's longest-running civil war nears an end. **Page 12.**

Russian Web firm seeks to protect control

By Gregory L. White

MOSCOW—Russia's most prominent Web player, **Yandex** NV, is in discussions to give a state company the power to veto any change in its control as it seeks to ensure its independence amid growing Kremlin calls for more control over major local Internet companies.

The proposed deal, which would be the first of its kind, highlights the complex business and political environment Russia's Internet companies are encountering now that the fast-growing sector has attracted Kremlin attention.

In recent weeks, President Dmitry Medvedev and other Russian officials have highlighted what they called the "strategic" nature of major Russian Internet companies, warning that foreign control over them could be a security concern.

But Russian laws limiting foreign investment don't cover the sector, leaving it in a murky middle ground where rules aren't clear and sensitive deals can be blocked on technicalities, industry officials say.

Yandex officials hope their approach will provide a transparent and simple mechanism for Russian authorities to exercise control over any significant change in Yandex's ownership without ceding any other powers to the state.

"We understand the government has concerns," said Yandex CEO Arkady Volozh, who is also a major shareholder of the privately held company. "Our main goal is to create a transparent scheme we can explain to shareholders."

Yandex's other major shareholders include management and several Western investment funds. While the authorities are concerned primarily about foreign takeover, Yandex has also expressed fears that a local buyer also could threaten the company's success. Last year, a local tycoon with close ties to the Kremlin sought to buy a stake, but Yandex was reluctant and the deal fell through.

Russia's leading search engine, Yandex is well ahead of global giant Google Inc. in local market share, according to industry analysts.

Despite its tight grip over national print and television media, industry officials say the Kremlin has generally remained true to its public pledges not to try to block Internet content. But officials are increasingly concerned that a major local player could wind up in the hands of foreign investors.

Foreign investment in search engines and social networks is "inevitable," Mr. Medvedev said earlier this month. "We need to watch

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Tesco: consumer spending on rise

By Cecilie Rohwedder

LONDON—Retailer **Tesco** PLC Tuesday reported strong profits for its latest fiscal year and became the most prominent of a small group of retailers now saying the worst of the global recession appears over.

Britain's largest retailer by revenue, which operates in Europe, Asia and the U.S., predicted a fledgling rebound in global consumer spending along with growing sales and profit for its fiscal 2009.

"We are seeing signs of things stabilizing in a number of markets," said Terry Leahy, Tesco's chief executive, citing evidence of an economic stir in China, Central Europe and the U.K. But he cautioned that "it's too early to call it a recovery."

Tesco's view that consumer sales have bottomed stands out from larger competitors that don't expect a sustained consumer-spending slump. **Carrefour** SA of France, a Tesco competitor that is the world's second-largest retailer by sales after **Wal-Mart Stores** Inc., last week posted its first quarterly sales drop in six years.

Retailers across the globe are suffering as cash-strapped consumers cut back or switch to lower-priced goods. Wal-Mart Chief Executive Mike Duke said last week

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Inside

Poll positioning

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	7969.56	+1.63
Nasdaq	1643.85	+2.22
DJ Stoxx 600	190.20	+0.14
FTSE 100	3987.46	-0.09
DAX	4501.63	+0.34
CAC 40	2973.94	+0.15
Euro	$1.2956	+0.28
Nymex crude	$46.51	+1.37

LEADING THE NEWS

Obama open to action against memo authors

U.S. president says CIA tactics reflect loss of moral bearings

BY JONATHAN WEISMAN

WASHINGTON—U.S. President Barack Obama on Tuesday left open the possibility of legal action against Bush administration officials who formulated policies that led to "enhanced interrogation techniques"—which critics have called torture.

Meeting with Jordan's King Abdullah, Mr. Obama said he hasn't changed his position that employees and contractors of the Central Intelligence Agency should not be prosecuted for the techniques spelled out in documents released by his administration last week, such as waterboarding, slamming detainees against a "flexible false wall," or confinement in a box with insects.

But Mr. Obama drew a distinction between those who carried out the policies and those who formulated them. He said the Justice Department is looking into the Bush-era memos that authorized the interrogation tactics and that he did "not want to prejudge" the outcome of that examination.

Barack Obama

Mr. Obama's statement was a shift from a position taken by White House Chief of Staff Rahm Emanuel. On ABC's "This Week" Sunday, Mr. Emanuel said the White House's opposition to prosecutions extended not only to CIA officials but also to "those who devised the policy."

The president on Tuesday came close to endorsing an independent, bipartisan commission to examine the use of harsh interrogation tactics in the wake of the terrorist attacks of Sept. 11, 2001. Rather than public hearings in Congress, which could break down in partisan recrimination, he said "a more sensible approach" would be a bipartisan examination that would include "independent participants who are above reproach."

Mr. Obama cautioned that he wasn't saying such an effort "should be done." But his positive words could bolster calls from senior Democrats in Congress for a "truth commission" to look back at the previous administration's policies in what former President George W. Bush called the global war on terror.

Mr. Obama said last week's release of the interrogation memos was "one of the tougher decisions I've had to make as president."

CIA Director Leon Panetta had pushed for more extensive redactions from the memos, squaring off against Attorney General Eric Holder, who favored disclosure. Ultimately, Mr. Obama sided more with his attorney general, arguing that much of the information was already public. White House spokesman Robert Gibbs on Monday cited a recent article in the New York Review of Books.

Republicans have harshly criticized Mr. Obama over the memos' release. Former Vice President Dick Cheney, former House Speaker Newt Gingrich and others have called the move a security breach that amounts to a tutorial on U.S. tactics for its enemies and a propaganda coup for al Qaeda.

Liberals and civil libertarians have taken the opposite tack, excoriating the president for refusing to prosecute CIA officials who conducted the interrogations, including 266 rounds of waterboarding—or simulated drowning—on two al Qaeda leaders alone.

Mr. Obama said Tuesday that the memos "reflected, in my view, us losing our moral bearings. That's why I've discontinued those enhanced interrogation programs."

He said it would be inappropriate for those who acted based on "legal opinions or guidance that had been

Republicans have harshly criticized Mr. Obama over the memos' release.

provided from the White House" to be prosecuted. As for possible legal action against those who formulated that guidance, "that is going to be more of a decision for the attorney general, within the parameters of various laws, and I don't want to prejudge that," Mr. Obama said.

CORRECTIONS & AMPLIFICATIONS

No bank has moved out of Canary Wharf, and **Bank of America** Corp. has no immediate plans to leave the office district and is evaluating its options. An April 15 Property Report article about **Songbird Estates** PLC, which owns a 61% interest in Canary Wharf Group PLC, incorrectly said that Bank of America had exercised an option to get out of Merrill Lynch's lease.

Rents Canary Wharf Group charged in 2008 achieved an increase of 12% over the previous average rents of £41 per square foot. The article incorrectly said the company's average rent is £54.49 per square foot and that new tenants were paying 18% less than average. In addition, the company's average unexpired lease term is 18 years, not 15.2 years, as stated in the article.

Songbird's net assets dropped 80.4% in 2008 to £459.7 million. The article incorrectly said the total value of Songbird's assets fell by that amount. Also, Songbird's debt service last year was £253.4 million, not £470.5 million as stated in the article.

WPP has sued digital ad firm **Spot Runner** Inc., claiming two company founders and other shareholders committed fraud by selling $54 million of their holdings in Spot Runner without disclosing the sales to investors. An Advertising article Monday incorrectly said WPP alleged that the founders and some shareholders sold $40 million of their holdings.

"The Horse as a Courtly Motif in Art" is on exhibit at the Kunstmuseum Liechtenstein in Vaduz, Liechtenstein. The Weekend Journal Time Off listing on April 17 incorrectly said the show was at the Liechtenstein Museum in Vienna.

INDEX TO PEOPLE

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

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

INDEX TO BUSINESSES

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

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

Editeur responsable: Daniel Hertzberg M-17936-2003

LEADING THE NEWS

Wiretap irks lawmaker

Harman reportedly agreed to help case of pro-Israel lobbyists

By Peter Spiegel

WASHINGTON—Rep. Jane Harman asked the Justice Department to release wiretap transcripts of her conversations, following published reports that she was caught on tape agreeing to seek leniency for two pro-Israeli lobbyists under investigation for espionage.

In a letter to Attorney General Eric Holder sent Tuesday, Ms. Harman said the eavesdropping on her conversations was an "abuse of power." Ms. Harman, the former top Democrat on the House Intelligence Committee, also denied contacting law-enforcement agencies to influence the George W. Bush administration's inquiry.

"Let me be absolutely clear: I never contacted the Department of Justice, the White House or anyone else to seek favorable treatment regarding national security cases on which I was briefed, or any other cases," the California lawmaker wrote in the letter.

