THE WALL STREET JOURNAL.

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Is Mexico City the world's greatest food town?

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Ten fundamental questions for the U.S. car industry

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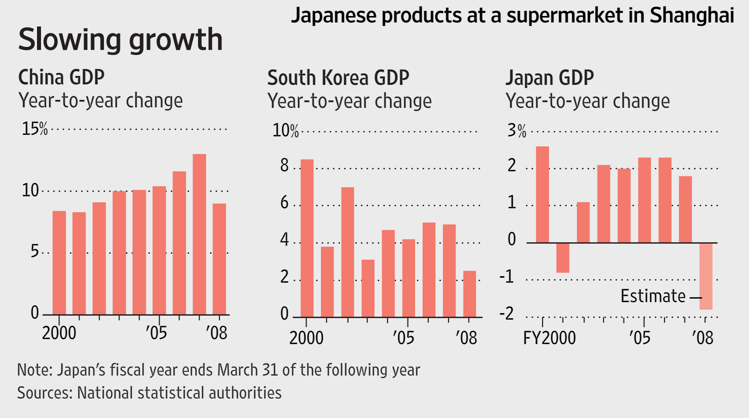
Chinese growth plunges, with global aftershocks

Slowing demand hits region's exporters; Korea, Japan wilt

By Andrew Batson

Associated Press

Japanese products at a supermarket in Shanghai



Note: Japan's fiscal year ends March 31 of the following year

Sources: National statistical authorities

BEIJING—Three of Asia's powerhouse economies—China, Japan and South Korea—are stalling as demand for their goods from the U.S. and Europe wilts, and there are few signs of a hoped-for increase in Chinese consumption that might help keep the global economy afloat.

The financial crisis has slashed China's growth almost in half within a single year: gross domestic product expanded just 6.8% from a year earlier in the fourth quarter of 2008, and 9% for the full year, the government said Thursday. That compares to annual growth of 13% in 2007.

Efforts to stimulate consumption in China are running up against a gloomy economic climate that is making consumers more cautious, as well as a government legacy of encouraging corporate investment over individual spending.

China's slowdown is starting to pummel its neighbors, who had profited in recent years from Chinese demand for their machinery and components. Trading partners have hoped China's government can help support global growth by buying more from abroad, rather than aiding only its own exporters.

Japan's exports to China had held up well until recently. But shipments started shrinking year-on-year in October and the decline has been accelerating since. In December, Japan shipped 750 billion yen ($8.39 billion) of goods to China, down 36% from a year earlier—worse than the declines of 25% in November and 0.9% for October—according to data released Thursday

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What's News—

Business & Finance

Fiat's industrial debt soared to $7.67 billion at the end of last year and sales tumbled, underscoring the tough conditions the Italian auto maker faces as it tries to take a 35% stake in Chrysler under a broad strategic alliance. Page 1

■ **Bank of America** CEO Kenneth Lewis dismissed former Merrill Lynch chief John Thain, angered by Thain's handling of Merrill's losses. Page 1

■ **Russia's central bank** said it will end the ruble's slide, setting a floor about 10% below current levels that it expects will hold for at least a few months. Page 17

■ **The SEC settled** a complaint with GM related to accounting missteps the auto company made. GM isn't paying any penalties or fines. Page 17

■ **The U.S. Fed is likely** to keep its approach to handle the financial crisis despite internal divisions about some tactics. Page 28

■ **The U.K.** is working on an insurance plan aimed at putting a lid on banks' losses. Page 17

■ **European and U.S. demand** is wilting, stalling the powerhouse economies of China, Japan and South Korea. Page 1

■ **Ryanair dropped** its bid for Aer Lingus, which separately partnered with United on new trans-Atlantic routes. Page 2

■ **KBC and Fortis Banque** expect to post losses in the fourth quarter, but KBC's shares jumped 50% as investors chose to focus on the bank's latest bailout. Page 17

■ **European shares** fell as investors focused on the weak economy and corporate earnings. U.S. stocks pulled back from early lows. Page 18

■ **Nokia's profit sank** 69% in the fourth quarter as sales fell and margins shrank. Weak demand is forecast. Page 4

■ **Microsoft's profit fell** 11% as the software maker said it plans to cut up to 5,000 jobs, the latest sign of strain to commodity-style businesses. Page 5

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8122.80	-105.30	-1.28
Nasdaq	1465.49	-41.58	-2.76
DJ Stoxx 600	182.85	-1.67	-0.91
FTSE 100	4052.23	-7.65	-0.19
DAX	4219.42	-41.73	-0.98
CAC 40	2869.62	-35.95	-1.24
Euro	$1.2968	+0.0101	+0.78
Nymex crude	$43.67	+0.12	+0.28

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World-Wide

The ECB is likely to move cautiously in lowering its key rate closer to zero, a top policy maker there suggested, because it doesn't see deflation threatening the euro zone and is concerned about creating another credit-fueled bubble. Cutting rates sharply now makes it harder to raise them back to the right level later, Lorenzo Bini Smaghi said. Page 3

■ **Obama began overhauling** U.S. treatment of terror suspects, signing orders to close the Guantanamo detention center, review military trials and ban some interrogation methods. Page 8

■ **A Senate committee** approved Geithner's nomination as U.S. Treasury secretary, clearing the way for the full Senate to consider his confirmation. Page 8

■ **A precipitous withdrawal** of American troops from Iraq could give al Qaeda a chance to regenerate, U.S. Ambassador Ryan Crocker said. Page 9

■ **Hamas called** for reconciliation with supporters of Abbas but insisted on pursuing resistance against Israel. The U.N. said it will raise funds for emergency repairs in the Gaza Strip.

■ **A senior figure in Iceland's** main governing party said she expects early elections this year, as police used tear gas to break up an antigovernment protest.

■ **Turkish police detained** more suspects connected with an alleged plot to bring down the Islamic-rooted government.

■ **Chinese judges imposed** severe penalties, including death sentences, on defendants convicted in connection with the poisoning of dairy products. Page 11

■ **Iran sentenced** two AIDS physicians to six and three years in prison for their alleged participation in a U.S.-backed plot to overthrow the government.

■ **Greece's government** promised financial assistance to farmers as thousands of tractors blocked highways for a third day.

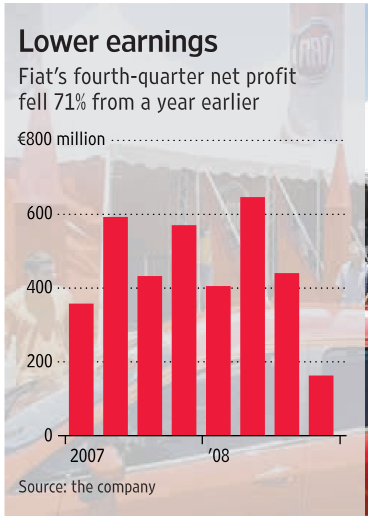
■ **Caroline Kennedy abandoned** her quest for New York's vacant senate seat due to a "personal situation," an aide said. Page 9

■ **Spanish police confiscated** dozens of suspected fake Dali artworks that were to be put on sale in the town of Estepona.

EDITORIAL & OPINION

Leaving the euro?

Dropping the common currency would be a big economic mistake. Review & Outlook. Page 12



Fiat automobile market in Sao Paulo

Reuters

Rising debt, falling sales mean rough road for Fiat

By Stacy Meichtry

ROME—**Fiat** SPA said it is grappling with rising debt and declining car sales, underscoring the tough financial conditions the Italian auto maker faces as it attempts to take a 35% stake in **Chrysler** LLC as part of a broad strategic alliance.

Fiat's industrial debt soared to €5.94 billion ($7.67 billion) at the end of 2008 from €355 million at the end of 2007, the company reported Thursday. The car maker blamed the rising debt on rapidly declining sales in the final three months of 2008.

Fiat has been in talks with several banks, including Italian banks **Unicredit** SpA and **Intesa Sanpaolo** SpA, the past few weeks over the possibility of major, medium-term credit facilities, said several people familiar with the matter. Two people said the group of banks is negotiating with Fiat to provide up to €5 billion in loans. A third person said the credit facility could be closer to €1 billion.

Car companies require huge amounts of working capital to keep their operations running, but revenues are declining amid the global economic slowdown.

"We are working with parties to

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Thain ousted by BofA chief over missteps

By Susanne Craig and Dan Fitzpatrick

Less than four months after being hailed as a hero for averting the potential collapse of Merrill Lynch & Co., John Thain was pushed out of **Bank of America** Corp. by his new boss, who was angered by Mr. Thain's handling of stunning losses at Merrill.

John Thain

Bank of America Chairman and Chief Executive Kenneth Lewis, whose grip on the top job at the third-largest U.S. bank by stock-market value has been questioned as a result of Merrill's woes, dismissed Mr. Thain on Thursday morning in a meeting that lasted less than 15 minutes, people familiar with the matter said.

After flying to New York for the meeting in Mr. Thain's office at Merrill's former headquarters, Mr. Lewis asked Mr. Thain to resign. Merrill's former chairman and CEO agreed; it was clear he had no

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LEADING THE NEWS

Aer Lingus, United to pair flights

Agence France-Presse

United Airlines and Aer Lingus will pair on Madrid to Washington, D.C. flights.

'Open skies' allow new Atlantic routes; Ryanair drops bid

By Quentin Fottrell And Daniel Michaels

DUBLIN—**UAL** Corp.'s United Airlines and Irish flag carrier **Aer Lingus Group** PLC Thursday announced an unusual linkup for trans-Atlantic flights between the U.S. and European destinations outside Ireland.

The airlines, which already cooperate on flights between the U.S. and Ireland, plan to begin with flights between Madrid and Washington starting in March 2010. Both carriers will market the flights and have their flight numbers on the route. But Aer Lingus will operate the planes and will be primarily responsible for costs, while United will take the lead on marketing tickets and generating revenue for the operation.

The arrangement is possible because of the recent deregulation of airline marketing between the U.S. and the European Union, and marks one of the first times that two carriers have allied to target a third country. Traditionally, airlines were limited to flying internationally only from their home country.

The U.S.-EU "open skies" treaty, which took effect in March, allows EU carriers to fly to any airport in the U.S. from any airport in the EU and vice versa.

Aer Lingus Chief Executive Dermot Mannion said that, should the partnership be successful, United and Aer Lingus will form a separate joint venture based in Europe within two years, with Aer Lingus holding a 51% stake.

"These deals are Aer Lingus's version of consolidation," Mr. Mannion told a news conference in Dublin, referring to the planned joint venture with United and its previous code-sharing arrangement with **Jet Blue Airways** Corp. in the U.S.

A few carriers have tried to take advantage of the open-skies treaty on a limited basis: **British Airways** PLC has established a subsidiary that now flies from Paris and Amsterdam to New York, and **Air France-KLM** SA briefly operated flights from London to Los Angeles. But both of these operations faced headwinds because the carriers needed to sell tickets in markets where they lacked significant brand recognition or customer allegiance.

Aer Lingus and United aim to overcome that problem by using United's marketing heft in the U.S. United is America's third-largest airline by passenger traffic after **Delta Air Lines** Inc. and **AMR** Corp.'s American Airlines.

Aer Lingus will use an existing $350 million order with Airbus to supply three A330-200s for the partnership—which includes the route from Washington to Madrid—as well as two aircraft for two future routes, Mr. Mannion said.

Analysts said the timing of the deal could have been an effort by Aer Lingus to help thwart a €748 million ($973.7 million) takeover attempt from Irish rival **Ryanair Holdings** PLC. The Irish government Thursday effectively ended the bid when, as Aer Lingus's second-biggest shareholder after Ryanair with a 25.1% stake, it rejected Ryanair's bid for undervaluing Aer Lingus and threatening competition in the Irish aviation market.

