Corporate News: A change at the helm comes at a critical time for P&G

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A car bomb in a busy market area in southeastern Iraq killed at least 32 people and injured scores more, the latest in a series of violent attacks. Some Iraqis are bracing for more violence ahead of parliamentary elections expected in January. Page 3

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■ **Europe's output slump** showed signs of easing in the U.K. and Italy, although not in Germany, the euro zone's biggest economy. Page 2

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■ **The IMF said it will lend** an additional $1 billion to Belarus, bringing the total provided by the fund to $3.4 billion.

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■ **China's consumer** and producer prices continued to decline in May though economists said deflation pressures are subsiding. Page 11

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Hands off the lats
Devaluation is the last thing Latvia needs.
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Breaking news at europe.WSJ.com

Gadhafi lionizes 'Lion of the Desert'

Associated Press

PAYING TRIBUTE: Libya's leader, in Rome with Italian Premier Silvio Berlusconi, wears a picture of Omar al Muktar, who fought Italian colonization, during his arrest by Italian soldiers in 1931.

Can Chrysler, Fiat restart the engine?

BY JEFF BENNETT

DETROIT—**Chrysler Group** LLC forged its alliance with **Fiat** SpA on Wednesday, a day after the U.S. Supreme Court cleared the deal, but tough challenges lie ahead as the car maker must quickly reinvigorate its brands and win back the consumer confidence it lost during its bankruptcy process.

Among the most immediate tasks the company must tackle is restarting its plants and getting the launch of several new vehicles back on schedule after Chrysler shut down almost all of its operations during the nearly six weeks since it filed for bankruptcy protection.

Sergio Marchionne

Chrysler shut production at all 12 of its auto-assembly plants in North America when it filed for Chapter 11 protection April 30. It hopes to restart production in at least some of them later this month, according to suppliers briefed by the company.

It could run into problems, however. Earlier this month two of Chrysler's major suppliers—**Visteon** Corp. and **Metaldyne** Inc.—also filed for bankruptcy protection, and many of their subsuppliers are hurting financially, too.

The new models on the way include a redesigned Jeep Grand Cherokee, which originally was due to debut in April 2010 as a 2011 model. Chrysler told the U.S. Bankruptcy Court in Manhattan that "critical testing" of the Grand Cherokee would "cease completely" while the company was in Chapter 11 and its launch would be jeopardized. An updated Dodge Charger sedan is also supposed to roll out in September 2010.

A Chrysler spokesman said the Grand Cherokee launch is still planned for next spring, and the Charger introduction is expected to follow later in 2010.

Chrysler also must work to boost its vehicle quality, which has given the company's products a poor reputation among some buyers as well as with reviewers from influential Consumer Reports magazine.

The company's professed desire to compete more effectively in small and medium-sized cars, aided by Fiat's expertise and promoted by the

Please turn to page 31

EU's top court leaps down the rabbit hole

BY CHARLES FORELLE

This morning in Luxembourg, five crimson-robed and white-scarved judges of the European Union's highest court will issue a ruling on this most gnawing question: Can you trademark a chocolate bunny?

Chocoladefabriken Lindt & Sprüngli AG of Switzerland certainly hopes so.

Lindt got a European trademark in 2001 on its marquee Easter treat, a gold-foil-wrapped chocolate bunny, squatting stolidly on its haunches, ears alert, a jingly little bell affixed to its neck with a bow-tied red ribbon.

The bunny has been a big nuisance since. Lindt has hunted knockoff rabbits in

Lindt

Lindt's gold-foil-wrapped chocolate bunny

Britain, Austria, Germany and Poland. To shore up its franchise, it has sought—unsuccessfully—an additional trademark for the "naked"

Please turn to back page

Inside

Held for ransom

In Arizona, gangs prey on Mexicans they smuggled in
News In Depth, pages 16-17

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8739.02	-0.27
Nasdaq	1853.08	-0.38
DJ Stoxx 600	212.77	+1.18
FTSE 100	4436.75	+0.73
DAX	5051.18	+1.07
CAC 40	3315.27	+0.56
Euro	$1.3979	-0.10
Nymex crude	$71.33	+1.89

LEADING THE NEWS

The lat looks steadier

ECB lends Sweden $4 billion in case Latvia devalues

The European Union's top economic official said Wednesday that the bloc wants to avoid a devaluation of the Latvian currency "at any price," while a Swedish regulator said that country's banks were strong enough to withstand a blowout in the Baltic region, where they are heavily exposed.

*By **Katie Martin** in London, **Anna Molin** in Stockholm and **Adam Cohen** in Brussels*

The comments bolstered currencies across Eastern Europe, which had fallen after Latvia last week attempted a failed bond auction and its currency, the lat, came under attack. Latvia has been hit harder than any other country in the EU by the global downturn, with its economy forecast to contract 20% this year.