According to the published accounts, first reported by Congressional Quarterly, Ms. Harman appeared to agree to push for leniency for the two employees of the American Israel Public Affairs Committee in exchange for help gaining the chairmanship of the intelligence panel. The recordings were reportedly made by the National Security Agency. It's not clear precisely what the agency was monitoring.

In the transcripts, Ms. Harman was reportedly told that a major Democratic donor could be convinced to cut off contributions to Rep. Nancy Pelosi (D., Calif.) in order to pressure her to give Ms. Harman the intelligence chair once Democrats gained control of Congress. Ms. Harman failed to get the intelligence post after a fight within the Democratic caucus, and now heads a subcommittee.

In her letter to Mr. Holder, Ms. Harman does not deny speaking to advocates for the AIPAC lobbyists. But she said she took no action on their behalf. Ms. Harman didn't address the question of whether she used the matter to further her ambition of running the committee.

Ms. Harman said conversations with advocates are part of routine congressional work, and called on Mr. Holder to investigate whether other members of Congress were subject to eavesdropping by executive-branch agencies.

"As you know, it is entirely appropriate to converse with advocacy organizations and constituent groups, and I am concerned about a chilling effect on other elected officials who may find themselves in my situation," Ms. Harman wrote.

The two former AIPAC employees, Steven J. Rosen and Keith Weissman, have been charged in federal court in Virginia with espionage. Authorities alleged they passed on information they learned from the Bush administration to journalists. The trial of the two men, who pleaded not guilty, is scheduled for June.

Spain prepares bailout fund for regional savings banks

By Jonathan House

Miguel Ángel Fernández Ordóñez

MADRID—Spain is preparing a bank bailout fund but will likely shy away from making politically difficult changes to the country's unlisted savings banks, which have strong ties to local communities and businesses, Bank of Spain Gov. Miguel Ángel Fernández Ordóñez said.

"We need an instrument to help us manage bank restructurings without the need for government approval," he said.

Late last month, the Bank of Spain took over management of Caja Castilla Mancha, a savings bank, and provided it with a €9 billion ($11.63 billion) liquidity line in its first bailout of the financial crisis.

The move required the government to call an emergency cabinet meeting to approve the use of public funds.

As a result, the Bank of Spain is now advising the finance ministry on legislation that would create a new bailout fund that would be financed, in part, by taxpayer money.

Mr. Fernández Ordóñez said this legislation would be unlikely to make changes to the legal structure of Spain's savings banks, which are thought to be more vulnerable to the crisis than their listed peers.

Turkey arrests al Qaeda suspects in crackdown

By Nicholas Birch

ISTANBUL—Turkish antiterror police arrested 37 al Qaeda suspects in the latest crackdown aimed at extremists planning attacks in Turkey.

In raids just after dawn, security forces detained 20 in suspected cell houses in central and southern Turkey, the official news agency Anatolia reported. Fourteen of the suspects were arrested in Gaziantep, a city near the Syrian border that police say is the hub for militants traveling to and from Iraq.

The media said one of the men arrested had commanded the local cell since January. In a related operation in Kahramanmaras, police arrested 17 alleged members of an unnamed group with suspected links to al Qaeda and continued to look for three others, Anatolia said. Police declined to comment on operations, which come a fortnight after police in a western Turkish city arrested seven other al Qaeda suspects.

A secular Muslim country and North Atlantic Treaty Organization member with 800 soldiers in Afghanistan, Turkey has cracked down on al Qaeda-linked groups since November 2003, when 63 people died in four truck-bomb attacks in Istanbul that targeted two synagogues, the British consulate and a British bank. Seven men were jailed for life in 2007 for the bombings, including a Syrian national who masterminded the attacks.

Police have speeded up operations since July, when three policemen and three assailants died in a gun battle outside Istanbul's U.S. consulate.

CORPORATE NEWS

Interest grows for new engine design

Peugeot, Honda and other car makers look into 'Scuderi' technology as industry looks for fuel-saving options

BY NEAL E. BOUDETTE

WEST SPRINGFIELD, Mass.—On Easter Sunday in 2001, Carmelo Scuderi called his family together in his home here and announced, essentially, that he had outsmarted the world's auto makers and their billion-dollar research departments.

The retired engineer and inventor told his children and grandchildren he had developed a dramatically more fuel-efficient design for the internal combustion engine, something car companies have been chasing for decades.

Eight years later, the late Mr. Scuderi's revelation no longer seems as far-fetched. His design—which involves grouping an engine's cylinders in pairs, with each pair focusing on specific tasks—is gaining attention in an auto industry that is now more open to fuel-saving innovations.

A half dozen or so car makers, including France's **PSA Peugeot Citroën** SA and **Honda Motor** Co. of Japan, have signed nondisclosure agreements with the Scuderi Group, the company founded by Mr. Scuderi's family, to be able to study the technology closely, said consultants who are working with the firm. **Daimler** AG of Germany and **Fiat** SpA of Italy also are looking at the Scuderi design, executives at those companies confirmed.

"We have looked at their simulations and their [research] papers and it is worth looking into further," said a Daimler scientist familiar with the matter. "There is realistic potential here."

Honda declined to comment.

Robert Bosch GmbH, a giant German auto supplier with expertise in engine components, is developing parts for the Scuderi prototype, with the hope the engine will someday make it into production.

Scuderi Engine

Scuderi Group unveiled a prototype of its fuel-saving engine Monday. Car makers including Honda and Daimler have shown interest.

On Monday in Detroit, the Scuderi Group, owned by Mr. Scuderi's wife, five sons and three daughters, unveiled a prototype engine, the next step toward proving that the design works.

The Scuderi engine still needs to pass many tests. Auto companies are bombarded with designs for new engines, and almost all never pan out. In fact, the basic design of the gasoline engine has remained largely unchanged for a century.

But the race to improve fuel economy has heated up because of volatile gasoline prices, increased interest in reducing oil imports and the phasing in of tougher fuel-economy and emissions standards.

Car makers worry it will cost billions of dollars to perfect new technologies, like electric cars and hybrids, to cut fuel consumption. They could eliminate much of that expense if they could improve the tried-and-true internal combustion engine.

One answer could be a technology called HCCI, which yields a gasoline engine that operates much like a diesel, requiring no spark plugs. Honda, **General Motors** Corp. and others have invested in HCCI. The Scuderi engine is another possibility.

Today's gasoline engines leave much room for improvement. Only about a third of the chemical energy contained in a gallon of gasoline is converted into mechanical energy that turns the wheels of the vehicle. The rest becomes heat or exits the tailpipe as unburned fuel.

Mr. Scuderi was an expert in thermodynamics, which examines the relationship between mechanical motion, friction and heat.

In a normal engine, a piston moves up and down in a cylinder in a four-stroke cycle—down as a mixture of air and fuel enters the cylinder; up to compress the mixture; after a spark ignites the fuel, the piston is driven back down in the power stroke; and then up again, pushing out exhaust gases and starting the cycle over.

In the Scuderi design, pairs of cylinders work together. One cylinder does nothing but intake and compression. It is partnered with another that does only combustion and exhaust. A high-speed valve channels the pressurized fuel-air mix from the compression cylinder to the combustion cylinder.

Mr. Scuderi envisioned putting two sets of paired cylinders together to make a four-cylinder engine. According to his calculations, this setup should reduce resistance within the engine, result in greater compression of the fuel and air, and faster and more complete burning of the mixture.

Mr. Scuderi calculated that these and other changes could convert about 40% of the energy in gasoline into mechanical energy.

Mr. Scuderi suffered a heart attack and died in 2002. His children continued to refine the engine design, and now envision adding a tank to store highly compressed air that can be fed into the combustion cylinder to further improve efficiency.

The firm believes the Scuderi engine, equipped with the air tank and a turbocharger, could increase a vehicle's fuel economy by perhaps 50%.

Sivam Sabesan, an engine expert at consulting firm Frost & Sullivan who has examined the Scuderi design, said there are no obvious flaws that would suggest the engine won't work. "You just have to throw [engineering] resources at it and you can work it out," he said.

Chinese show off electric vehicles

BY NORIHIKO SHIROUZU

SHANGHAI—Chinese auto makers are unveiling a slew of battery-powered cars and other energy-efficient vehicles at this week's auto show here that could make them more globally competitive and eventually help address the air pollution that chokes many Chinese cities.

Alternative-fuel cars were some of the hottest items on display at the Shanghai auto show from homegrown companies like **Geely Automobile Holdings** Ltd., **Brilliance Jinbei Automobile** Co. and **Chery Automobile** Co.

Some of the new and updated models, such as a battery-powered version of Geely's Panda hatchback, may hit the market as early as October, and in some cases they might carry price tags low enough for farmers and other rural residents with limited financial means.

The aggressive plans illustrate China's growing commitment to electrified vehicles and its strategy to support auto makers developing various types of electric cars and components with research subsidies. The government sees environmental upsides and a chance for its car makers to gain ground on foreign rivals, since electric vehicles are simpler to engineer than gasoline-engine ones.