Ryanair said it thought the government had made the wrong decision, but that it would abide by the decision and focus on growing its existing operations.

CORRECTIONS & AMPLIFICATIONS

Investment firm Fairfield Greenwich Group said it hasn't had any dealings with a Chicago-based charity called December Rain. A Money & Investing article in some editions on Jan. 21 said that investors of the firm sold inaugural-event tickets to December Rain, but the Journal didn't reach any Fairfield Greenwich investors or the firm for comment before the article was published. The Journal can't verify that December Rain paid investors, whom the charity declined to name, for the tickets. December Rain did auction off what it said were inaugural tickets and promised winners access to inaugural events sponsored by political organizations and lobbying groups. However, some of those organizations, including the Democratic National Committee, the American Medical Association and the Pharmaceutical Research and Manufacturers of America, deny that they held the events promoted by December Rain. Paul Saulnier, the executive director of December Rain, said Tuesday that he stepped down from the organization. He didn't return calls and emails Wednesday, and he didn't put the Journal in touch with his lawyer, as he offered.

Italian eyewear maker Luxottica SpA announced last week that it will suspend production at its Italian factories for four days this quarter, resulting in a temporary layoff of some 6,000 workers. A Corporate News article Wednesday about job cuts in the luxury-goods sector incorrectly stated that the company laid off about 6,000 temporary workers.

INDEX TO PEOPLE

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

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

INDEX TO BUSINESSES

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

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ECB explains reasons for caution on rates

No deflation threat, fear of a new bubble guide policy making

BY JOELLEN PERRY

FRANKFURT—The European Central Bank is likely to move cautiously in lowering its key rate closer to zero, a top policy maker there suggested, because the bank doesn't see deflation threatening the euro zone now and is wary of creating another credit-fueled bubble.

Economic activity is contracting in Europe, threatening to drag the 16 countries that now share the euro into their deepest recession since World War II. But without evidence of deflation—a prolonged fall in prices and price expectations—"there is little room left to reduce the nominal interest rate" below its current 2%, Lorenzo Bini Smaghi said in an interview.


Lorenzo Bini Smaghi

Mr. Bini Smaghi, 52 years old, is a monetary-policy centrist who sits on the ECB's 22-member Governing Council—which sets rates—as well as its six-member Executive Board.

Cutting rates sharply now, he said, makes it more difficult to raise them back to the right level once recovery takes hold. "The lower rates are brought, the more likely the central bank will find itself behind the curve," said Mr. Bini Smaghi, who was born in Florence, Italy, and holds a doctorate in economics from the University of Chicago. "And the greater will be the seeds of the next crisis. I think we should learn from experience."

Mr. Bini Smaghi's comments are among the clearest explanations yet for why the ECB—which sets interest rates for the $14 trillion euro-zone economy, second in size only to the U.S.—hasn't rushed to follow other central banks in bringing its key rate very close to zero. The U.S. Federal Reserve last month cut its key rate to near zero and the Bank of England earlier this month cut its policy rate to 1.5%, the lowest in the bank's 315 years.

The ECB has lowered its key rate four times in as many months to 2%, from 4.25% in October. That is the fastest pace of cuts in the bank's 10-year history. After the bank cut its key rate by a half-percentage point on Jan. 15, President Jean-Claude Trichet suggested policy makers would slow the pace, holding steady in February. Markets expect the protracted slowdown will push the ECB to another cut in March, to a record low of 1.5%.

Mr. Bini Smaghi also dismissed as "irrational" rising market bets that ballooning debt loads—which have caused three euro-zone countries to suffer credit-rating downgrades in less than two weeks—could push a euro-zone country to default.

The region's economic outlook darkened further Thursday. New industrial orders posted their largest annual drop on record in November, sliding 26.2% from the year before as tight financing strangled global demand, according to the European Union's statistics office. French consumer spending on manufactured goods fell by a steeper-than-expected 1.7% in December from a year earlier, according to French national statistics office.

Inflation pressures are fading. Falling commodity prices pushed euro-zone inflation to a 26-month low of 1.6% in December, below the ECB's preferred level of just under 2%. Inflation should continue falling in coming months as the effects of last year's high energy prices wear off, and rise again toward year end. "We don't have evidence," said Mr. Bini Smaghi, "that there is going to be deflation."

The region's economic outlook darkened further Thursday.

Forecasters and markets continue to expect that longer-term inflation in the bloc will hover around the bank's goal of just under 2%. If inflation hews to those expectations, Mr. Bini Smaghi signaled he would be reluctant to lower the bank's key rate much further. "We should not go in a territory in which real [inflation-adjusted] interest rates are substantially negative," he said, noting such policies had proved to create "huge distortions in the economy."

At the ECB's Jan. 15 meeting, President Trichet suggested policy makers had a lower limit for rates, but declined to specify what it was.

Significantly, Mr. Bini Smaghi signaled that the ECB could be flexible. Faced with an "extreme situation" of deflation, he said, "one cannot exclude a zero-rate scenario." He emphasized: "that is not the case right now in the euro area."

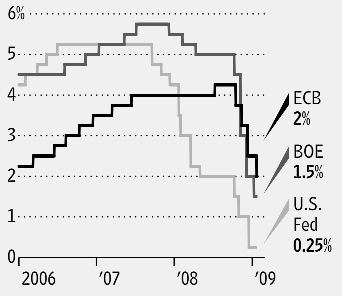
The bloc has other problems. In the past two weeks, amid concern that some euro-zone governments will struggle to finance fiscal-stimulus and bank-rescue packages as tax receipts dwindle, Standard & Poor's cut its credit ratings for Greece, Spain and Portugal. Many analysts expect Ireland, which was put on credit watch earlier this month, will be next.

Amid those strains, markets are increasing bets that a euro-zone nation could default on its debt. In the credit-default swaps market—where investors buy and sell derivatives that pay off when a debt-issuer defaults—the cost of swaps linked to Ireland has risen tenfold since September. Bets on defaults by Greece, Spain and Portugal hit highs this week.

Mr. Bini Smaghi dismissed the rising spread as "quite irrational. It's clear that debt is going to go up in the next few years in several countries. But I think the commitment to bringing that debt down afterward is also clear."

Different strokes

Key interest rates at the European Central Bank, Bank of England and the U.S. Federal Reserve



Sources: European Central Bank; Bank of England; U.S. Federal Reserve

The strains are also pushing ECB policy makers to rebuff speculation that the bloc could break up. The central bank sets rates for the bloc, so struggling countries can't slash interest rates or devalue currencies to boost growth. Economists see such a splintering as far-fetched. A defector would face sharply higher debt costs, as its euro-denominated debt would need to be repaid with a less-valuable currency.

Mr. Bini Smaghi suggested the political burden could be equally onerous. "It would also imply exiting from the European Union," he noted. "And in the end, no country would be willing to face this."

Indian prosecutors say Satyam founder siphoned funds

The disgraced former chairman of **Satyam Computer Services** Ltd., B. Ramalinga Raju, used salary payments to 13,000 fictitious employees to siphon millions of dollars from the Indian outsourcer for land purchases, prosecutors said Thursday.

Prosecutors in the southern Indian city of Hyderabad, where the technology-outsourcing firm is based, told a criminal court that Satyam has only about 40,000 employees instead of the 53,000 it claims.

*By **Eric Bellman** in Hyderabad, India and **Niraj Sheth** in New Delhi*

Prosecutors claimed the money, in the form of salaries paid to ghost employees, came to around $4 million a month. The money was diverted through front companies and through accounts belonging to one of Mr. Raju's brothers and his mother to buy thousands of acres of land, the prosecutors said. Prosecutors say they are investigating but didn't allege that Mr. Raju's mother or brother were involved. They didn't offer further details on how the alleged diversion of funds took place.

Prosecutors made the claims in a hearing Thursday where the state police for the state of Andhra Pradesh asked for more time to interrogate Mr. Raju and Satyam's former chief financial officer, Srinivasan Vadlamani, who is also in custody.

"The funds of Satyam have been diverted to many other companies," K. Ajay Kumar, assistant prosecutor, told a packed courtroom. Investigators need more time with Mr. Raju and Mr. Vadlamani to figure out where the money has gone, Mr. Kumar said.

S. Bharat Kumar, a defense lawyer for the Raju family and Mr. Vadlamani, said the prosecution's claims are based on speculation and are "absolutely false." He said B. Ramalinga Raju stood by his original confession and that he didn't profit from the fraud and no funds were diverted. "It is nothing but their imagination," Mr. Kumar said.

The defense lawyer also said that Mr. Raju's mother and a brother, B. Suryanarayana Raju, weren't involved in Satyam or the fraud in any way.

Prosecutors didn't provide any evidence in open court to substantiate their claims. But the allegations suggest that the fraud at Satyam ran much deeper than the scheme admitted to earlier this month by Mr. Raju, the company's founder, even as Satyam's senior executives across the globe scramble to retain large corporate clients and employees in an effort to move beyond the scandal.

In a letter to the board released Jan. 7, Mr. Raju outlined a years-long fraud that he said inflated the company's results, including a fictitious bank balance of more than $1 billion.

But in the letter he said neither he nor any family member benefited financially from the fraud. He also stated that no other family member except one brother, former Satyam managing director B. Rama Raju, was aware of the scheme, and that he concocted it to protect Satyam from becoming a takeover target.

Since then, the Raju brothers and Mr. Vadlamani have been arrested on charges of forgery, cheating and breach of trust.

Mr. Kumar, the defense lawyer, said it would be impossible for anyone to juggle 13,000 fake employee accounts. He also denied the prosecution's claim that Mr. Raju admitted to the fake employee accounts under interrogation.

Prosecutors alleged that funds were diverted from Satyam through accounts owned by Mr. Raju's mother and B. Suryanarayana Raju. In addition to denying either relative had any role in Satyam or the fraud, Mr. Kumar said B. Suryanarayana Raju's home and office were raided by authorities Wednesday and a truckload of documents removed.

After Thursday's hearing, the court awarded the police one more day to interrogate B. Ramalinga Raju and Mr. Vadlamani. B. Rama Raju also is in custody but isn't currently being interrogated, according to defense lawyers working on the case. A hearing on bail for all three men is scheduled for Friday.

A Satyam spokeswoman said that the company is cooperating fully with authorities, but declined to comment further on the allegations because the matter is still under investigation.

The Raju family has been a big investor in land around Hyderabad for decades but has snapped up thousands of acres in the past five years. Much of their land holdings have ended up in the company **Maytas Properties** Ltd., which is also being investigated by authorities in connection with the Satyam fraud.


B. Ramalinga Raju

Apart from the police, Satyam is also being probed by the government's Serious Fraud Investigation Office and the Securities and Exchange Board of India, the financial-markets regulator.

As the investigations gather pace, Satyam executives have been pushing to retain the clients and employees the company needs to survive the crisis.

Anil Kumar, head of the Satyam's division for banking and financial-services clients, has been going door to door to meet each of Satyam's largest banking customers in New York.

"It was a road show of sorts," said Mr. Kumar, who added that he has been on the phone almost constantly since news of the fraud broke.

The company's hundreds of relationship managers are talking to customers and offering them the chance to talk directly to the new board of directors that was installed by the government in the wake of Mr. Raju's confession and resignation as chairman.

Satyam managers are sending daily emails to employees to keep them focused on work. Satyam has in some cases asked its customers to put on town-hall-type meetings to reassure Satyam staff that the contracts are safe. "If there is business, there are jobs," Ashish Patharkar, head of the Microsoft technology account, says he tells his workers regularly. "Everything like salaries will fall in place."

At the top of the list of concerns coming from customers and employees are the company's cash-flow problems. The new directors have said they are approaching customers and asking them to pay what they owe as early as possible so that the company has sufficient operating funds to survive.