The EU has backed Latvia's efforts to keep its tiny currency pegged to the euro. Swedish banks are particularly exposed to loans that Latvians took out in euros and would have difficulty paying back were the value of the lat to fall.

"The end of the lat [currency peg] would create, if it happens, very serious difficulty and we want to avoid, at any price, this situation," said European Commissioner for Economic and Monetary Affairs Joaquín Almunia at a news conference in Brussels after meeting Latvian Prime Minister Valdis Dombrovskis. "The price to avoid this situation is to adopt as soon as possible, in the coming week, this [budget] adjustment."

Sweden's central bank, the Riksbank, on Wednesday took the precaution of borrowing €3 billion ($4.22 billion) from the European Central Bank, intending it as a backstop in case a devaluation of the lat pushed up losses on the huge amount of loans Sweden's banks have in the region.

"It's not a positive signal," said SEB economist Elisabet Kopelman of the Riksbank's stockpiling. "It shows they're taking the Baltic situation seriously." She added that it was smart of the central bank to prepare itself for potential liquidity shortages.

The Swedish krona and key currencies in Central and Eastern Europe were climbing Wednesday as investors grew more confident that battered Latvia will succeed in defending its currency peg. The Hungarian forint—the region's most risk-sensitive currency—has strengthened nearly 4% against the euro this week to trade at 280.12 forints. The euro has dropped 1.2% against the Swedish krona, which has suffered because of Sweden's banking exposure to Latvia, to trade at 10.7357 kronor.

Latvia has been hit harder than any other EU country by the global downturn.

The failed bond auction, fresh records in interbank lending rates and suggestions from analysts that Latvia will have to devalue the lat rattled nerves last week, hitting a range of currencies across Europe. Since then though, positive signals on further aid from the International Monetary Fund and the EU, and pressure on lawmakers to approve painful budget cuts, are pushing back devaluation expectations.

Mr. Almunia expressed confidence Wednesday that Latvia will make the cuts to its budgets that have become a condition of international aid. The EU and the International Monetary Fund last year spearheaded a €7.5 billion rescue package for the country.

But they have withheld the second installment of these funds amid concerns about the country's public finances. They expect cuts of 500 million lats ($1 billion). Mr. Almunia said Latvia would have to make a similar-sized budget cut in 2010 to maintain fiscal sustainability and stay on track to join the euro.

Mr. Dombrovskis said he is focused on Latvia's medium-term budget stability. His government has proposed a revised 2009 budget that would trim 500 million lat in state spending. Mr. Almunia said this revised budget is the only way the country can keep the lat pegged to the euro.

Latvia's parliament is likely to vote on these changes next week. Voters expressed their anger over the austerity measures in last week's European elections, defecting in huge numbers to a left-leaning opposition party backed by the country's Russian-speaking minority. Even if Latvia avoids devaluation, its crushing recession will still hurt Swedish banks, said Alan Ruskin, a currencies analyst at Royal Bank of Scotland Group PLC.

Sweden's Financial Supervisory Authority Wednesday deemed Swedish banks sufficiently capitalized to handle increased Baltic loan losses, concurring with a similar report from the Riksbank. Swedish banks have sufficient capital to weather a worst-case scenario of more than $45 billion in loan losses over the next three years, the financial regulator said.

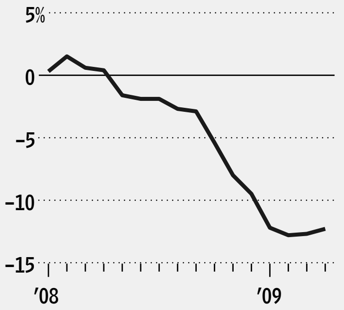
In its base scenario, which it called conservative compared with analysts' projections, the FSA calculated that **Nordea Bank** AB, **Svenska Handelsbanken** AB, **Skandinaviska Enskilda Banken** AB and **Swedbank** AB could write off 202.6 billion Swedish kronor ($26.18 billion) in loans, depending on economic developments at home, in the Baltic states and Ukraine.

Slump eases in U.K., Italy but exports fail Germany

By Nicholas Winning And Andrea Thomas

Inflection point

U.K. industrial production, change from a year earlier



Source: U.K. Office of National Statistics

Europe's output slump showed some signs of easing in the U.K. and Italy, although it held in Germany, the euro zone's biggest economy.

U.K. industrial production posted its first monthly increase in 14 months, one of a few signs that the recession-hit economy could start growing sooner than expected.