Electric vehicles are "definitely affordable and environmentally friendly technology, and we think there's a huge potential market in China for them," Li Shufu, Geely's chairman, said in an interview Monday.

Making electric vehicles affordable will be critical for them to have an impact on the environment, as vehicle ownership continues to rise quickly. The hundreds of thousands of new cars being added every year to roads in China could further damage already shaky air quality if they are oil-based vehicles.

The battery-powered cars that Chinese companies are showing are intended to be much less expensive than those planned by big foreign companies. **Great Wall Motor** Co., based in northern China's Hebei province, on Monday unveiled its planned GWKulla all-electric car, which will likely be one of China's cheapest battery-powered cars when it hits showrooms as early as next year. Its expected price tag is between 60,000 yuan and 70,000 yuan, or about $8,780 to $10,250. The GWKulla, a short, curvy compact, runs on lithium-ion batteries and can go 160 kilometers (99 miles) when fully charged, the company says.

Chery showed a tiny battery car, the Riichi M1, that boasts similar technology and performance, and is likely to be priced under 100,000 yuan. Geely's Panda, which Geely executive Frank Zhao said the company plans to launch in China as early as October, will be similarly priced.

Those prices are much lower than that of **General Motors** Corp.'s Chevrolet Volt plug-in hybrid, which is expected to sell for $40,000 when it goes on sale in the U.S. in late 2010. GM plans to launch the Volt in China in 2011.

Chinese auto makers also showed other types of "new energy" vehicles, including regular gasoline-electric hybrids to compete with **Toyota Motor** Corp.'s Prius hybrid. Among the most notable: a gas-electric hybrid **Shanghai Automotive Industry** Corp. plans to launch by the end of next year.

China's technologies for electric vehicles, especially batteries, are still lagging behind in some important ways. And while many of the cars being shown this week in Shanghai are touted as "cutting edge" by their producers, it remains unclear how well they will perform—and how Chinese consumers will react to such "new energy" cars.

Bloomberg News

Great Wall Motor unveiled its GWKulla all-electric car Monday in Shanghai. Alternative-fuel cars were some of the hottest items on display at the auto show.

In early testing, reviewers said a plug-in electric hybrid sedan from China's **BYD** Co. launched late last year had some kinks. The car, called the F3DM, was launched at least a year ahead of a similar car planned by Toyota. But the gasoline engine in the BYD rattled and could be noisy when it kicked in, the reviewers said. The steering wheel also tends to get stiff when making turns because of the car's increased weight from the batteries. BYD has said it is aware of these issues and is working resolve them.

"From what we have seen so far, [Chinese electric vehicle] technology is not that advanced" in terms of things like battery life, driving range and recharging, said Nick Reilly, head of GM Asia-Pacific operations, on Monday. "However, they have pretty good cost, and we know the Chinese government and these Chinese companies are investing a lot of money in battery technology, so I think it would be foolish of us to ignore them and believe that we are that far ahead."

—Ellen Zhu contributed to this article.

CORPORATE NEWS

Bankers rebuff U.S. over Chrysler debt

Lenders say 85% cut sought by Treasury is far too drastic

BY NEIL KING JR.
AND JEFFREY MCCRACKEN

A group of the biggest banks in the U.S. and other lenders rebuffed a Treasury Department request that they slash 85% of **Chrysler** LLC's secured debt, proposing instead to eliminate about 35% in exchange for a minority stake in the restructured auto maker.

The lenders' counteroffer marks a significant act of brinkmanship as the banks and the Obama administration's auto task force duel over concessions to avoid liquidating the country's third-largest car company.

Chrysler faces an April 30 Treasury deadline to seal an alliance with Italy's **Fiat** SpA that also requires concessions from lenders, as well as from the United Auto Workers union.

Chrysler owes the lenders, which include banks such as **Citigroup** Inc. and **J.P. Morgan Chase** & Co., about $6.9 billion. But President Barack Obama and his auto team had demanded that the banks cut that to $1 billion, while gaining no equity stake in a restructured Chrysler.

In their five-page counteroffer, the lenders said they are prepared to cut Chrysler's first-lien debt by $2.4 billion, or down to about $4.5 billion, in exchange for a minority equity stake, likely to be 35% to 40%, according to people familiar with the offer.

The lenders also are demanding that Fiat pour some capital into Chrysler in exchange for whatever equity stake it would gain. That could be a source of conflict with the Italian auto maker, which has said it won't put cash in the deal and instead give Chrysler only technology.

In making their case for a significantly smaller sacrifice than what the government wants, the lenders have argued that their fiduciary duty to their own shareholders and investors requires them to recoup as much as possible from Chrysler. The lenders have told Treasury officials that, if necessary, they could recover at least 65% of their loans to the company if it is liquidated in bankruptcy.

Importantly, the steering committee of Chrysler banks that made the counterproposal holds more than 66% of the $6.9 billion owed the car maker's lenders, said people familiar with the matter. This means the committee has the requisite amount of debt to control the votes of lenders if Chrysler files for bankruptcy, under U.S. bankruptcy code. A deal is also subject to approval from a majority of total holders in a group.

The committee has eight members. The largest Chrysler bank-debt holders are J.P. Morgan, Citigroup, **Goldman Sachs Group** Inc. and **Morgan Stanley.** Those four hold about $4.3 billion of the debt, according to people familiar with the matter. Also on the committee are hedge fund **Elliott Management**, distressed-assets investor **Stairway Capital Management**, fund manager **OppenheimerFunds** and advisory and asset-management firm **Perella Weinberg Partners.**

There are an estimated 45 lenders and funds that hold the Chrysler bank debt.

One banker involved in the talks said the counteroffer essentially was final. "This is not seen as a horse-trading offer," the banker said. "This offer should be embraced by the administration."

A Treasury spokesman declined to comment.

Many of the lenders were angered by the demands made by the head of the administration's auto team, Steven Rattner, who wanted the banks to forgive $5.8 billion of the $6.9 billion owed them in exchange for nothing.

"What the government was asking for was completely without precedent in the history of bankruptcy in the United States," the banker involved in the talks said. "Our reaction to their proposal was, 'Forget it.' "

The dispute with the lenders is heating up as Mr. Rattner and his team haggle in Washington with the heads of Chrysler, Fiat and the UAW over the details of an alliance between the two car companies.

The counteroffer also comes about one week after the government presented Chrysler lenders with more than 60 pages of business models and financial assumptions for a combined, restructured Chrysler. The government estimates that Chrysler in a few years would be back to the size it is today, once it merges with Fiat.

That government model projects Fiat-Chrysler wouldn't be able to start making payments on its debt until 2012, said several people familiar with the government projections.

The government assumes that the $4 billion the Treasury lent Chrysler largely will be wiped out, as will $2 billion Chrysler owes **Cerberus Capital Management** LP and **Daimler** AG, Chrysler's last two owners. The government would then put in an additional $6 billion to fund the operations of Fiat-Chrysler.

One assumption that upset some lenders, including some on the bank committee, was that Chrysler would pay about $3 billion to a UAW retiree health-care fund in 2009-10, said these people. The UAW-Chrysler fund would also get an unknown amount of equity in the new Chrysler.

The fund had been owed about $10 billion from Chrysler, but it is behind the banks, Cerberus, Daimler and the U.S. in the order to be paid.

Deutsche Telekom warns

Firm adjusts profit forecast lower, citing T-Mobile weakness

By Archibald Preuschat

Bloomberg News

A visitor tries a T-Mobile G1 mobile device by Deutsche Telekom at last month's CeBIT show in Hannover, Germany.

HAMBURG—**Deutsche Telekom** AG on Tuesday became Europe's first big telecommunications company to issue a profit warning for 2009 because of the economic slump, undermining the sector's defensive reputation.

Citing weakness in its T-Mobile wireless business in the U.S., the U.K. and Poland, in particular, Deutsche Telekom said it now expects 2009 earnings before interest, taxes, depreciation and amortization, adjusted for certain items, to be 2% to 4% below the 2008 level.

In February, Deutsche Telekom said it expected adjusted Ebitda in 2009 to remain flat. The forecast excludes the acquisition of Greece's **Hellenic Telecommunications Organization** SA, whose results are consolidated as of Feb. 1.

"The company isn't in a crisis," Chief Executive Rene Obermann said on a conference call. However, not all of the problems can be attributed to the economy, Mr. Obermann said, especially referring to the U.K., where T-Mobile is about to change its management team.

Given market conditions, Mr. Obermann said the company will freeze around €1 billion, or about $1.3 billion, of its planned capital expenditures for this year, which it expected to be around €8.7 billion. The company said it has also begun an impairment test of its T-Mobile business in the U.K.

Deutsche Telekom said it had "felt the impact of the economic slowdown and the more intense competitive environment," particularly in the U.S. and U.K., while roaming revenue fell as consumers cut back on travel. The weak zloty in Poland and weak sterling in the U.K. also hurt revenue and adjusted Ebitda, the company said.