Satyam suffered a major blow earlier this week, when **State Farm Insurance** of the U.S. announced that it was ending its business with Satyam. A number of others could likely follow suit, industry analysts say. Among the outsourcer's remaining top clients are **Citigroup** Inc., **Caterpillar** Inc., and **Coca-Cola** Co. A Citigroup representative said it is continuing its relationship with Satyam; a Caterpillar spokesman declined to comment. A Coca-Cola spokeswoman said the company is reviewing its relationship with Satyam.

—Timothy Martin in Chicago and Betsy McKay in Atlanta contributed to this article.

International Investor

Money management

Venture-capital firms decide which of their young to forsake > **Page 22**

CORPORATE NEWS

Sony forecasts first loss in 14 years

Consumer-electronics giant, struggling with low prices and strong yen, escalates plan for layoffs, factory closings

By Daisuke Wakabayashi

TOKYO—**Sony** Corp. said it would report an annual loss for the first time in 14 years as plunging LCD television prices and a strong yen are forcing Chief Executive Howard Stringer to pursue his most drastic restructuring measures to date, more than doubling the cost cuts that were announced in December.

Crippled by a global economic downturn and intensifying price competition, Sony said it now expects to post a net loss of 150 billion yen ($1.7 billion) in the fiscal year ending March 31, a reversal from a 150-billion-yen profit forecast that was made in October. It also cut its sales forecast by 14% to 7.7 trillion yen.


Howard Stringer

Mr. Stringer, who took over in 2005 as the first non-Japanese executive leading the electronics and entertainment conglomerate, said Sony has to accelerate its restructuring plans with a sense of urgency to reduce fixed costs that are too bloated and a supply chain that is too slow.

Last month, Sony said it would cut 16,000 jobs from its electronics divisions and close as many as six factories in an attempt to save more than 100 billion yen in annual costs.

Now, it plans to expand the layoffs to other Sony businesses including its entertainment and videogame arm and slash spending across the board to shave an additional 150 billion yen in costs.

Sony didn't specify the number of new layoffs, but said it plans to close a television factory in Japan by June and it will outsource more production of lower-cost products to contract manufacturers, a strategy used by new competitors encroaching on Sony's turf. The company didn't offer further details of how it would achieve the cost savings.

In many ways, Sony's competition with **Apple** Inc. captures the challenges facing the company. Apple came to dominate the market that Sony's Walkman created not with hardware brilliance or manufacturing prowess but with simple-to-use software and elegant design. On Wednesday Apple reported net profit rose 1.5% in the fiscal quarter ended Dec. 27.

Apple relies on contract manufacturers for production and doesn't have any factories of its own.

By comparison, Sony has 57 electronics factories. Half of those facilities are in Japan where labor costs can be high and a strong yen can cripple profit margins when funds from products sold overseas are repatriated into yen. More than 80% of Sony's electronics are sold overseas. Earlier in the week, the yen hit a new 13-year high against the U.S. dollar at 87.10.

What's more, many Japanese companies consider it a social responsibility to care for their workers and prefer to make cutting full-time jobs at home a last resort. A third of Sony's 180,000 full-time employees are based in Japan.

A senior executive at Sony said Mr. Stringer's effort to close production facilities in Japan has raised tensions with long-entrenched executives. Closing a Japanese factory making television sets—the flagship product of Sony's electronics lineup—shows that Mr. Stringer wants to make no exceptions in effort to revive the company.

"Our own historical legacies sometimes restrain us. There is still too much old Sony and not enough new," said Mr. Stringer at the news conference Thursday.

Sony forecast an operating loss of 260 billion yen, the company's biggest to date, compared with a previous estimate for an operating profit of 200 billion yen.

Preliminary results for the fiscal third quarter ended Dec. 31 show sales fell 25% from a year earlier to 2.1 trillion yen, while net profit fell 95% to 10 billion yen. Historically, Sony earns a larger portion of its full-year profit during the holiday quarter.

In the past three years, the 66-year-old Mr. Stringer has shed 10,000 jobs at the company, separate from the 16,000 job cuts announced in December, mostly from Sony's non-Japanese staff, and embarked on initiatives to cut costs and streamline operations. But while those efforts were starting to pay off with improved profitability, Sony was hit with a double whammy of a severe economic slowdown in its key markets and a strong yen.

Now, Mr. Stringer is pushing to make the deep and painful cuts in Japan that he hasn't made in earlier restructuring plans, using the economic downturn as the necessary catalyst to take more drastic measures, according to a person familiar with the matter.

Still, Mr. Stringer faces plenty of challenges. Analysts said the lack of detail about Sony's restructuring efforts raises questions about whether the company's plans are sufficient to garner long-term profit improvements.

The company tripled its forecast for restructuring charges for this fiscal year ending in March to 60 billion yen and said it would incur an additional 110 billion yen in restructuring charges next year.

Sony last posted a full-year loss in its fiscal year ending March 31, 1995, when the company was forced to write down its investment in Columbia Pictures. A loss in this fiscal year would mark the company's second net loss since it started reporting earnings in 1961.

Sony's three top executives including Mr. Stringer will forgo a bonus for the current fiscal year, while other high-ranking employees will take cuts in salary and bonus.

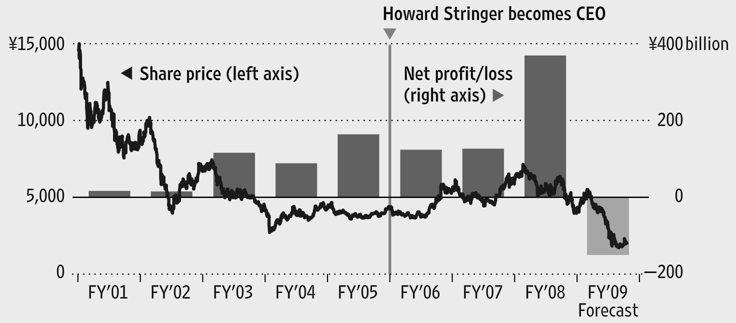
To achieve the 16,000 headcount reductions announced in December, the company plans to introduce an early-retirement program for employees, and the closure of the Japanese television factory will result in 1,000 job cuts for temporary workers.

Sony's Bravia TV line is shown in Tokyo

Associated Press

Challenging times

Sony faces its first annual net loss in many years.



Note: Fiscal years end March 31 of year shown

Sources: the company (net profit/loss), Thomson Reuters Datastream (share price)

Nokia's net skids 69% in quarter

By Gustav Sandstrom

Nokia Corp. posted a worse-than-expected 69% drop in fourth-quarter net profit Thursday and said the market would contract further in 2009 than previously forecast.

The economic downturn has led to a rapid decline in consumer demand for electronic goods, and Nokia, the world's biggest mobile-phone maker, said the outlook for this year had deteriorated further since it issued a profit warning in December.

Nokia shares fell 9% in Stockholm trading Thursday.

Net profit for the three months ended Dec. 31 fell to €576 million ($749.8 million) from €1.84 billion in the year-earlier period. Earnings per share fell to 15 European cents from 47 cents.

Sales declined 19% to €12.66 billion from €15.72 billion. The average selling price for the company's phones declined to €71 in the fourth quarter, down from €83 a year earlier and €72 in the third quarter.

Nokia's operating margin slipped to 3.9% from 15.9%, in part because of restructuring charges of €747 million relating to **Nokia Siemens Networks**, the company's network-equipment joint venture with **Siemens** AG, as well as amortization after last year's $8.1 billion acquisition of digital mapmaker Navteq.

"The macroeconomic environment has deteriorated rapidly, with even weaker consumer confidence, unprecedented currency volatility and credit tightness continuing to impact the mobile communications industry," said Chief Executive Olli-Pekka Kallasvuo.

Nokia said it now expects 2009 mobile-device volumes for the industry as a whole to decline about 10% from 2008, down from previous expectations for a 5% drop, with the decline greater in the first half than in the second half.

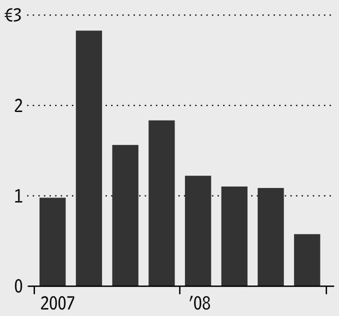
The company is feeling the pressure of the weakening economy to a greater extent than expected, said Gartner Inc. research director Carolina Milanesi. Still, "Nokia is best placed to deal with the current market conditions thanks to its economies of scale, distribution channel and portfolio that meets different price points," she said.

The company said its market share fell to 37% in the fourth quarter from 38% in the third quarter. Among other challenges, Nokia is battling **Apple** Inc.'s iPhone in the smart-phone segment. Apple said Wednesday it sold 4.4 million iPhones in its fiscal first quarter, 88% more than a year earlier.

Analysts had expected Nokia to post a weak result after the company warned twice during the fourth quarter that it was being hit by slower consumer spending. Friday, rival handset maker **Sony Ericsson** warned of further market weakness as it posted a second straight quarterly loss. Sony Ericsson is the handset joint venture of Japan's **Sony** Corp. and Sweden's **Telefon AB L.M. Ericsson**.

Another fall

Nokia's net profit, in billions



Source: the company

Autonomy grabs Interwoven to expand in legal software

By Steve McGrath

LONDON—**Autonomy** Corp. said Thursday it agreed to acquire software firm **Interwoven** Inc. for $775 million, boosting its presence in the U.S. and gaining access to the growing legal software market.

The U.K. information-retrieval software company's product helps companies keep track of their email, phone calls and documents, and it has seen demand surge as the regulatory burden on companies has grown, notably in the U.S. The acquisition of Interwoven, founded in 1995, will boost Autonomy's presence in the U.S. and give it access to a growing market, particularly software for law firms.

Interwoven's software helps employees manage Web content and legal documents, and its customers include the world's top law firms, governments and companies such as Airbus, **Fedex** Corp., **HSBC Holdings** PLC, **Royal Dutch Shell** PLC and **Microsoft** Corp.

Interwoven shareholders will get $16.20 for each share, a 37% premium to Wednesday's $11.84 closing price on the Nasdaq Stock Market. Autonomy shares rose 3.8%, or 39 pence, to £10.72 ($15) in London Thursday.

Autonomy said it will place about 21.6 million shares, or 9.99% of its existing share capital, seeking to raise about £220 million ($307.6 million) to help fund the deal. The balance will come from a new revolving credit facility with **Barclays** PLC and cash reserves.

Seymour Pierce analyst Derek Brown called the deal a masterstroke. "Autonomy is buying the one-time leader in the content-management space, expanding its customer base by some 3,000, and enabling dominance of the legal arena at a time when the market is set to boom through increased regulation across all industry verticals," Mr. Brown said.

Cambridge, England-based Autonomy said it expects the acquisition to add to earnings in the first full quarter after completion, which it expects in the second quarter of this year. If the deal closes on time, it expects to have a cash balance of at least $75 million afterward.

Microsoft to eliminate 5,000 jobs

Quarterly profit dips as global downturn erodes PC demand

By Nick Wingfield

Microsoft Corp. finally succumbed to the deteriorating global economy, announcing lower profit and job cuts in the latest sign that companies dependent on commodity-style businesses such as personal computers are hurting the worst.

The Redmond, Wash., software company posted an 11% decline in net income for its fiscal second quarter and announced plans to cut as many as 5,000 jobs, an unprecedented number of layoffs in Microsoft's more than three decades in business. Microsoft Chief Executive Steve Ballmer, in an email to company employees, described the current economic environment as the "worst recession in two generations."

The news from Microsoft came the same day cellphone giant **Nokia** Corp. reported a 46% dive in earnings and **Sony** Corp., the biggest name in the consumer-electronics sector, warned of a $2.9 billion operating loss.