Deutsche Telekom shares fell 7.2% in Germany, weighing on shares of European competitors such as **BT Group** PLC, **France Télécom** SA and **Telefónica** SA.

In its home market, Deutsche Telekom did well, with first-quarter results there slightly above forecast in both fixed and mobile operations.

A problem Tuesday with the T-Mobile wireless network in Germany prevented users from making or receiving calls for several hours. A spokesperson said the company was aware of the issue and working on a solution.

Telecommunications companies have so far held up better than other sectors amid the economic downturn but still face low, or no, growth in their mature markets. As a result, many have taken steps to cut costs.

U.K.-based **Vodafone Group** PLC, the world's biggest mobile operator by sales, in November said it would cut costs by £1 billion ($1.45 billion) and focus on core markets after lowering its revenue outlook.

—Natascha Divac and Philipp Grontzki contributed to this article.

Delta, United Airlines report narrower losses

By Mike Esterl

Delta Air Lines Inc. and United Airlines narrowed their losses in the first quarter, and Delta's chief executive said the carrier has seen tentative signs that demand is stabilizing.

Still, Delta warned that the coming months could still prove difficult and introduced a baggage fee for international travelers to prop up revenue. United, meanwhile, cut its plan for capital spending, excluding aircraft, by $100 million, or 22%.

"The revenue environment appears to have bottomed out, but it's still too early to call and we expect significant headwinds in the rest of 2009," Delta CEO Richard Anderson said in a conference call on Tuesday.

Airlines have seen traffic plunge in recent months as the global recession sapped demand for air travel. International and premium-class traffic have fallen the most dramatically as corporations have slashed travel budgets.

Delta, the world's biggest airline by traffic, said it lost $794 million, or 96 cents a share, compared with a loss of $6.39 billion, or $16.15 a share, a year earlier. Last year's figure included a $6.1 billion goodwill-impairment charge.

Revenue at the Atlanta-based carrier rose 40% to $6.68 billion as a result of last October's merger with Northwest Airlines. Combined revenue would have shrunk $1.2 billion, or 15%, if the airlines had merged at the start of last year.

United parent **UAL** Corp. reported a net loss of $382 million, or $2.64 a share, compared with a loss of $549 million, or $4.55 a share. Revenue fell 22% to $3.69 billion at the Chicago-based carrier.

Delta said it will charge customers $50 to check a second bag for international travel beginning July 1. The carrier said the move should generate more than $100 million in revenue annually. It also will ground its fleet of 14 B747-200 freighter aircraft, citing its age and inefficiency.

Delta said domestic booked load factors are down two to four percentage points for May and June from a year earlier, but that it expects the gap to narrow in the coming weeks.

Delta reiterated that it expects to book a profit this year, its first since emerging from bankruptcy two years ago.

Airlines continue to struggle, though, after several months of fare discounts aimed at filling empty seats. United said Tuesday that its pricier premium-class traffic slid 30% in the first quarter, compared with around 20% industry-wide, as leisure travelers sought bargains and business fliers moved to the back of cabins to cut travel expenses. Airlines have signaled that they could cut capacity if traffic doesn't pick up.

United said its per-gallon fuel costs dropped 40% in the first quarter. But its load factor, or the portion of available seats filled, fell to 76.3% from 78%. Revenue per available seat mile, considered the best basic measure of revenue for airlines, fell 12%. The airline said it expects mainline capacity to fall 9% to 10% this year and forecast that cost per available seat mile would rise 1% to 2%, less than prior expectations.

—Doug Cameron and Kerry E. Grace contributed to this article.

Deutsche Post expects big profit

By Hilde Arends

FRANKFURT—Postal and logistics company **Deutsche Post** AG said Tuesday that its first-quarter net profit soared thanks to a higher valuation of put options on **Deutsche Postbank** AG shares and also signaled that volume declines had stabilized.

Germany's former state monopoly said volume continued to shrink for all products and across all divisions in the first quarter from the fourth quarter of 2008, but the rate of contraction had stabilized, "suggesting that overall flows are bottoming out."

The comments came in a preview of first-quarter results, which are due May 6. The company offered few details.

The economic slowdown caused consumer spending to slump and sapped demand for consumer goods, which put the mail and logistics sectors under pressure as shipping volumes fell.

Deutsche Post, one of the world's largest mail and logistics companies, said net profit jumped to nearly €1 billion ($1.29 billion) from €382 million a year earlier. It cited the higher market valuation of put options on Postbank shares, among other factors. A put is an option to sell a security at a specified price, usually within a limited period.

Deutsche Post, which competes with companies such as TNT NV, FedEx Corp. and United Parcel Service Inc., is selling its majority stake in Deutsche Postbank. It held a 39.5% stake as of March 6.

The Bonn, Germany-based company said earnings before interest and tax, or EBIT, were slightly positive in the January to March period, despite significant restructuring costs. Adjusted EBIT fell less than 50% in the quarter from €539 million a year earlier.

Merck Finck analyst Robert Heberger said the EBIT and net-profit results were worse than expected, adding the statement wasn't easy to assess because of accounting changes.

The company continued its €1 billion cost-cutting plan, which helped to partly offset the volume declines.

All its Express operations outside the U.S. were profitable and all other divisions reported positive EBIT and adjusted EBIT. The company in November announced it would exit a large part of its DHL operations in the U.S. and book restructuring costs of about €3 billion mainly because of changes in its U.S. operations.

Sales drop at Merck, Schering-Plough

By Peter Loftus

Merck & Co. and **Schering-Plough** Corp. posted mixed results in the first quarter, as both drug makers saw their sales decline.

Merck's profit fell 56% from a year-earlier quarter boosted by a gain. Net income at Schering-Plough, which agreed to be acquired by Merck in March, more than doubled from a year-earlier period hampered by acquisition charges.

Merck also disclosed a research setback. The drug maker said it will delay seeking regulatory approval for an experimental migraine drug because of potential safety issues. The announcement underscores the importance of the planned purchase of Schering-Plough, a cash-and-stock deal initially valued at about $41 billion in March.

Merck, of Whitehouse Station, N.J., posted net income of $1.46 billion, or 67 cents a share, compared with $3.33 billion, or $1.52 a share, a year earlier. The latest quarter included restructuring costs and other items, while the year-earlier results included a hefty gain.

Excluding items, earnings came to 74 cents a share.

Sales fell 7.5% to $5.4 billion, as higher drug prices were offset in part by a stronger dollar.

Schering-Plough, of Kenilworth, N.J., said net income came to $805 million, or 46 cents a share, from $314 million, or 17 cents a share a year earlier.

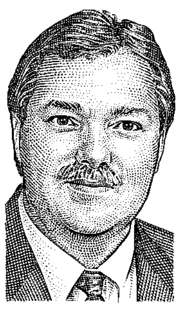
Schering-Plough's sales dropped 5.7% to $4.39 billion.

Lockheed posts 8.8% drop in net but raises 2009 view

By Kerry E. Grace And August Cole

Lockheed Martin Corp.'s first-quarter net income fell 8.8% on higher pension-related expenses, though the defense contractor raised its full-year profit outlook.

Lockheed, the biggest supplier of information technology to the U.S. government, reported net income of $666 million, or $1.68 a share, compared with $730 million, or $1.75 a share, a year earlier.



Bruce Tanner

The latest results included 19 cents in pension-related expenses, while the year-earlier result was boosted five cents by a pension adjustment.

Revenue rose 3.9% to $10.37 billion.

Analysts polled by Thomson Reuters expected earnings of $1.64 and revenue of $10.51 billion.

The Bethesda, Md., company posted a 5.2% increase in information systems and global services earnings, as revenue jumped 10% on higher volume on enterprise civilian services. Aeronautics division profit grew 9.9% as revenue slid 0.9% on declines in combat aircraft.

Analysts have said the cyclical defense industry may enter a downturn as the Obama administration sets its priorities elsewhere.

Bruce Tanner, Lockheed Martin's finance chief, said Tuesday that the 2010 Pentagon budget proposed by Defense Secretary Robert Gates appears to strongly support key programs for the contractor, even as it seeks to terminate and wind down others.

Mr. Tanner said that among those receiving support in the budget are the F-35 Lightning II fighter, the Littoral Combat Ship and a Navy destroyer, among others.

Among the Lockheed programs in jeopardy, Mr. Gates is seeking to terminate what would be a more than $13 billion Lockheed-led effort to build replacement presidential helicopters for the White House and to wind down production of Lockheed's F-22 Raptor fighter, the Pentagon's most agile and deadly combat jet, after 187 jets are built.

"We still see no change to the guidance we provided in 2009 and continue to see year over year growth going forward," said Mr. Tanner in an interview.

Lockheed raised the range of its full-year earnings outlook to $7.15 to $7.35 a share from January's projection of $7.05 to $7.25. The company affirmed its revenue guidance of $44.7 billion to $45.7 billion.