Another bellwether of the PC business, chip maker **Intel** Corp., Wednesday said it will close several factories, displacing 5,000 to 6,000 workers, while rival chip maker **Advanced Micro Devices** Inc. recently said it plans to slash 1,100 jobs.

Yet the pain isn't being shared equally in high tech, as some companies benefit from healthy niches or use strong competitive positions to expand their market share. On Wednesday, **Apple** Inc. said strong

Associated Press

Steve Ballmer, who Thursday called the current recession the worst "in two generations," speaks earlier this month in Las Vegas.

sales of its Macintosh computers and iPhones powered a 5.8% rise in revenue and a 1.5% gain in profit. Both products have exploited attractive designs to perform relatively well during the downturn.

Meanwhile, **International Business Machines** Corp. recently reported strong financial results and an upbeat outlook, thanks in large part to a shift over the past several years out of commodity hardware products into corporate software and services.

Services is a bright spot in the industry, because many troubled companies are concluding they can cut costs by outsourcing operations to companies like IBM and Accenture Ltd., which reported strong results in December. Services can also help companies cut costs by building energy-efficient data centers and virtualizing servers so many applications run on a single box.

Pip Coburn, president of Coburn Ventures, a New York-based hedge fund focused on technology, said it is far easier in this economic climate for businesses to defer spending on new computers for workers than it is for them to resist pitches to cut technology spending through outsourcing deals.

"PCs are not do-more-with-less," said Mr. Coburn, whose fund holds shares in Accenture. "They're just a tax and one that you can push out."

For its fiscal second quarter ended Dec. 31, Microsoft reported net income of $4.17 billion, or 47 cents a share, down 11.5% from $4.71 billion, or 50 cents a share, a year earlier. Revenue rose 1.6% to $16.63 billion.

The job cuts, which make up more than 5% of Microsoft's 96,000-person work force, include 1,400 people to be laid off Thursday. In total, the cuts are expected to save Microsoft $1.5 billion a year.

In an interview, Microsoft Chief Financial Officer Chris Liddell said the company is bullish that the PC market will again be a growth business. "In the short term, we're very conservative," he said. "Over the medium- to longer-term, there are still five billion people without a PC."

—William M. Bulkeley, Don Clark and Justin Scheck contributed to this article.

GM sales fall 11%, putting Toyota in top spot

By Sharon Terlep

General Motors Corp. reported an 11% drop in 2008 vehicle sales, relinquishing its crown as the world's biggest auto maker to **Toyota Motor** Co. after 77 years.

GM, which is struggling to stay afloat with loans from the U.S. government, said it sold 8.35 million vehicles world-wide last year. Japan-based Toyota has said it sold 8.97 million vehicles, off 4% from a year earlier.

Last year's declines at GM were led by a 21% skid in North America to 3.56 million vehicles. Sales in Europe, which like the U.S. has fallen into recession, declined 6.5% to 2.04 million.

Former hot spots in emerging markets showed slowing demand, with GM sales rising 2.7% in the Asian-Pacific region and 3.2% in Latin America, Africa and the Middle East. Still, Russia recorded 30% growth while Brazil gained 10% and India rose 9%. GM sales in China increased 6%.

International sales rose to 64% of GM's total, from 59% in 2007.

The company predicted auto markets will remain bleak through the first quarter and said it is counting on government stimulus around the globe to help reverse things. (See article on page 17.)

Slumping sales contributed to GM's financial crisis, which led the auto maker to seek $13.4 billion in federal assistance at the end of last year to avoid a bankruptcy filing.

GM sales analyst Mike DiGiovanni said industrywide sales in the U.S. will likely come in at a seasonally adjusted rate of about 10 million vehicles in January, similar to the multidecade lows seen toward the end of last year. He attributed the weakness in part to factory shutdowns that have curtailed auto makers' ability to meet demand from rental-car companies. GM and other major auto makers idled many plants for the month to get inventories in line with anemic demand.

Conditions in Western Europe are likely to remain challenging, Mr. DiGiovanni said, as nations struggle with a housing crisis similar to the one in the U.S. He said developing markets that until recently boasted rapid growth are expected to notch modest sales growth.

The auto maker has played down its sales competition with Toyota. "They passed us in market cap, profitability and cash flow a long time ago," GM Chief Operating Officer Fritz Henderson said Tuesday.

Toyota officials, likewise, didn't make much of the lead change.

Hyundai Motor's profit falls 28% amid downturn

By Kyong-Ae Choi

SEOUL—**Hyundai Motor** Co., South Korea's largest car maker by sales, said fourth-quarter net profit declined 28% as the weaker won failed to cushion the impact of the global economic downturn.

The company postponed a $600 million investment to start production at its Sao Paulo, Brazil, plant in the first half of 2011. It also will adjust its plan to build a 540 billion won ($394.2 million) plant in Russia by January 2011.

"The fourth-quarter results are as bad as it gets, given auto finance credit was not available for many customers amid the economic crisis," said Park Dong-wook, Hyundai's senior vice president.

Hyundai's net profit for the three months ended Dec. 31 fell to 243.6 billion won from 338.0 billion won a year earlier. T.H. Chung, the company's senior executive vice president, said the company expects the business environment to remain tough this year.

Operating profit declined 8.9% to 581 billion won from a revised 637.8 billion won a year earlier, while sales rose 1.1% to 8.831 trillion won.

Analysts said given Hyundai's planned year-to-year output reduction of between 25% and 30% in the first quarter, the results for the period will reflect sharp declines in operating profit and sales.

"If each government's stimulus package helps ease auto finance credit, sales of low-priced small cars may increase from the second quarter, helped by a weak won," Song Sang-hoon at Kyobo Securities said.

By contrast, **Kia Motors** Corp., which is 39% owned by Hyundai, said its fourth-quarter net profit almost doubled due to the weaker won and new car models. The U.S. dollar rose 48% over the year to an average 1,364 against the won in the fourth quarter.

Kia's net profit for the three months ended Dec. 31 was 74.8 billion won up from 37.9 billion won a year earlier, largely on strong domestic sales of new and remodeled vehicles. Quarterly operating profit fell 63% to 35.9 billion won from 97.7 billion won, while sales were up 7.4% to 5.041 trillion won.

Kia will proceed with a plan to start production of two to three models at its plant in the U.S. state of Georgia starting in December this year as planned. Despite worsening market conditions, Kia said it will further strengthen its lineup by launching four new models, increase production of small cars and keep inventory low this year.

Lockheed offers bullish outlook, posts solid profit

By August Cole

Lockheed Martin Corp. reported its strongest annual profit ever and gave a bullish outlook for this year, signaling that the defense industry may be one of the few sectors able to buck the U.S. recession.

Lockheed, the Pentagon's biggest contractor by sales, reported revenue of $11.13 billion in the fourth quarter, up 3% from a year earlier. Net earnings were $823 million, or $2.05 a share, an increase from $799 million, or $1.89 a share.

For the year, sales rose 2% to $42.73 billion, while net income climbed to $3.22 billion, or $7.86 a share, from $3.03 billion, or $7.10 a share.

For this year, the company projected revenue between $44.7 billion and $45.7 billion and profit of $4.16 billion, or $7.05 a share, to $4.26 billion, or $7.25 a share. The new outlook for revenue was higher than the forecast Lockheed gave in October. But the profit forecast was lower because of higher pension expenses driven by tumbling interest rates and weak equity returns.

The Bethesda, Md., company is the first of several large defense contractors, including **Raytheon** Corp., **General Dynamics** Corp. and **Northrop Grumman** Corp., slated to report earnings in the next few weeks and its bullish outlook bodes well for the rest of the sector.

Defense companies' ride their own ups and downs, but are affected more by national security and government spending than market turbulence. Many of these companies are benefiting from the dramatic expansion of military spending during the eight years George W. Bush's presidency. While the Pentagon budget's growth rate is expected to contract under President Barack Obama, many defense companies have built sizable order backlogs, enabling them to ride out the current economic downturn.

Lockheed Chief Financial Officer Bruce Tanner said the company's four divisions worked hard last year to build up their backlogs, now a record $80.9 billion combined. "We felt it was very important given the change of administration," Mr. Tanner said in an interview.

Lockheed has also tried to diversify its business beyond defense contracts. Chief Executive Robert Stevens steered the company into national-security work, well beyond its traditional strength in aerospace engineering and military aircraft.

Lockheed's information-systems and global-services division brought in the most fourth-quarter revenue, at $3.3 billion. The group's broad responsibilities range from supporting peacekeeping operations in Africa to working with the U.S. intelligence community.

In a sign of how the defense industry isn't wholly insulated from the current markets crisis, however, Northrop Grumman said Thursday that it will take a write-down of $3 billion to $3.4 billion for its shipbuilding and space businesses. That will result in a net loss for the fourth quarter, the Los Angeles company said, explaining that the charge was "primarily driven by adverse equity-market conditions that caused a decrease in current market multiples and the company's stock price as of Nov. 30, 2008."

CORPORATE NEWS

Retailers continue to expand in China

Carrefour, Tesco see good long-term bet despite sales slump

BY MEI FONG

SHANGHAI—Some of the biggest international retailers are going ahead with ambitious expansion plans in China, which they hope will remain a relative bright spot in a world of slumping sales.

Companies like U.K. supermarket chain **Tesco** PLC and big-box retailers **Carrefour** SA and **Wal-Mart Stores** Inc. continue to see the Chinese consumer as a good long-term bet. Despite a sharp slowdown in China's overall economic growth and clear signs of flagging in consumer sentiment, retail sales growth is still positive.

Retailers "look stupid if they open in Europe or the U.S., so emerging markets [like China] look more attractive," said Morgan Parker, Asia president of luxury mall developer **Taubman Centers** Inc.

China's official indicator of retails sales is holding up reasonably well, although some economists question the accuracy of the data. The data indicate slackening growth: up 20.8% in December from the same month a year earlier, compared to an increase of 22% in October and 23% in September. By comparison, retail sales in the U.S fell 2.7% in December, the sixth consecutive monthly drop.

Tesco says it is expanding its store network in China even as it cuts down on capital expenditure and opens fewer stores in Britain. A Tesco spokesman says the company has a "strong opening plan" in China for 2009, which includes the first Tesco stores in Shandong province in eastern China and Fujian province in the southeast. Tesco also plans to expand its store network in the northeastern province of Liaoning, where it has 11 stores.

French hypermarket chain Carrefour says it plans to open as many as 28 stores in China this year, up from 22 last year.

Wal-Mart, which opened 30 stores last year and 17 the year before, sees no reason to slow down expansion, said spokesman Jonathan Dong.

Wal-Mart said the company will continue to open new stores at a double digit pace in China because "the market still has big potential. We are in the food business, and people are still buying," Mr. Dong said. Wal-Mart doesn't disclose individual country numbers but the China operation is profitable, he said. As of November the company had 217 retail units in China.

Other retailers either entering the China market or expanding include housing goods giant Ikea, which plans to add two more stores to its existing six outlets in China. Canadian shopping center developer **Ivanhoe Cambridge** Inc. says it is on track to buy its first Chinese mall this year.

These ventures, some planned before the onset of the global slump, come in the face of a slowing Chinese economy. A survey of more than 11,000 people in China released Jan. 16 by research consultancy Millward Brown showed that 78% of Chinese consumers are already feeling some impact from the global financial crisis, with those affected most likely to cut down on Western fast food, traveling, entertainment and luxury items such as jewelry.

Getty Images

Ikea plans to add two more stores in China, like this one in Nanjing, the housewares company's sixth in the country. Wal-Mart opened 30 last year.

A Chinese consumer confidence index by Beijing-based consultancy Horizon Group shows Chinese consumer confidence in December at its lowest point since 2003, after the country was hit by the SARS epidemic. Horizon's study showed that consumers are likely to reduce consumption further after next week's Lunar New Year holidays, when salary cuts are expected. And Research firm Data Driven Marketing Asia said a telephone survey of 4,500 consumers showed 60% of consumers plan to cut spending this year, mainly because of fears of job losses.