DuPont earnings tumble

Firm lowers forecast but says recent orders strengthened a bit

BY ANA CAMPOY

DuPont Co. said this year has shaped up to be worse than expected and lowered its earnings forecast. But the chemical maker said it is beginning to see a slight strengthening in some businesses.

Reporting a 59% drop in first-quarter profit Tuesday, DuPont said its decline in product sales volume probably will be the steepest it will see this year, though the company is bracing for continued volatility in demand for its plastics and chemicals.

As a maker of raw materials for most consumer products, the chemical sector is a bellwether of the overall economy. DuPont said the outlook for many key industries dimmed considerably from the beginning of the year, forcing the company to adjust its 2009 earnings forecast to $1.70 to $2.10 a share from $2 to $2.50 a share.

Dupont's first-quarter net income dropped to $488 million, or 54 cents a share, from $1.2 billion, or $1.31 a share, a year earlier.

After a dismal fourth quarter in which orders plummeted and chemical makers cut capacity to its lowest level in years, some analysts expected business to pick up somewhat in the first quarter as manufacturers began replenishing thinned inventories.

Instead, overall first-quarter sales slid further. DuPont's first-quarter revenue fell to $7.27 billion, down 17% from a year earlier, following a 16% drop in the fourth quarter.

But DuPont said Tuesday that customer orders began to firm up in March. The company said sales this quarter should be flat to slightly higher than the first quarter as some of its businesses begin to benefit from inventory restocking.

"You can make the case we've touched the bottom," said Frank Mitsch, senior chemicals analyst at BB&T Capital Markets.

Meanwhile, the Wilmington, Del., industrial giant is intensifying cost-cutting efforts, targeting another $270 million in cuts on top of the $730 million announced earlier this year. The company has dismissed 10,000 workers in recent months, up from the 8,000 layoffs originally planned

Chief Executive Ellen Kullman said more cuts could be coming. "We remain focused on what we can control," she said in a conference call with analysts.

DuPont shares were up 3.9% in late-afternoon trading at the New York Stock Exchange.

Coke posts 10% net drop, backs its bottling system

BY ANJALI CORDEIRO

Coca-Cola Co. reported a 10% drop in first-quarter net income amid volatile global currencies and write-downs, and emphasized that it continues to like the local approach of its bottling system.

Muhtar Kent

Coke's comments on its bottling partners follow PepsiCo Inc.'s $6 billion takeover bid for two of its bottlers.

Coke's earnings were helped by strength in emerging markets, even as North America continued to feel the impact of weaker consumer spending. Coke said it is confident about meeting its long-term targets.

There have been some questions raised about how Coke might handle a more nimble beverage rival if Pepsi's bottler deals are effective. Some analysts have said Coke's response could evolve over time.

On a conference call Tuesday, Coca-Cola executives emphasized its cooperation with its bottlers has been growing. "The franchise model in its broadest sense is still the best way to win in the marketplace," said Chief Executive Muhtar Kent, referring to the bottling system. "It gives us the focus we need, the global breadth and scale, and the local leadership."

Coke posted net income of $1.35 billion, or 58 cents a share, down from $1.5 billion, or 64 cents a share, a year earlier. Excluding charges, earnings fell to 65 cents from 67 cents.

Broadcom makes bid for Emulex

BY DON CLARK AND STEPHEN WISNEFSKI

Chip maker Broadcom Corp. launched an unsolicited bid to acquire smaller rival Emulex Corp. Tuesday for about $764 million, a strategy shift for a company with a long history of acquisitions.

The cash offer from Broadcom, of $9.25 per share, represents a 40% premium to Emulex's closing share price Monday.

Emulex issued a statement confirming that its board had received Broadcom's offer, stating it "will review the proposal in due course, consistent with its fiduciary duties." A spokeswoman for the company declined additional comment.

Both companies make chips used in communications, and are based within miles of each other in Orange County, Calif. Broadcom is much larger, having swelled through more than 40 acquisitions. But this is the first time it has announced an offer publicly without reaching a deal with an acquisition target, said Scott McGregor, Broadcom's chief executive.

Broadcom approached Emulex in December about a possible tie-up, but Emulex said the company wasn't for sale, Mr. McGregor said. Emulex in January installed a "poison pill"—or shareholders rights plan—used in defense against hostile takeover offers.

"That was really disappointing," Mr. McGregor said. His company has filed suit in Delaware Court of Chancery to attempt to have the poison pill plan thrown out.

In afternoon trading Tuesday, shares of Broadcom declined 7.8% to $20.09. Emulex shares were up 42% at $9.40, eclipsing Broadcom's offer price.

Emulex specializes in technology called fibre channel, which is typically used to connect server systems with data-storage devices. Broadcom makes chips based on a competing technology called Ethernet. Combining the two companies' product lines and expertise makes good business sense, Mr. McGregor said.

Also Tuesday, Broadcom reported an unexpected loss for its fiscal fourth quarter on a 17% decline in revenue. Despite the revenue decline, Mr. McGregor said customer bookings strengthened as the quarter progressed, "which is reflected in our anticipated sequential revenue growth" in the current period.

Broadcom swung to a net loss for the period ended March 31 of $91.9 million, or 19 cents a share, compared with net income in the year-earlier period of $74.3 million, or 14 cents a share. Revenue declined to $853.4 million from $1.03 billion.

Decline in demand sends Sabic to first loss since '01

BY MOHAMMED ALY SERGIE AND OLIVER KLAUS

RIYADH—Saudi Basic Industries Corp. reported a first-quarter net loss of 974 million Saudi riyals ($260 million)—its first since 2001.

The petrochemicals maker, better known as Sabic, blamed falling demand and a goodwill write-down of 1.2 billion riyals for the loss. Revenue dropped 74% to 3.6 billion riyals. Excluding the impairment, the company said it would have recorded a profit of 207 million riyals. In the first quarter of 2008, Sabic posted a net profit of 6.92 billion riyals.

Sabic may shut down or temporarily halt production at some plants and has already cut about 1,600 jobs globally, Chief Executive Mohamed Al Mady said.

Demand for engineering plastics were hit hardest, while a rebound in polymer prices, which more than doubled to $1,500, was one of few bright spots this quarter, he said.

Sabic's shares fell 9.9% to 42 riyals on the Saudi bourse.

Saudi's Kingdom Holding Co., run by the billionaire Prince Alwaleed bin Talal, said net profit dropped 83% in the first quarter from a year earlier.

Net profit fell to 50.2 million riyals from 303.8 million riyals a year earlier, as revenue declined 44% to 357.2 million riyals. The fall in profit was mainly due to smaller dividend payments from its portfolio of companies as well as a slump in its hotel business, the Riyadh-based conglomerate said. Kingdom Holding's shares dropped 5.7% to 5.90 riyals.

Rights to Rodgers and Hammerstein go Dutch

BY ETHAN SMITH

The hills are alive with the sound of money.

A music-publishing fund primarily owned by a giant Dutch pension fund has acquired the music-publishing catalog of the iconic songwriting duo Richard Rodgers and Oscar Hammerstein II, in a deal that highlights the ongoing value of music-publishing assets even in the age of online piracy.

The buyer, Imagem Music Group, didn't disclose the purchase price for the Rodgers & Hammerstein Organization, but people familiar with the music-publishing business estimated it at as much as $200 million.

Imagem is owned mainly by the Dutch civil-service pension fund Algemeen Burgerlijk Pensioenfonds, known as ABP, and is managed by CP Masters BV, an independent European music publisher.

Several of the biggest music publishers, including Warner Music Group Corp.'s Warner/Chappell Music and Sony Corp.'s Sony/ATV Music Publishing, had considered buying the Rodgers & Hammerstein Organization, according to people familiar with the matter. But most dropped out of the bidding because they considered it overpriced, especially for a catalog of Broadway songs.

20th Century Fox/Everett Collection

The Rodgers & Hammerstein Organization includes copyrights to musicals including 'The Sound of Music.'

Music publishing—the ownership and exploitation of copyrights on melody and lyrics—has grown in importance in the digital age. It's a part of the music business that has held its value far better than the sound recordings owned by record labels, because fees from publishing rights can be collected from a broad range of uses, not all of which are vulnerable to piracy. For instance, music publishers collect royalties when songs are played on the radio, in restaurants and bars and when any version of a song (not necessarily the original recording) is used in a movie, television show or commercial.

Michael Jackson bought the rights to much of the Beatles catalog in the 1985 for $47 million. In the decades since, that purchase has provided hundreds of millions of dollars in cash—partly through the sale of a 50% interest to Sony—that have partially insulated Mr. Jackson from a variety of financial travails.

Imagem said that the acquisition of the Rodgers & Hammerstein catalog makes it the world's largest independent music publisher, with annualized revenue of more than more than €100 million, or about $126 million. The Rodgers & Hammerstein Organization includes copyrights to the music and lyrics to musicals including "Oklahoma," and "South Pacific." It also holds 12,000 songs by 200 other writers including Irving Berlin and Mr. Rodgers's other famous lyricist-collaborator, Lorenz Hart.

Imagem has snapped up a number of major music-publishing assets in recent years. Among them, several big pop catalogs that were spun off in 2007 as concessions to regulators when Universal Music Group bought Bertelsmann AG's music-publishing unit.

CORPORATE NEWS

Interpublic looks to start-ups

Greenhaus unit aims to build strong ties to new-media firms

BY EMILY STEEL

Interpublic Group, hoping to heat up ad spending on new types of media, is trying to create a greenhouse effect.

ADVERTISING

The big advertising holding company has been experimenting with an incubator program designed to help young companies with promising technology and ideas develop viable business models. It is opening the program to more start-ups this week.

The six-month program, called Greenhaus, aims to give new-media and tech companies an insider's look at how Madison Avenue works and what advertisers want.

Interpublic isn't charging for the program. Nor is it investing in the start-ups that participate. Instead, it hopes to build relationships with fledgling ventures that could turn into the next Facebook or YouTube.

"We get barraged—as most media agencies do—with phone calls from start-ups whose products are starting to gain traction, but they haven't sold advertising," says Quentin George, chief digital officer at Mediabrands, the Interpublic media-buying unit that runs Greenhaus.

"Most of the calls either go unanswered, or if we do interact, the companies don't understand how media is bought or how to monetize their product," Mr. George adds. "We want to make the connection."

The effort comes as a crunch in ad spending makes dollars for experimental advertising options increasingly scarce. Marketers typically plan their ad budgets by first allocating money to established media like TV. Only then are the remaining funds allocated to testing newer technologies from mobile and interactive TV to social media and digital in-store ads.

The result has been a series of small projects that have yet to produce a consensus on how best to use many new technologies. "That's the reason why experimental budgets are the first thing to go," Mr. George says.

Media and ad companies are finding they have to take the lead to attract more money to fledgling ad formats. Earlier this year, **Publicis Groupe** agencies joined forces with media companies to try to create standards for advertising around online video.

Most of the early Greenhaus participants have been tech start-ups that have raised venture-capital funding and generated some buzz, but their founders mostly have engineering backgrounds and little experience in the media and ad worlds.

"We didn't totally understand some of the agency-speak and their motivations for what they do," says Brett Wilson, chief executive at TubeMogul, an online-video-technology company. "We definitely didn't understand how to sell to them."

After completing the Greenhaus program last year, TubeMogul, which tracks online-video audiences, revamped the range of data it offers to advertisers.

Justin.tv, a live-streaming-video venture added advertising to its chat section, offered customized marketing campaigns instead of one-size-fits-all banner and video ads, and added more predictable content to the site to assuage marketers' concerns about advertising next to riskier user-generated material.

The partnership has paid off for some of the start-ups. Because of Greenhaus, Interpublic ad agency Universal McCann turned to Justin.tv on behalf of its client Microsoft, which ended up promoting the release of its Halo Wars videogame via Justin.tv's games channel.

About three years ago, Publicis launched a unit with Denuo, a Publicis agency that focuses on emerging media and technologies, to help start-ups develop new ad models. Through the relationship, Publicis got paid with equity, and took small stakes in several companies.

"If we help them, and they make money, we want to participate in the upside," Denuo Chief Executive Rishad Tobaccowala says.

Justin.tv

Microsoft, a client of Universal McCann, promoted its Halo Wars videogame on Justin.tv's games channel.

Ad slump pushes New York Times to a loss

BY RUSSELL ADAMS

New York Times Co. posted steep losses amid worse-than-expected advertising results, dimming the prospects for recovery from a slump pushing many newspapers to the brink.

The newspaper publisher lost $74.5 million, or 52 cents a share, in the first quarter compared with a loss of $335,000, or break-even on a per-share basis, a year earlier. The latest results included seven cents a share in lease losses and 11 cents a share in severance-related charges.

Advertising revenue fell 27% overall and more than 28% at the company's News Media Group, which includes the Times newspaper, the Boston Globe, the International Herald Tribune and 15 small dailies. Total revenue fell 19% to $609 million.

Like a lot of newspaper publishers, Times Co. has braced for one of the most challenging advertising environments in decades. Of chief concern are the prospects for a recovery. Executives from Times Co. and other newspaper companies have said they expect many of the advertisers who fled print to return when the economy recovers. But the particular pressures facing the industry have tempered expectations.

Times Co. Chief Executive Janet Robinson said in a prepared statement Tuesday that advertisers across most key categories pulled back at a faster clip throughout the first quarter and that she expects a similar rate of decline in the second quarter. "Like many companies across America and in our industry, the challenges we face intensified in the first quarter," Ms. Robinson said.

The company has spent much of the past year conserving cash to make up for declining newspaper revenue and to manage its debt, which totaled $1.3 billion at the end of the first quarter. Times Co. said Tuesday that its first-quarter operating costs declined 9.5% and that it expects to save more than $330 million in operating expenses this year.

Through cost cuts and a series of other moves—including a sale-leaseback of part of its New York headquarters building, the securing of a $250 million loan and the suspension of its quarterly dividend—the company has alleviated its short-term funding requirements and built a runway to 2011, analysts have said.

Beyond that, though, the outlook is murkier. The loan and sale-leaseback were costly deals and Times Co. had $625 million in unfunded pension obligations at the end of last year. Print revenue declines continue to outpace expense reductions and there is little indication Times Co.'s Internet operation will be able to compensate for losses in the near term. Revenue at its Internet business, which boasts a heavily trafficked newspaper Web site, fell 5.6% to $78 million for the first quarter, marking the second straight quarterly decline.

To fortify its core assets, the company is pushing ahead on other cash-shoring fronts. It is trying to sell its nearly 18% stake in the holding company of the Boston Red Sox and is seeking relief from mounting losses at the Boston Globe newspaper. Times Co. recently threatened to close the paper in early May if the unions representing most of the Globe's employees don't agree to $20 million in concessions.

Earlier this month Times Co. laid off 100 people on the business side, cut pay for nonunion employees by 5% at the Times and Globe newspapers through year-end and said it will ask the same of its unionized employees. Last week, the Times said it is eliminating several weekly sections.

Times Co. executives have said they hope the latest moves will help avoid cuts to the Times's 1,300-person newsroom, which on Monday collected five Pulitzer Prizes.

United Technologies' net falls 26% as demand sags

BY J. LYNN LUNSFORD

United Technologies Corp.'s first-quarter net income slipped 26% as the aerospace and building-products company scrambled to cut costs amid declining demand.

The Hartford, Conn., conglomerate reported net income of $799 million, or 78 cents a share, down from $1.08 billion, or $1.03 a share, a year earlier. The latest results included nine cents a share in restructuring costs, while the prior year included two cents in restructuring costs. Revenue decreased 12% to $12.25 billion.

"We continue to execute well in the face of difficult end markets and currency headwinds," Chief Executive Louis Chênevert said in a statement.

United Technologies has relied in the past on its diverse portfolio of global brands such as Otis elevators, Carrier air conditioning and Pratt & Whitney jet engines to insulate it against downturns. In March, particularly after the global recession began to stifle a building boom in China, Mr. Chênevert announced plans to cut 11,600 jobs, or 5% of the company's work force.

"We have not really seen any significant changes in market conditions since March," said Gregory Hayes, senior vice president and chief financial officer, during a conference call with analysts.

Although the company still believes an economic recovery won't occur until next year, officials said the overall rate of decline in orders is slowing. While orders are still down, "they have stabilized across the businesses," Mr. Hayes said. "For the full year, we still expect a better back half."

The company reiterated that it expects 2009 profit of $4 to $4.50 a share on revenue of about $55 billion before any changes for potential acquisitions.

Analysts polled by Thomson Reuters expected first-quarter earnings of 78 cents a share on revenue of $12.41 billion. Excluding restructuring costs of 12 cents a share and a tax gain of three cents, United Technologies said earnings per share would have been 87 cents.

The company said it is continuing with plans to spend $750 million this year to restructure.

GLOBAL BUSINESS BRIEFS

British Airways PLC

Walsh calls on government to avoid a tax hike on flights

British Airways PLC Chief Executive Willie Walsh Tuesday called on the U.K. Chancellor of the Exchequer, Alistair Darling, to scrap a planned 112% tax increase on flights from the country, saying the move would hurt attempts to revive the economy. Mr. Walsh said increases in Air Passenger Duty would penalize working families, harm economic recovery and put the U.K. at a competitive disadvantage. Speaking at the Investor Relations Society annual conference, Mr. Walsh said, "APD was doubled two years ago, making air travel from the U.K. the most heavily taxed in the world." He added that the government seemed "determined to pile yet more misery" on airlines and passengers.