China's retail sector will "certainly be slower than anything we've seen in memory," said Paul McKenzie, head of consumer research at Hong Kong brokerage CLSA Asia Pacific Markets. According to CLSA, same-store sales growth peaked in the second half of 2007 and the first quarter of 2008. "Now on average it is down to around 10%, and in some cases single digits," he said.

It can take three to five years for individual stores to become profitable in China, and many aren't, said Mr. Parker from Taubman. The developer currently has two shopping malls under development in Asia, including one in Macau, whose opening has now been delayed by a year to 2011 because of the financial slowdown.

Japanese supermarket chain **Aeon** Co., meanwhile, said it would delay a target of opening 100 stores in China by two years, until Feb. 2013. Aeon made the decision after sales growth in China slowed to between 5% and 10% from October, compared with between 15% and 18% before the Summer Olympics.

Even so, retailers that have the financial strength to expand are taking the long-term view of the Chinese market.

"Expansion is not going to stop—we look at the situation as temporary," said Clarence Wong, chief financial officer for the department store **Parkson Group**. "We're still bullish about China and the economy but since the second half of last year the trading environment has become tougher, and we expect the first half of this year to be similar."

Parkson has 42 department stores in China and will open another four to five new stores this year in the country. The Hong Kong-listed company reported a 21% rise in total sales to 5.2 billion yuan, with a 14.4% rise in same-store sales in its 2008 interim results.

Chinese consumers retain an appetite for shopping. Retail sales during the three-day New Year holiday were stronger than expected, rising 13% to $1.8 billion dollars. Growth during this period was even higher in inland China, rising 50% in cities like Chongqing, according to Shanghai-based retail consultancy AccessAsia.

Advertising spending—which is tied to consumer demand—is expected to grow 13% in China this year, with forecast yield of $4.6 billion in expected new demand that will go some way toward making up the shortfall in U.S. ad spend, forecast to shrink by $5.2 billion, according to media investment company GroupM Inc.

—Norihiko Shirouzu contributed to this article.

Apple's results defy downturn, but outlook is cautious

BY YUKARI IWATANI KANE AND KARA SCANNELL

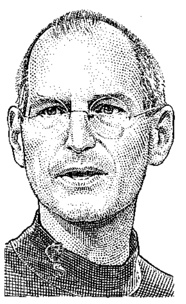
Apple Inc. defied the recession and technology slump by posting strong sales and profit for the holiday quarter. But it gave a cautious outlook for the current period amid news that the U.S. government is examining how the company disclosed Chief Executive Steve Jobs's health issues.

Bucking the falloff in consumer spending, Apple Wednesday reported strong increases in sales of its Macintosh computers and iPhone cellphones in its fiscal quarter ended Dec. 27. That powered a 5.8% rise in revenue and a 1.5% gain in profit, sending its quarterly sales past $10 billion for the first time.

But Apple said it expects sales and profit to be lower in the current quarter than Wall Street projects. The company puts revenue at $7.6 billion to $8 billion, about flat from a year ago, with diluted earnings per share of 90 cents to $1. Analysts had been projecting profit of $1.13 a share on revenue of $8.2 billion.

Still, Apple's performance stood in contrast to other grim news from the tech sector and the company's stock was up 8.5% in afternoon trading Thursday at $89.83 a share. Intel Corp. said Wednesday it will close some older factories, displacing 5,000 to 6,000 workers, though not all will lose their jobs. Last week, Motorola Inc. said it would slash jobs, and a number of other leading technology companies—including Yahoo Inc. and Hewlett-Packard Co.—also have announced layoffs.

Meanwhile, the U.S. Securities and Exchange Commission has opened an inquiry into Apple's disclosures about Mr. Jobs's health, people familiar with the matter said Wednesday. This month, Mr. Jobs, a cancer survivor, said he would be taking a leave of absence from the Cupertino, Calif., company until the end of June to deal with "more complex" medical problems for which he provided no details. His announcement came several days after he said he had a "hormone imbalance" for which he had begun "relatively simple and straightforward" treatment.



Steve Jobs

Spokesmen for Apple and the SEC both declined to comment about the inquiry.

It is unclear how advanced the SEC investigation is. Regulators often start with informal inquiries to collect information. Staff attorneys can later ask the SEC commissioners to formalize the investigation, which gives them subpoena power and other tools. The probe was earlier reported by Bloomberg News.

Questions about the health of the 53-year-old Mr. Jobs have hung over Apple for the past year since he began exhibiting noticeable weight loss, but the company and CEO have been reluctant to provide information and have said Mr. Jobs's health is a private matter. Some investors and analysts have criticized the disclosures as inadequate, saying among other things that Mr. Jobs's reference to a "hormone imbalance" was too general.

Companies aren't required to disclose information about executives' health but once they do issue a statement, it has to be accurate and can't be misleading, according to securities lawyers.

Another issue is how critical that information is to investors. When Apple disclosed that Mr. Jobs would be on leave for six months, the company's stock price fell 7% in after-hours trading, one measure regulators often use in determining how important information is to investors. "If they knew at that time that statement [about a hormone imbalance] was not correct that could be a problem for them," said Brad Simon, a former federal prosecutor. "From what I can see based on what I'm reading, it could be a big problem. [Mr. Jobs] is Apple."

In 2007, H-P settled a case with the SEC, without admitting or denying wrongdoing, for failing to describe the reason behind a director's resignation. H-P director and venture capitalist Tom Perkins had resigned in 2006 after disagreeing with the company over how to punish those who leaked corporate information. In announcing the resignation, H-P didn't disclose the disagreement.

The SEC said H-P erred because under U.S. securities laws, a company needs to disclose the reason if a director leaves over a disagreement about company policy. H-P said it believed Mr. Perkins had an issue with the company's then-chairman and not the company as a whole. It agreed to cease and desist from securities-law violations, and didn't receive further punishment.

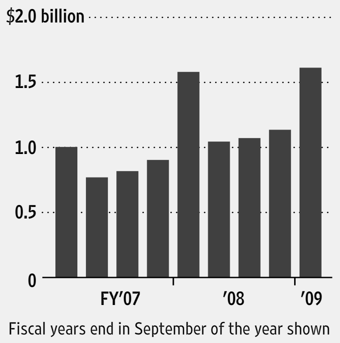
At Apple, the temporary leave by Mr. Jobs—who is deeply involved in all aspects of its operations—appeared to come at a challenging time for the company. Apple prices most of its products at a premium to others in the market, which analysts say could hurt the company as consumers pinch their pennies.

But Apple's sales have held up better than those of many other companies that sell consumer products. During the fourth quarter, Apple shipped 2.5 million Macintoshes, a 9% increase from a year earlier. Sales were helped by the introduction of new Macbook laptops in October. Apple also shipped 4.4 million iPhones, up 88% from a year earlier, and sold a record 22.7 million iPod digital music players, up 3%.

Overall, Apple's net income for the period was $1.605 billion, up from $1.581 billion a year earlier. Revenue rose to $10.17 billion from $9.61 billion.

Apple waxes

Apple's quarterly net income



Fiscal years end in September of the year shown

Source: the company

Apple accounts for iPhone sales by dividing revenue over a 24-month period, the length of time that a consumer is expected to use the phone. The company said its quarterly net income overall would have been $2.3 billion and revenue would have been $11.8 billion if it fully accounted for the phones right away, as it does with other products.

There were some signs that Apple was feeling the effects of the recession. While iPod unit sales grew, revenue dropped 16% from a year earlier, implying customers are gravitating toward cheaper models. Meanwhile, iPhone unit sales were off 37% from the previous quarter ended in September.

—Justin Scheck contributed to this article.

CORPORATE NEWS

EBay posts first sales slump

Revenue fell 6.7% as shoppers shied from online auctions

By Geoffrey A. Fowler

EBay Inc. reported a 31% slump in fourth-quarter profit and its first quarterly revenue decline.

Revenue fell 6.7% as shoppers pared holiday budgets and shifted away from eBay's core online auctions. EBay indicated that conditions remain uncertain in the current quarter, issuing ranges for revenue and profit that are below estimates on Wall Street.

John Donahoe

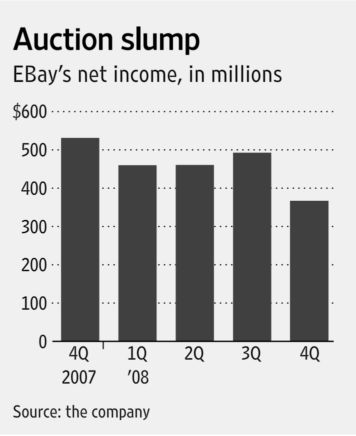
While eBay said its online payment and communications units grew, revenue in its core marketplace business—which accounts for 55% of revenue—declined 16%. The company attributed the drop to the strengthening dollar given eBay's large international exposure, and the global slowdown.

Online retailers were spared some of the brunt of the dismal holiday shopping season, with online spending falling just 3% from a year earlier, according to research firm Comscore Inc. EBay, the largest online retailer by volume, also appeared to lose some ground to fixed-price sites such as **Amazon.com** Inc., some analysts said. "EBay is losing market share compared to other e-commerce players like Amazon," said J.P. Morgan analyst Imran Khan. "They still have a lot of work to do."

Shares of eBay fell about 11%, or $1.48, to $11.80 in afternoon trading on the Nasdaq Stock Market Thursday, in the wake of the announcement late Wednesday.

John Donahoe, who has been eBay's chief executive for a year, said he was pleased with the progress the company has made to turn around its flagging marketplace business. "The changes are not working fast enough, but we are on the right path," he said.

He also emphasized that the faster-growing nonauction portions of the business are becoming as significant as the traditional core eBay business.



For the past year, Mr. Donahoe has pushed for eBay to sell more fixed-price goods and changed the company's fee structure. In the fall, eBay said it would lay off about 1,000 full-time employees, or 10% of its work force.

For the fourth quarter, eBay reported earnings of $367 million, or 29 cents a share, down from a $531 million, or 39 cents a share, a year earlier. For the fourth quarter, revenue was $2.04 billion, down from $2.18 billion.

IBM employees buzz about layoffs

By William M. Bulkeley

International Business Machines Corp. employees have informed Alliance@IBM, an affiliate of the Communication Workers of America, that workers at a number of locations have been told their jobs are being eliminated.

Lee Conrad, national coordinator for Alliance, said that he has received a number of reports of people being informed that they are subject to what IBM calls a "resource action." He said that the reports are coming from people who work for the software group in applications development and marketing, among other functions.

Alliance is trying to organize workers at IBM into a union. It doesn't currently represent workers for bargaining purposes.

An IBM spokesman declined to comment on the reports.

In recent weeks, IBM employee message boards have been full of speculation over major layoff plans, with postings citing numbers as high as 10,000 to 16,000 workers.

A person familiar with IBM's employment plans said the company doesn't expect numbers anywhere near that large. He said the current action is similar to layoffs IBM makes every quarter as it pushes for efficiency and adjusts to changing market demands for various skills.

On Tuesday, when IBM announced record earnings on a slight sales decline, Mark Loughridge, chief financial officer, said IBM expects restructuring costs, which are primarily severance-related, to be at normal annual levels of between $300 million and $400 million this year.

Mr. Loughridge said IBM last year spent about $700 million on employee-restructuring actions. IBM declined to disclose how many people were affected by restructuring last year. IBM says it had about 400,000 employees at the end of 2008, up from 386,000 a year earlier.

Separately, IBM has switched the jobs of two of its most powerful senior vice presidents.

Ginni Rometty, senior vice president, global business services, and one of IBM's two highest-ranking women, will become senior vice president, global sales and distribution, in charge of the company's sales force.

Frank Kern, who has held the top sales job for a year, will take over the services job that Ms. Rometty has been in for almost seven years.

—Sarah E. Needleman contributed to this article.

Intel plans to close several older factories

By Don Clark

Intel Corp. said it will close several older factories, displacing 5,000 to 6,000 workers, as the company reacts to a sharp drop in demand for its computer chips.

The Silicon Valley company previously had expressed optimism that prior job cuts would be sufficient to cope with the recession's impact on its business. But with a 90% drop in fourth-quarter earnings and a downbeat outlook from computer makers, pressures increased to cut costs further and improve the sagging utilization of its factories.

Intel said not all the affected employees, about 6% to 7% of its work force of 84,000, will lose their jobs. Some may be offered positions at other factories.The cuts follow similar moves across the technology industry. Advanced Micro Devices Inc. last week said it was cutting 1,100 jobs and imposing temporary pay cuts in response to the economic slowdown.

Last week, Intel Chief Executive Paul Otellini told employees in an internal Webcast that profitability in the first quarter was too close to call. Intel hasn't reported a net loss since 1986. An account of Mr. Otellini's remarks was reported by Bloomberg News.

Intel said it will consolidate operations at factories that use older fabrication technologies. The cutbacks won't affect plans to expand the use of current-generation processes or newer processes that create ultrafine circuit widths, Intel said.

EU urges Ritalin safety measures

Associated Press

BRUSSELS—European Union medical regulators said Thursday that patients prescribed Ritalin and other similar hyperactivity drugs should be screened for heart and psychiatric problems before and after they start treatment. The European Medicines Agency said the drugs, which contain methylphenidate, were safe for use for treating children and adolescents over the age of 6 who suffer from attention deficit hyperactivity disorder, or ADHD.

But it recommended that all patients be checked for heart-rate or blood-pressure problems and asked about any family history of heart disease. Specialists should check if these patients should still use the drug. Blood pressure and heart rates also should be monitored regularly during treatment, it said.

It also warned the drugs could cause or worsen depression, suicidal thoughts, hostility, psychosis and mania. Patients also should be screened and monitored for psychiatric symptoms during treatment.

Methylphenidate is sold as a generic drug, and also under various brand names, including **Novartis** AG's Ritalin and **Johnson & Johnson**'s Concerta.

GLOBAL BUSINESS BRIEFS

BT Group PLC

IT outsourcing unit's woes lead to $475 million charge

BT Group PLC Thursday began to reveal the cost of failings at its Global Services division, starting with a £340 million ($475 million) charge and sharply reduced earnings targets. BT has been reviewing the contracts and financial position of its information-technology outsourcing division since October, when it warned that rapid expansion and spiraling costs would hit full-year earnings. For its fiscal third quarter ended Dec. 31, BT cut its expectations for earnings before interest, tax, depreciation and amortization to £17 million before costs, specific items and certain costs, down 92% from £215 million last year. Further provisions are possible as the review continues.

easyJet PLC

Budget airline **easyJet** PLC said fiscal first-quarter revenue rose 32%, boosted by passenger growth outside its U.K. home market, and added it expects fiscal first-half revenue to be ahead of previous forecasts. However, in light of a difficult macro-economic environment, the airline said its forecast for the full year remained unchanged, mainly because of uncertainty surrounding the summer outlook and the potential impact from the strengthening of the euro against sterling. The airline said it carried 10.1 million passengers in the quarter ended Dec. 31. Revenue increased to £550 million ($769 million) from £418 million. Shares in easyJet were up 12% in London trading Thursday.

News Corp.

The New York headquarters of The Wall Street Journal was partly evacuated Wednesday after the newspaper received envelopes containing a suspicious powder that preliminary testing later indicated was harmless. More than 200 employees were evacuated while authorities investigated. The powder appears to be flour or another food-based substance, police officials said late Wednesday. The mailings to the Journal, which is owned by **News Corp.**, coincided with one sent to Harvard Law School professor Alan Dershowitz that bore the same postmark, of Knoxville, Tenn., according to the Federal Bureau of Investigation. The FBI is investigating links between the mailings sent to the Journal and to Mr. Dershowitz, a person familiar with the investigation said. Mr. Dershowitz said he was told by authorities that his mailing didn't contain anthrax.

Bankinter SA

Spanish lender **Bankinter** SA said fourth-quarter net profit rose 6.9%, as higher lending and trading income, as well as lower costs, offset soaring loan-loss provisions. Net profit rose to €50.5 million ($65.7 million) from €47.3 million a year earlier, as net interest income jumped 29% to €191 million. Revenue rose 22% to €291.1 million, lifted by 6.8% annual loan growth and wider lending margins. General, personnel and administrative costs dropped 14% to €126.4 million. Bankinter's loan book continued to deteriorate, with nonperforming loans rising to 1.34% of total loans by the end of December from 0.91% in September. Bankinter Chief Executive Jaime Echegoyen said he expects credit to continue to grow this year even if other banks rein in lending and the Spanish economy is in recession.

Centrica PLC

British Gas, the retail arm of U.K. utility **Centrica** PLC, said it will cut standard-tariff gas prices by 10% from Feb. 19 in response to lower wholesale prices, the first such cut by a major energy supplier since 2007. Centrica said the price cut will save customers £79 ($110) on the average annual household gas bill and should benefit more than 7.5 million homes. The company said it will also introduce a "prompt payment discount" of as much as £15 per year for customers on standard gas tariff who pay quarterly and will automatically reduce payments by 10% for customers who pay by direct debit. Gas prices have fallen steadily in recent months, save for a short increase when Russian gas transported via the Ukraine to Europe was temporarily cut off amid a dispute between the two countries.

William Morrison Supermarkets

U.K.-based **William Morrison Supermarkets** PLC Thursday reported a 7.7% rise in sales during the Christmas period, outperforming rivals. The company, which operates 382 supermarkets, is benefiting from strong consumer demand for less-expensive groceries in the wake of the economic downturn. For the six weeks ended Jan. 4, sales excluding fuel rose 9.4% from a year earlier. In stores open for at least a year, sales were up 6.6%, or 8.2% excluding fuel, Morrison said. The supermarket chain reports full-year results on Feb. 1 and didn't release any revenue or profit figures. Freddie George, an analyst at Seymour Pierce, said it is expected to become harder for the company to improve market share in a more competitive market.

Remy Cointreau SA

French spirits company **Remy Cointreau** SA Thursday posted a 4.2% slide in revenue for the first nine months of its fiscal year and warned that the global economic downturn and costs of reorganizing its distribution network will hurt full-year recurring operating profit. Revenue for the nine months ended Dec. 31 dropped to €604.5 million ($786.9 million) from €630.9 million a year earlier, largely reflecting the impact of the stronger euro and destocking by wholesalers in Russia. Stripping out currency fluctuations, revenue dropped only 1%. The company, which sells high-end champagne and cognac, said recurring operating profit for its full fiscal year is likely to drop 15%. Remy Cointreau shares ended down 9.8%.

Deutsche Post AG

The former chief executive of **Deutsche Post** AG admitted Thursday in court that he evaded taxes by squirreling money away in Liechtenstein. Klaus Zumwinkel is charged with evading nearly €1 million ($1.3 million) in taxes. On the opening day of Mr. Zumwinkel's trial, prosecutor Daniela Wolters told the Bochum state court that the 65-year-old avoided paying the money between 2003 and 2007 with the help of a Liechtenstein-based foundation. "The accusations in the charge sheet are accurate," Mr. Zumwinkel told the court, adding that he had repaid the back taxes. Mr. Zumwinkel resigned last February after the allegations came to light. Tax evasion can carry a sentence of as much as 10 years in prison in Germany, but penalties are usually lower.

—Compiled from staff and wire service reports.

Obama orders closing of Guantanamo

U.S. president also bans harshest interrogation methods as he moves swiftly to act on campaign pledges

A WSJ News Roundup

President Barack Obama, moving fast to implement a campaign pledge, began overhauling U.S. treatment of terror suspects Thursday, signing orders to close the Guantanamo Bay detention center, review military trials and ban the harshest interrogation methods.

With three executive orders and a presidential directive, Mr. Obama started reshaping how the U.S. prosecutes and questions al Qaeda, Taliban or other foreign fighters who pose a threat to Americans.

The centerpiece order would close the much-maligned U.S. prison at Guantanamo Bay, Cuba, within a year, a complicated process with many unanswered questions that was nonetheless a key campaign promise of Mr. Obama's. The administration already has suspended trials for terrorist suspects at Guantanamo for 120 days pending a review of the military tribunals.

"We intend to win this fight. We're going to win it on our terms," Mr. Obama said of the war on terrorism. But he also said he didn't want to have to make a "false choice" between successfully waging war against terrorist organizations and hewing to U.S. human-rights ideals in the process.

"This is following through not just on a commitment I made during the campaign but an understanding that dates back to our Founding Fathers, that we are willing to observe core standards of conduct—not just when it's easy but also when it's hard," the president said.

Associated Press

President Barack Obama signed several orders Thursday, including one to close the Guantanamo Bay detention center.

House Minority Leader John Boehner (R., Ohio) said in a statement that the Guantanamo prison should remain open until serious questions are answered. "The key question is where do you put these terrorists? Do you bring them inside our borders? Do you release them back into the battlefield?" said Mr. Boehner, who was briefed on the changes Wednesday.

Mr. Obama also created a task force that would have 30 days to recommend policies on handling terror suspects who are detained in the future. Specifically, the group would look at where those detainees should be housed since Guantanamo is closing.

In addition, Mr. Obama required all U.S. personnel to follow the U.S. Army Field Manual while interrogating detainees. The manual explicitly prohibits threats, coercion, physical abuse and waterboarding, a technique that creates the sensation of drowning and has been termed a form of torture by critics. However, a Capitol Hill aide says that the administration also is planning a study of more aggressive interrogation methods that could be added to the Army manual—which would create a significant loophole to Mr. Obama's action Thursday.

Mr. Obama directed the Justice Department to review the case of Qatar native Ali al-Marri, who is the only enemy combatant currently being held on U.S. soil. The review will look at whether Mr. al-Marri has the right to sue the government for his freedom, a right the Supreme Court already has given to Guantanamo detainees. The directive will ask the high court for a stay in Mr. al-Marri's appeals case for the review. The government says Mr. al-Marri is an al Qaeda sleeper agent.

An estimated 245 men are being held at the U.S. naval base in Cuba, most of whom have been detained for years without being charged with a crime.

Mr. Obama's actions Thursday followed a busy first full day in office Wednesday, when he announced a wage freeze for top White House staff and issued the strictest rules to date on lobbying activities for members of the administration.

Mr. Obama met with his top personnel in Iraq and national-security team and directed them to continue planning a "responsible military drawdown from Iraq," a step toward fulfilling one of his principal campaign promises. He also signed two executive orders and three presidential memoranda aimed at making government more transparent and tightening ethics rules.

U.S. spy databases to be linked

By Siobhan Gorman

WASHINGTON—U.S. spy agencies' sensitive data should soon be linked by Google-like search systems, nearly five years after the intelligence community was rebuked by the 9/11 Commission for failing to "connect the dots" and detect the attack.

Director of National Intelligence Mike McConnell has launched a sweeping technology program to knit together the thousands of databases across all 16 spy agencies. After years of bureaucratic snafus, intelligence analysts will be able to search through secret intelligence files the same way they can search public data on the Internet.

Mr. McConnell's new technology program is also addressing a more basic problem: Spies often have trouble emailing colleagues in other U.S. intelligence agencies, because email addresses aren't readily accessible, and messages sometimes get eaten by security filters. Mr. McConnell aims to solve that by uniting the agencies' email systems into a single system with a full directory that links names, expertise and addresses.