Credit Suisse Group

Credit Suisse Group said Tuesday that it will pay out an additional 50 million Swiss francs ($42.8 million) against losses of clients who say they weren't adequately advised when investing in products issued by collapsed U.S. investment bank Lehman Brothers Holdings Inc. The payout, far more generous than the initial one, came after 850 of the bank's clients and 15 law firms threatened legal action over their losses on the Lehman products. Without acknowledging any legal obligation, Credit Suisse said it will pay out the 50 million francs to 1,700 clients represented by the Fédération Romande des Consommateurs, a consumer watchdog group, bringing the bank's total payout to 150 million francs.

Actelion Ltd.

Swiss biotech company **Actelion** Ltd. said Tuesday first-quarter net profit more than doubled, buoyed by the dollar's strength, big price increases for drugs in the U.S. and cost control. Net profit soared to 102.1 million Swiss francs ($87.3 million) from 44.5 million francs a year earlier, when a sharp strengthening of the Swiss franc against the dollar and euro hurt results. Revenue was up 26% at 405.6 million francs. Stripping out currency fluctuations, sales of Actelion's key drug Tracleer, which treats hypertension in the lungs' arteries, rose 24%, driven by further market introductions and price rises. In January, Actelion raised Tracleer prices 8% in the U.S., said Chief Financial Officer Andrew Oakley.

Pirelli & C. SpA

Italian tires-to-real estate company **Pirelli & C.** SpA said Tuesday its first-quarter net profit fell 72% as the overall economic slowdown, restructuring costs and high raw-material prices hit its core businesses. Net profit dropped to €9.5 million ($12.3 million) from €33.8 million a year earlier, while revenue fell 13% to €1.04 billion. In February, Pirelli announced a €400 million capital increase at its real-estate unit as part of a wide-ranging restructuring plan. Under the plan, Pirelli expects revenue to grow to about €4.3 billion in 2009 and to €4.7 billion in 2010 and €4.8 billion in 2011. By 2011, the company also aims to narrow its net debt to less than €800 million from €1.28 billion at the end of March.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

South Africa election will test ANC

Despite Zuma's expected victory, party will likely lose its two-thirds majority, forcing it to work with others

By Sarah Childress

JOHANNESBURG—South Africa's next president after Wednesday's national legislative election is almost certain to be Jacob Zuma, leader of the ruling African National Congress party. But for the first time since the end of apartheid in 1994, the ANC looks poised to lose the two-thirds majority in parliament that it needs to govern unopposed.

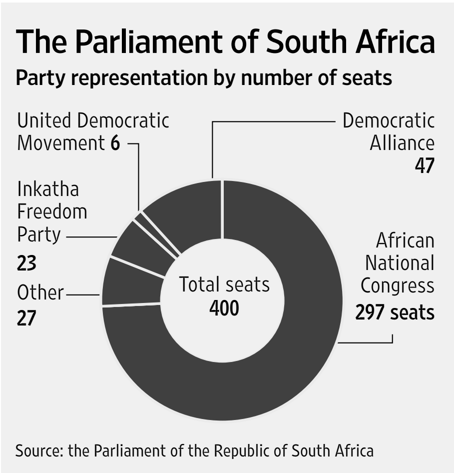
The ANC, the party credited with liberating the nation from apartheid, has dominated every election since the end of that brutal regime. In 2004, the last national election, it won 69% of the vote. This year, election authorities are anticipating a record turnout, and the ANC's solid majority is in jeopardy.

Two other parties look poised to siphon off some ANC seats in parliament: the Democratic Alliance, popular with middle-class whites, and a new party that broke away from the ANC late last year, the Congress of the People, or Cope.

A recent survey of Gauteng province, which includes Johannesburg, gave the ANC only around 54% support. Without a two-thirds majority, the ANC would have to form coalitions with smaller parties to pass bills, offering some check on its power. Opposition parties say they will try to rein in what they see as cronyism and corruption in the ruling party.

"There's a good chance that [the ANC] will lose its two-thirds majority," said Judith February, a political analyst at the independent South African think-tank Idasa. "That in and of itself will send a powerful message to the ANC and its leadership."

Reuters



A resident of Durban's Umlazi township in Kwa-Zulu Natal province walks past election posters ahead of Wednesday's election

The ANC has been criticized in recent years for misuse of state power, corruption and stifling dissent. Many black South Africans have become disillusioned with the liberation party as their lives have failed to improve significantly since the end of apartheid.

Many still live in shacks without running water and electricity, and struggle to find work, while top members of the ANC have become wealthy. Mr. Zuma, the presidential candidate, is controversial: He's been acquitted of rape, and corruption charges against him were dropped this month.

Dissent within the ANC boiled over late last year, when several ANC members broke away to form Cope. The party formed too close to the elections to pose a credible threat to the ANC's hold on the presidency. Cope also has struggled to capitalize on its initial momentum. But it does have a chance to help erode the ANC's numbers in parliament.

The Democratic Alliance has become increasingly popular in recent years, particularly among white voters. Its candidate, Helen Zille, is the outspoken mayor of Cape Town, who campaigns against corruption and for a crackdown on crime. The party's campaign this year focused on rallying voters to keep the ANC from winning a two-thirds majority under Mr. Zuma. "The ANC has split—we can win!" one slogan proclaims. "Stop Zuma!"

The ANC has fought hard to keep its lead. Jarred out of complacency, the ANC launched an ambitious campaign, spending an estimated $20 million to blanket the country with bright yellow posters, hold massive rallies and send volunteers door-to-door. Its careful slogan, "Working together, we can do more," suggested a tacit acknowledgement of the previous administration's tendency, under President Thabo Mbeki, to isolate its critics and act unilaterally. It has promised a spending campaign to help the poor.

The ANC has defended its record, saying it has a tradition of encouraging debate. Mr. Zuma has promised to eradicate corruption and make himself and the government more accessible and accountable to South Africans.

"We expect that [voters] will once again give the ANC a huge, decisive mandate," Mr. Zuma said at a news conference Tuesday. "We know that this mandate comes with a great responsibility. ... We will use our majority responsibly and will not ride roughshod over the rights of the people."

Among poor blacks, Mr. Zuma is revered as a man of the people. He draws adoring, riotous crowds. In his last rally on Sunday, about 100,000 people turned out, clad in ANC yellow, packing two stadiums to cheer and whistle for Mr. Zuma. He obliged them by dancing and singing his trademark song, "Bring me my machine gun." In Zulu, the language of the nation's most populous tribe, he promised to do away with corruption in the government, to deafening cheers. The ANC also exerts a powerful hold over many older black South Africans, who say they will vote for the party because they have emotional ties to the party that freed them from apartheid.

No one has more symbolic appeal than the revered former ANC leader Nelson Mandela, who made a surprise appearance at Sunday's rally. Mr. Mandela was too frail to speak; a pre-recorded message played instead. On his bright yellow shirt: a printed image of Mr. Zuma.

—Nicolas Brulliard contributed to this article.

Geithner weighs criteria for banks repaying bailout funds

By Deborah Solomon

WASHINGTON—U.S. Treasury Secretary Timothy Geithner indicated that the health of individual banks won't be the sole criterion for whether financial firms will be allowed to repay bailout funds, a position that might complicate their efforts to give back the cash.

In an interview, Mr. Geithner laid out some broad principles, including the need to consider the overall health of the financial system and the flow of credit in judging whether banks can repay their government investment. Among large banks, **Goldman Sachs Group** Inc. and **J.P. Morgan Chase** & Co. have both said they want to repay the U.S. government.

"We want to make sure that the financial system is not just stable, but also not inducing a deeper contraction in economic activity. We want to have enough capital that it's going to be able to support a recovery," Mr. Geithner said.

Mr. Geithner also said he planned to discuss signs of improvement in the U.S. economy with his counterparts at the coming Group of Seven finance-ministers meeting. But he said a "dramatic" mobilization of resources was still needed across the world to avert a deeper global recession.

"We're trying...to make sure there's as strong and broad a global consensus on stimulus, financial repair and quick deployment of resources to emerging economies so that we can avert risks of a deeper downturn world-wide."

The Obama administration is wrestling with a problem as some banks, wary of government strings tied to bailout funds, look to repay the money. At the same time, regulators aren't yet done conducting stress tests on the nation's 19 largest banks to determine how much assistance they might need to continue lending. Firms will get six months to raise money from private investors or get additional investments from the government.

"My basic obligation is to make sure the system as a whole...has the ability to provide the credit that recovery requires," Mr. Geithner said Tuesday in an appearance before the Congressional Oversight Panel, one of several entities overseeing government bailout efforts.

Mr. Geithner also told the panel that executive-compensation rules for banks receiving U.S. government aid are unlikely to apply to firms that participate in the Treasury Department's new program to deal with toxic assets. He declined to give details about how the rules would distinguish how pay packages would be regulated but said the Treasury would be proposing the new standards in the next few weeks.