Linking up the 16 agencies is the challenge at the heart of the job of director of national intelligence, created after 9/11. Dennis Blair, nominated by President Barack Obama to succeed Mr. McConnell, had a Senate confirmation hearing Thursday.

The new information program includes enhanced security measures to ensure that only appropriately cleared people can access the network. The price is expected to be in the billions of dollars, but much of that money will be reallocated from existing technology programs.

The impact for analysts, Mr. McConnell says, "will be staggering." Not only will analysts have vastly more data to examine, but potentially inaccurate intelligence will stand out more clearly, he said.

Today, an analyst's query might scan only 5% of the total intelligence data in the U.S. government, said a senior intelligence official. Under the new system, an analyst would likely search about 95% of the data, the official said.

Several similar efforts have been aborted in the past decade, because cultural divides couldn't be bridged between rival agencies. Some of those efforts predated the Sept. 11, 2001, attacks, and many intelligence agencies have botched their own technology programs since 2001.

Associated Press

Director of National Intelligence Mike McConnell aims to unite email systems at 16 agencies and the Pentagon by 2010.

The program is likely to get a review from Mr. Blair. The new administration is expected to make sure it is adequately funded, effective and protects privacy.

The first stage of the initiative is to merge the email systems of the six largest intelligence agencies, including the Federal Bureau of Investigation, the Central Intelligence Agency and the NSA. That's on track to be largely completed by the end of the month, a senior official said. By 2010, all the agencies and the Pentagon would have a single email system.

Senate panel approves Geithner for Treasury

By Brian Blackstone And Corey Boles

WASHINGTON—The Senate Finance Committee approved the nomination of Timothy Geithner as U.S. Treasury secretary, clearing the way for the full Senate to consider Mr. Geithner's confirmation.

Mr. Geithner, who would lead the Treasury Department as U.S. financial markets and the economy are facing the most serious turbulence in decades, was approved by a vote of 18 to 5.

Timothy Geithner

He told members of Congress Thursday that he backs Treasury's longstanding commitment to a strong U.S. dollar, and said the Obama administration thinks China manipulates the value of its currency.

The currency issue is a touchy one with China. U.S. officials have for years urged China to move to a market-based system and have applauded steps China has taken in recent months to allow the yuan to appreciate against the U.S. dollar. At the same time, China's purchases of dollar-denominated assets help keep interest rates low in the U.S.

Mr. Geithner said he was "deeply concerned" about the state of regulation and supervision of large financial institutions. He said it was clear that the Federal Reserve had failed to adequately oversee the risk that banks were taking on their books.

He pledged that any new taxpayer money injected into banks or other financial institutions would be done only after a full consideration of the risks in not acting. And any financial firms receiving infusions of taxpayer capital would be subject to much greater scrutiny, Mr. Geithner said.

Senate Finance Chairman Max Baucus said he hopes the full Senate will consider Mr. Geithner's nomination "as soon as possible."

Mr. Geithner failed to pay payroll taxes on income received from the International Monetary Fund in 2001 and then repeated the error in three subsequent years. He apologized to the Finance Committee Wednesday and said his mistakes were unintentional.

Separately, the White House is expected to nominate Christine Varney, a former Federal Trade Commission member and Internet-law expert, as Justice Department antitrust chief, people briefed on the move said. Jon Leibowitz, a current FTC member, is the leading candidate for commission chairman, these people said.

—Patrick Yoest and John R. Wilke contributed to this article.

U.S. envoy warns on Iraq

Early withdrawal by U.S. raises risk of al Qaeda revival

By Gina Chon

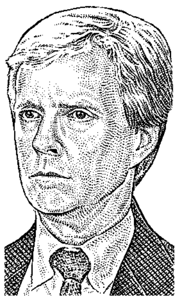
Associated Press

A U.S. soldier secures the area where a roadside bomb exploded in Baghdad on Tuesday. Two civilians and three guards were injured in the blast, police said.

BAGHDAD—U.S. Ambassador Ryan Crocker said Thursday that a precipitous withdrawal of American troops from Iraq could give al Qaeda in Iraq a chance to regenerate and leave the country vulnerable to possible negative interference from neighboring nations.

Mr. Crocker, who is retiring next month, declined to talk in detail about his discussion on Wednesday with President Barack Obama as part of a national-security staff meeting on Iraq. President Obama has asked his administration to look at options for withdrawing American combat troops within 16 months. In a security agreement last year, the U.S. and Iraq agreed to a pullout by the end of 2011.

The ambassador said a withdrawal that was too swift could have a chilling effect, making Iraqis less willing to make political compromises and focus on institutional development. He added that Mr. Obama has emphasized a responsible withdrawal. Mr. Crocker said he didn't think the new administration would make the mistake of pulling out U.S. combat forces before the time is appropriate.



Ryan Crocker

"Anything can happen [in Iraq]," Mr. Crocker told reporters. "That's why my mantra has been that things are still fragile and still reversible."

Mr. Crocker said there has been remarkable progress in Iraq, with violence at its lowest level in years. Iraqi security forces have taken on more responsibility and Prime Minister Nouri al-Maliki has shown courage in implementing a crackdown on militia members of his own Shiite sect, Mr. Crocker said.

A test will come at the end of January, when Iraqis are slated to vote for local government councils in 14 of the country's 18 provinces. In recent days, several candidates have been assassinated but the widespread violence some expected hasn't broken out. "It's very important that they be perceived as free and fair," said Mr. Crocker, whose successor has yet to be named. "They are not going to be perfect but they need to be credible."

With security improving, the ambassador said Iraqi officials have been forced to focus more on political issues, such as the proper role of the federal government and its relationship with the semiautonomous region of Kurdistan. In recent months, tensions have risen between Arabs and Kurds over territorial disputes in northern Iraq. Disagreements between the two groups over how to govern Iraq's oil industry continue to hold up an oil law.

"Progress has been significant," Mr. Crocker said. "But we can't underestimate the challenges and the time it will take to work through those."

Kennedy drops quest for Senate seat

By Suzanne Sataline And Dionne Searcey

Caroline Kennedy abandoned her quest for New York's vacant senate seat when she discovered a "personal situation," unrelated to her ill uncle, Sen. Ted Kennedy, that would have prevented her from carrying out the job, an aide said.

Her reason for withdrawing is as surprising as her decision in December to seek the seat being vacated by Hillary Clinton, the new secretary of state. The aide declined to elaborate on Ms. Kennedy's reason. Sen. Kennedy is being treated for a malignant brain tumor.

It's unclear whether Ms. Kennedy would have even been Gov. David Paterson's choice, as he recently began stressing the importance of naming someone who had an economic plan, given the woes facing both his state and the U.S. He and other governors are competing for congressional bailout money, and having two senators who know how to pull strings would be vital.

Andrew Cuomo

The decision by the daughter of late President John F. Kennedy to end her candidacy heightened the atmosphere of handicapping that is consuming political observers in New York state. One of the leading candidates appears to be New York Attorney General Andrew Cuomo, whom Gov. Paterson said Tuesday was among his possible choices.

Gov. Paterson also is said to like the idea of having a woman succeed Mrs. Clinton. That raises the prospect that he could appoint Randi Weingarten, president of the American Federation of Teachers, or Rep. Kirsten Gillibrand or Rep. Carolyn B. Maloney, two congresswomen who have some financial experience.

Near-term lift of U.S. stimulus plan in doubt

By Greg Hitt And Naftali Bendavid

WASHINGTON—As U.S. President Barack Obama's $825 billion economic-recovery package began making its way through Capitol Hill, analysts suggested a key plank may not provide as big a near-term lift as expected.

The nonpartisan Congressional Budget Office projected less than half of the $355 billion that House Democrats want to spend on highways, bridges and other job-creating investments is likely to be used before the end of fiscal 2010. The CBO said the balance would likely be spent over the next several years, after the recession is projected to end.

Republicans said the analysis shows that the package, which Democratic leaders drew up with top Obama aides, wouldn't create the promised jobs. "Clearly, we're not talking about a stimulus bill," said Virginia Rep. Eric Canto. Republicans asked for a meeting with Mr. Obama to discuss alternative measures that could be applied, including additional tax cuts.

"There's some real concern about the high cost of it versus the jobs created," said Michigan Rep. Dave Camp, the senior Republican on the House Ways and Means Committee.

Nadeam Elshami, a spokesman for House Speaker Nancy Pelosi, said the CBO report creates a "false impression" by not taking "into account the fastest-spending provisions of the bill," such as measures that would release tens of billions of dollars to help pay for jobless benefits and health care for the poor, and tax cuts for middle-class families. "These provisions will go out quickly to give the economy a jolt," he said.

CAPITAL JOURNAL ▪ Gerald F. Seib

Calling on conservatives, Obama demonstrates his strategy

A couple of times in recent weeks, the personal cellphone of Sen. Tom Coburn of Oklahoma rang, and a baritone voice on the other end asked simply, "You know who this is?"

Mr. Coburn did indeed know by the sound of the voice. The caller was President-to-be Barack Obama, dialing up to chat about what the senator calls "spiritual things," and then some policy issues facing the new administration.

The exchanges might seem unremarkable, except for the extreme odd-bedfellow nature of the Democratic president and the Republican senator he was calling. Mr. Coburn is among the most conservative lawmakers in town, having won three straight 100% annual ratings from the American Conservative Union for his votes in the Senate. Mr. Obama, by contrast, got an 8% lifetime rating from the conservative group for his Senate voting record.

Yet the new president has identified the Oklahoma Republican as a conservative he can work with, which says much about the president's style and strategy. The relationship also illustrates some of the limits of Mr. Obama's oft-professed desire to find common ground with political opponents.

Mr. Obama proclaimed often in his campaign, and then again in his transition and inaugural address, his intention to be a post-partisan leader, transcending the partisan divides and squabbles that have marked Washington in the past decade or two. What that means, in practical terms, is that he must find Republicans with whom he can work on a reasonably regular basis.

The problem is that the ranks of the Republicans most likely to find common ground with a Democratic president—that is to say, moderate Republicans—have been decimated in recent years. They have retired, lost their seats to Democrats or been supplanted by more-conservative Republicans. At this point, the senators who fit the traditional description of "moderate Republican" could meet in a phone booth.

Gone are such relative moderates as William Roth of Delaware, Lincoln Chafee of Rhode Island, Gordon Smith of Oregon and Pete Domenici of New Mexico. Also gone are generally conservative members who crossed lines to work with Democrats on specific issues, such as Chuck Hagel of Nebraska. The Senate's most prominent remaining Republican moderates are Maine's Olympia Snowe and Susan Collins.

Similarly, in the House, there isn't a single Republican left in the delegations of the six New England states, the traditional wellspring of moderate Republicans. The last such Republican departed when Connecticut moderate Christopher Shays lost his seat in November.

The upshot: If Mr. Obama wants to work with Republicans, he's going to have to find genuine conservatives with whom he can make common cause from time to time, despite ideological divides.

As a former senator himself, the president has ties he can use. He has a good relationship, for example, with Robert Bennett of Utah and Judd Gregg of New Hampshire, both fiscal conservatives with reputations for fostering good ties with Democratic colleagues. Mr. Gregg already has been helpful to the new president, speaking out in favor of, and then voting for, releasing unspent money from the financial-system bailout fund so it could be used by the Obama administration.

And there is Mr. Coburn. "We consider each other friends," he says in an interview. "Not friends like everybody in the Senate says, but real friends."

Mr. Coburn is a blunt-speaking, unapologetically conservative Oklahoma family physician who was a member of the 1994 class of House Republicans that stormed to power behind Newt Gingrich to take over that chamber. He retired from the House in 2001, then retuned to Congress by winning a Senate seat in 2004—the same year one Barack Obama was elected from Illinois.

Tom Coburn

The two found common cause by uniting to push through a bill designed to stem the spread of earmarks, those legislative provisions that funnel money to lawmakers' specific pet projects. Their bill aimed to reduce the use of earmarks by casting a harsher spotlight on them, creating a public, searchable online database listing the recipients of all federal spending.

A tie was formed, and the president-elect kept it alive by reaching out to Mr. Coburn during the transition. "We have a little talk about spiritual things, and then we'll talk about other things, things he wants to talk about," including the use of those financial-market rescue funds, Mr. Coburn says. Ironically, it's the kind of outreach the senator says he never got from the just-departed president of his own party, George W. Bush.

"Barack is a smart, smart operator," Mr. Coburn says. "He's going to be loath to make enemies."

Mr. Coburn thinks the new president will be able, in particular, to work with him and other conservatives on measures to make government more transparent and to eliminate programs. Yet Mr. Coburn, despite his fondness for the new president, also voices deep doubts about the giant economic stimulus package the administration is pushing. The initial version floated in the House has, in his view, too much wasted spending that won't stimulate the economy and too few permanent tax cuts.

"I'm not sure the stimulus is going to do anything," he says. "I think I'll be happy to vote against it if there's $700 billion in wasted spending." Thus does the Obama-Coburn relationship define both the possibilities, and the limits, of the new era of outreach.

ECONOMY & POLITICS

China's new year brings job doubts

Many migrants go home to discover safety net is fraying

BY IAN JOHNSON AND LORETTA CHAO

BEIJING—As some 200 million or more migrant laborers head home this weekend to celebrate the Lunar New Year, they are facing an unprecedented crisis: unemployment and a fraying safety net.

The annual holiday is a time for far-flung families to gather together, look back over the past year and plan for the future. For rural Chinese it is something more: a time to make concrete plans about where they will work next year. In years' past, many have returned home flush with cash from their distant adventures, and set out after the holiday with new migrants in tow.

But this year, many are heading home with no prospect of returning to their jobs. Chinese media report that upwards of 10 million former migrant workers have been back on the farm already for weeks, as factories have shuttered and summarily fired their employees. In central China's Zhenyang County, for example, 25,000 migrants returned home in December—more than 60% of the migrant labor force in the area—after losing their factory jobs.

The impact is already painful. For Cai Qin, a 35-year-old factory worker from a village in China's impoverished southwestern province of Guizhou, Spring Festival has been a joyous family occasion ever since she set out with her husband for the coast seven years ago. The couple's combined wages have risen to 2,000 yuan, or $292, a month.

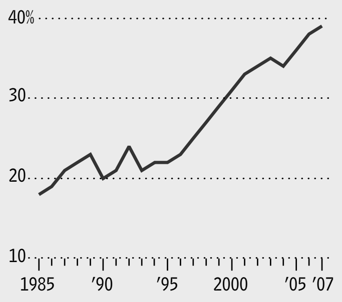
But this year, their homecoming has been bittersweet. The toy factory near Hong Kong where Ms. Cai and her husband worked closed in November, sending the couple home early. In previous years, they would return with clothes and other gifts, but this time they arrived empty-handed. "We don't know what to do after the holidays," Ms. Cai said. "Our heads hurt just to think about it."

Cases like this are causing serious concerns about social stability in China, where rural residents still make up most of the population. Rural incomes have risen sixfold since 1990, according to official Chinese data. Income from work off the farm has become increasingly important to most rural households. According to the National Bureau of Statistics of China, 1,596 yuan, or 39%, of per capita annual income of the nation's rural households, came from wages in 2007, up from 20% in 1990.

"In past years, regardless of how miserable their situation was, migrants had upward mobility," says Dorothy Solinger, a professor at the University of California in Irvine, who studies China's internal migration. "Now it's potentially downward mobility."

Rural pillar

Migrants' income has become a key part of getting by in China's countryside. Growth of wages as a percentage of per capita rural household income:



Source: National Bureau of Statistics of China

That poses a challenge to the Communist Party, which has staked its legitimacy on delivering three decades of high-speed growth. Already, concerned governments are responding with programs to keep unemployed migrants busy. In southern Guangdong province, China's export engine, where thousands of manufacturers have gone out of business, the provincial labor bureau released regulations in December requiring local government agencies to create jobs or provide necessary assistance to laid-off migrant workers. The bureau also started providing free job services and training courses for the unemployed, and financial assistance for those who want to start their own businesses.

Experts warn, however, against predicting massive unrest. Chinese peasants are resilient and have an informal network of help, ranging from extended families to strong informal obligations in villages for the wealthy to help out the poor. "It will be a very difficult time," says Wang Chunguang, an expert on migration at the Chinese Academy of Social Sciences, "but I don't expect serious problems with social instability."

At the Beijing West Railway Station on Wednesday, migrant workers waiting for trains to go home for the New Year were optimistic, even though they anticipate having much more difficulty finding new jobs when they return next month. "I'm sure I will find something here," said Zhai Yuanhui, a farmer from Peicundian village in Henan province who has spent three years in Beijing doing odd jobs to earn more money for his family. "I can make about 1,000 yuan per month in Beijing just doing small jobs here and there. ... Before coming here I was lucky to earn 2,000 yuan in a whole year."

"I'll do whatever I have to—wherever a small thing can be done, I will do it. I have hope." And in the worst-case scenario, Mr. Zhai and his friends say they can always return to their farm, where there is plenty of home-grown food to eat.

—Kersten Zhang, Sue Feng and Andrew Batson contributed to this article.

Pain continues for bruised U.S. housing sector

BY KELLY EVANS

The battered U.S. housing sector is off to a rough start this year, as the real-estate market that led the nation into recession shows no signs yet of leading it back out.

New home construction fell sharply in December, the Commerce Department said Thursday, and a drop in permits for future projects suggests the declines will continue. Meanwhile, home-builder confidence is at a record low and the government's gauge of home prices, also released Thursday, showed accelerating declines nationwide.

Construction on new single- and multifamily homes sank 15.5% in December from the previous month to a seasonally adjusted annual rate of 550,000 units—the lowest pace since monthly records began in 1959. The rate was down by nearly half from the pace seen in December 2007 as the slowdown continues to weigh heavily on the U.S. economy, which likely turned in its worst performance in a quarter-century during the final three months of last year.

Sliding down

Month-to-month percentage change in U.S. housing starts

Source: U.S. Commerce Department

The decline in building activity partly reflects a massive overhang of unsold homes nationwide and a continuing stream of new foreclosures to the market. It also reflects reduced home-buying activity in general, amid rising unemployment and tight credit conditions. While mortgage rates have fallen to historic lows, it is unclear whether they are stimulating home buying or just boosting refinancing activity.

A gauge of future home-building activity—permits granted for residential construction—also sank in December, falling nearly 11% to a seasonally adjusted annual rate of 615,000 permits—again a historic low. The glum outlook was echoed in the National Association of Home Builders' survey of builder confidence, released Wednesday, which slipped to a new low for January as an overwhelming share of respondents categorized sales activity as "poor."

Home prices are down 10.5% through November from their April 2007 peak, according to the Federal Housing Finance Agency, which released November figures Thursday. The agency tracks prices only on homes purchased with loans backed by Fannie Mae and Freddie Mac, which excludes many homes purchased with riskier mortgages, and its index has shown shallower price declines than other gauges.

The FHFA also reported that home prices fell a seasonally adjusted 1.8% nationwide in November from the previous month, the largest monthly drop yet and a sign that home-price declines continue to accelerate.

In a separate gauge of the weakening economy, new claims for unemployment benefits jumped last week as layoffs continued to mount. Jobless claims rose last week by a seasonally adjusted 62,000 to 589,000, the Labor Department said Thursday, matching the highest level seen in a quarter-century.

Libya considers nationalizing country's oil sector

BY SPENCER SWARTZ

After pressing foreign oil companies to renegotiate contracts and give up some profits in recent years, Libya is now considering the possibility of nationalizing its oil sector.

Libyan leader Moammar Gadhafi has put the move under consideration due to falling crude oil prices that are straining the North African nation's oil-dependent economy, according to a senior Libyan oil official.

State-controlled media this week have also run several articles indicating the possibility of increased state control of the oil sector. Speaking Wednesday via satellite from Libya to students at Georgetown University in Washington, Mr. Gadhafi said through an interpreter he had his eye on more energy-sector control. However, he didn't elaborate how he might tighten the control and some analysts say such talk might only be a way to strengthen Libya's hand in negotiations with oil companies.

The Libyan oil official said Thursday the plans being talked about are in the early stages and would include natural-gas businesses as well as oil and possibly entail higher royalties on hydrocarbons produced.

Several companies with operations in Libya said Thursday they had yet to receive word from the government about any plans by the state to tighten control of the oil sector, according to officials reached for comment.

Companies like Los-Angeles-based **Occidental Petroleum** Corp. and Austria's **OMV** AG have signed new exploration contracts with Libya in recent years under which they have reduced their share of production relative to the state. **BP** PLC. **Eni** SpA, **Exxon Mobil** Corp., and **Repsol YPF** SA are some of the other companies with operations in Libya.

Shokri Ghanem, head of the **Libyan National Oil** Co., has said recently that talk about Libya taking more control of its energy sector was "speculation."

Libya's recent deals with oil companies have tended to compensate firms for much higher costs for things like drilling rigs and steel. But costs have fallen substantially because of weak industrial activity, so Mr. Gadhafi may want to end cost-compensation measures to further boost oil profits for the state.

—Benoît Faucon and Bernd Radowitz contributed to this article.

Doctor-owned hospitals face curbs in House

BY BARBARA MARTINEZ

A bill making its way through Congress to provide more low-income children with health-insurance coverage could spell financial trouble for scores of hospitals owned by physicians.

The number of doctor-owned hospitals has tripled to about 200 since 1990, but they have long been mired in controversy. Supporters say these hospitals, which often focus on one or two lucrative services, such as cardiac care or orthopedics, are highly efficient, saving expenses for both patients and insurance programs, including Medicare.

Critics say physicians who refer patients to hospitals in which they have an ownership stake drive up costs, because they order more tests or perform unnecessary surgery. They argue that the physician-owned hospitals also cherry-pick the healthiest patients, which hurts the finances of other hospitals, the majority of which are nonprofits.

For years, Rep. Pete Stark, a California Democrat, has tried and failed to stop the growth of doctor-owned hospitals amid strong Republican opposition and vetoes by former President George W. Bush of bills containing the restrictions. Legislation approved in 1989 and known as the Stark law generally prohibits physicians from referring patients for services in which they have an ownership interest. But doctor-owned hospitals have been an exception to the Stark law.

Now, a provision that Rep. Stark helped write in the child-health bill would effectively put a halt to the construction of any new doctor-owned hospitals and would seriously hamper plans of existing ones to expand. The bill with the restrictions was passed by the House last week. The Senate version is slated for approval early next week, though it doesn't have the restrictions on doctor-owned hospitals. A final bill, which could include the restrictions, would go to President Barack Obama shortly after that.

The Congressional Budget Office estimates that the doctor-owned-hospital prohibitions included in the House version of the child-health bill would save the government $1.2 billion over 10 years in lower Medicare costs. Some in Congress are counting on that projected savings to help pay for the expanded coverage provided by the new child-health bill.

Claims that specialty hospitals end up costing the government more are "completely outrageous and false," says Brett Gosney, president of Physician Hospitals of America, the industry's trade group, based in Sioux Falls, S.D. "They save the government money," he says, because such hospitals have lower complication rates, lower infection rates and lower return-to-surgery rates than other hospitals.

In addition, Mr. Gosney says the government's own studies have shown that doctor-owned hospitals have better outcomes without higher costs, even after adjusting for how sick patients are. He calls the CBO's savings estimate "highly flawed."

If the final legislation contains the proposed restrictions, existing doctor-owned hospitals wouldn't be allowed to add any more beds or to increase capacity, a restriction Mr. Gosney says would put those hospitals on a slow path to death.