Mr. Geithner, in prepared remarks for the panel, outlined steps Treasury has taken to combat the financial crisis and spoke about the need for revamped regulation of financial institutions.

Agence France-Presse

U.S. Treasury Secretary Timothy Geithner speaks before the Congressional Oversight Panel in Washington Tuesday on the need to revamp financial regulations.

"This financial crisis has shown that the largest financial institutions can pose special risks to the financial system as a whole," he said.

Mr. Geithner reiterated that Treasury has been aiming to resolve the financial crisis at a minimum cost to taxpayers.

Treasury estimates nearly $110 billion in Wall Street bailout money is available from the $700 billion originally authorized, Mr. Geithner said in a letter Monday to Elizabeth Warren, the head of the oversight panel. In the letter, Mr. Geithner also gave a breakdown of Troubled Asset Relief Program funds.

TARP was created by Congress under the Emergency Economic Stabilization Act of 2008 to save Wall Street from financial crisis. One part of TARP is a preferred stock-and-equity-warrant purchase program known as the Capital Purchase Program.

Obama administration officials worry that the repayment of bailout money, combined with a general disinclination toward partnering with the U.S., could undermine their efforts to restore health to the financial sector and the broader economy.

"We want to be out of the financial system. We want people to be paying back the government. But we don't want people to be paying back the government in ways that will put themselves right back in trouble and leaving themselves with inadequate capital," Lawrence Summers, chairman of the president's National Economic Council, said Sunday on NBC's "Meet the Press."

Mr. Geithner made it clear the administration believes the steps it is taking to shore up the financial sector are necessary to avert a worse and prolonged economic downturn. The government has announced a series of steps, including a $275 billion plan to help homeowners, an effort to help purchase so-called toxic assets clogging bank balance sheets and additional investments into banks.

But distrust of the government's programs runs high, and Mr. Geithner said he has tried to make a simple case to lawmakers and others as to why it is necessary to use taxpayer money to help the financial system.

—Michael R. Crittenden and Meena Thiruvengadam contributed to this article.

German sentiment lifts

ZEW indicates rise in analysts' mood; producer prices fall

By Roman Kessler

MANNHEIM, Germany—The government's stimulus programs helped brighten the mood among German investment analysts in April, according to a survey from the ZEW economic think tank.

"With other indicators, the ZEW sentiment indicator reveals that there are well-founded expectations that the downward dynamics of the business cycle are bottoming out," said Wolfgang Franz, head of the ZEW, who is also chairman of the council of economic advisers to the government. "It is even becoming more likely that the economy will slowly recover in the second half," Mr. Franz said.

A ZEW indicator of economic expectations for the six months ahead rose to 13.0, much more than the rise to 3.8 forecast in a Dow Jones Newswires survey. In March, the index stood at minus 3.5.

However, many economists say the ZEW index doesn't have a strong track record of forecasting the direction of Germany's economy. "The survey is not a very reliable predictor of GDP growth and it is too soon to assume that a recovery is imminent," wrote Jennifer McKeown, European economist at London-based consultancy Capital Economics, in a research report.

The release later this week of the Ifo index of German business confidence and of purchasing managers' index surveys for the euro zone will be closely watched for evidence of whether the German economy is nearing a recovery, after suffering deep contractions in the last two quarters. Both the Ifo and PMI surveys have shown signs of stabilizing at a low level recently.

The two economic stimulus packages set by the German government since late last year should contribute to a recovery, ZEW said.

The indicator showing hopes for a recovery contrasted strongly with a bleaker assessment of the current situation. The survey index for Germany's current economic situation fell to minus 91.6 from minus 89.4, ZEW said.

Separately, German producer prices in March decelerated more quickly than expected, putting the annual figure in negative territory, figures from the Federal Statistics Office showed on Tuesday.

Prices at the factory gate fell 0.7% in March from February, and dropped 0.5% from March 2008, it said. The annual fall is the largest since a 1.1% decline in September 2002, the statistics office added.

Sweden halves key rate to 0.5%

By Joel Sherwood

STOCKHOLM—Sweden's central bank Tuesday halved its key interest rate to 0.5%, its lowest level yet, and left the door open for further easing, as the global crisis continues to weigh on the country's economy.

"The deterioration in global economic activity has hit Sweden hard," the bank said in a statement.

The central bank said increasing money supply through purchases of government and mortgage bonds were an option if the outlook continued to darken. The bank forecast that rates would remain "at a low level" until the beginning of 2011.

Drop in U.K. retail prices adds to deflation fears

By Joe Parkinson

LONDON—U.K. retail prices in March fell by 0.4% from the previous year—their first drop in nearly a half century—fueling deflation fears.

But March consumer prices continued to climb, rising 0.2% from February and 2.9% from a year earlier — both slightly faster than economists had expected.

The data came ahead of a critical U.K. budget statement that will lay out the tattered state of government finances.

The year-on-year drop in the March retail-price index, the broadest measure of price pressures, marks the lowest year-on-year rate since March 1960. Compared with February, the retail-price index was flat. The drops were less than a 0.4% monthly fall and 0.5% annual decline economists had expected.

The fall spells more bad news for Prime Minister Gordon Brown's government ahead of Wednesday's budget statement. Treasury Chief Alistair Darling is expected to say during that statement Wednesday the U.K. economy will contract by 3% to 3.5% this year.

Announcing a £2 billion ($2.91 billion) package to help unemployed people back to work, Mr. Darling plans to say that government measures and interest-rate cuts have already protected 500,000 jobs, a person familiar with the matter said.

Mr. Darling will say the U.K. will never to return to the days when a "whole generation were abandoned to a future on the scrap heap," this person said.

Falls in prices have already occurred in several major economies. The U.S. consumer price index last week turned negative for the first time since 1955, while similar measures have sunk below zero in Japan, Ireland, Portugal, Spain and Switzerland.

"U.K. inflation is still set to drop a lot further and the threat of a broader bout of deflation has not yet evaporated," Capital Economics said in a research note.

The higher-than-expected CPI data could prove troubling to the Bank of England, which has aggressively used monetary policy to combat the downturn.

Meanwhile, the Bank of England said U.K. corporate lending conditions have tightened since the start of the year, but lenders expect the availability of credit to businesses to rise in the second quarter.

However, lenders expect demand for secured and unsecured credit to remain weak in the coming months, the BOE said in a new report on lending in the recession-hit economy.

There are signs the U.K. downturn is easing, but risks remain, said Bank of England Monetary Policy Committee member Andrew Sentance. The May Inflation Report will provide the MPC with an opportunity to reassess conditions, and will inform the next monetary policy decision, Mr. Sentance said.

"Our February central projection suggested that the pace of the downturn would ease in the current quarter, with the economy bottoming out over the summer" and more significant growth through 2010, Mr. Sentance said.

"Though there are still a lot of risks, the economic data since February has been broadly consistent with this projection," he said, adding that some business survey data were more positive and that there are tentative signs of a pickup in housing-market activity.

—Alistair MacDonald contributed to this article

Japan's forecast for economy may drop to 3% contraction

By Takashi Nakamichi

TOKYO—Japan is considering a sharp downgrade in its economic forecast to a 3% contraction for this fiscal year, a person familiar with the matter said, as the government braces for a lingering recession.

The government in December predicted zero growth in the year ending March 2010. A 3% contraction would be the sharpest retrenchment on record, exceeding the 1.5% shrinkage in the year ended March 1999, according to the Cabinet Office.

Asia's largest economy has been pounded by a global slowdown that has weighed on its exports. The falling exports have prompted companies to put the brakes on production, leading to layoffs and damaging consumer sentiment.

Japan's economy contracted an inflation-adjusted annualized 12.1% in the October-December period, worse than the U.S. or the European Union. Analysts expect a similarly weak performance in the quarter ended March.

Several economic indicators have recently shown signs of improvement, but few economists see a quick, dramatic recovery ahead.

Worries about Japan's deteriorating fiscal health may also grow if the government goes ahead with the forecast change. Lower growth estimates could lead it to later cut its forecast tax revenue for this fiscal year, now pegged at 46.1 trillion yen ($471.2 billion), and then sell additional bonds to raise money to fill the hole.

Japan's deficit is already widening as Prime Minister Taro Aso's Cabinet pushes ahead with stimulus steps, putting its fiscal reform goals on hold for now. The government intends to issue 10.82 trillion yen of additional bonds to fund the stimulus package announced this month, Economy and Finance Minister Kaoru Yosano said Tuesday. The bond float would bring the government's planned total bond issuance in fiscal 2009 to a record 44.1 trillion yen.

Mr. Yosano released the outline of the supplementary budget to fund the stimulus, which contains 15.4 trillion yen in fresh spending and tax cuts and is aimed at lifting Japan's gross domestic product by two percentage points in fiscal 2009.

Revenue from the planned security sale will cover more than two-thirds of the stimulus package. The rest will be financed mostly by the government's reserves.