Industrial production, which encompasses energy and manufacturing output, increased 0.3% on the month, having dropped a revised 0.3% in March, the Office for National Statistics said.

April's output was substantially less than the year before, but the 12.3% decline was less severe than the 12.7% fall in March. The ONS also said U.K. output increased 0.2% on the month in April, following a revised 0.2% gain in March.

U.K. economists said the figures suggested companies were cranking up production, although they added that purchasing managers' index figures and recent surveys of the sector by the Confederation of British Industry suggested that production was still falling.

"While the demand-side picture remains unclear, we would not want to extrapolate the current uptrend in the U.K. output data too far into the future," analysts at J.P. Morgan said in a note.

Meanwhile, Bank of England Monetary Policy Committee member Andrew Sentance said he was hopeful that a recovery would begin later this year or in 2010, but that the eventual strength of that upturn is unclear. He said he was encouraged by U.K. companies' confidence about their mid- to long-term prospects.

"We are seeing many companies seeking to safeguard their long-term investments and maintain work-force skills built up over many years," Dr. Sentance said.

April saw industrial production rise 1.1% in Italy, compared with a revised 4.5% fall in March. However, when compared with the year before, industrial production plunged 24.2% in April, compared with an annual 23.8% fall in March.

"All told, while there are some glimmers of hope in today's production data and signs more generally that euro-area economies may now be past the worst of the recession, a resumption of growth still looks some way off," said Colin Ellis, a European economist at Daiwa Securities SMBC. "The euro area does not look capable of pulling itself out of recession any time soon, especially given the ECB's reluctance to offer further support."

Germany is still struggling with a slump in its export markets. The Federal Economics Ministry said Tuesday that industrial production there fell a seasonally adjusted 1.9% on the month in April. That industrial weakness will mean Germany's economy will contract more strongly in the second quarter than previously expected, the DIW Berlin economic think tank said.

"Although the free fall of industry has been stopped, the drop height has been extremely high," DIW economic expert Stefan Kooths said. "Production and orders have hit a level last seen 10 years ago."

Industrial output also fell 1.4% on the month in France in April.

CORRECTIONS & AMPLIFICATIONS

William Morrison Supermarkets PLC is the U.K.'s fourth-largest grocer by sales. A Global Business Brief on June 5 incorrectly called Morrison the U.K.'s largest grocer by sales.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

Reuters

Residents and police view the wreckage left by a car-bomb attack in a busy market that killed at least 32 people and injured scores more in south Iraq.

Car bomb in south Iraq kills 32, injures dozens

BY GINA CHON

BAGHDAD—A car bomb in a busy market area in the Dhi Qar province of southeastern Iraq killed at least 32 people and injured scores more on Wednesday, the latest in a series of violent attacks.

The explosion occurred in the Shiite town of Batha'a, near the provincial capital of Nasiriyah, about 320 kilometers southeast of Baghdad, according to a Ministry of Interior official. Although overall violence has decreased in the past year, more than 300 people have been killed throughout Iraq in the past two months.

Some Iraqis are bracing for more violence. But they aren't worried about the usual suspects of insurgents and militias. Instead, they are pointing fingers at the political operatives ahead of parliamentary elections expected in January.

A handful of these recent attacks have been in the Baghdad neighborhood of Dora, in the shadow of one of Iraq's biggest oil refineries. In the past month, more than two dozen people have been killed there and scores more injured in explosions.

The mood in Dora reflects the wider reality in Iraq: Amid heightened tension among the country's leaders during the election race, Iraqis worry that political battles will spill into the streets.

In the chaotic aftermath of the U.S.-led invasion in 2003, the borough became the battleground for some of the worst sectarian violence in country. Things calmed significantly last year amid a surge in American troop levels, improvement in the performance of Iraqi security forces, and the decision by some insurgents to switch sides.

Now, suddenly, the violence is back.

The latest explosion there occurred on Monday, when a bomb on a minibus killed at least nine people in the mostly Shiite area of Abu Dshir in Dora. On June 1, an explosion killed at least four people at a Dora market. Last month, at least 12 Iraqis and three American soldiers died in a roadside bombing at that same market.

Hadil Kamel was injured by shrapnel in the minibus explosion. She and her brother blame politicians for the recent flare-ups. She didn't blame any particular party, but suspected the violence is a move to stir up trouble in Iraq so politicians can use it to place blame on each other as they strive to get the upper hand in the upcoming elections.

People fear political battles ahead of elections will spill into the streets.

"Our politicians still don't know how to solve their differences peacefully and they can only physically attack each other," said Ms. Kamel's brother, who declined to give his name for fear of retribution.

"Of course, the victims are always innocent Iraqis," he added.

The politician with the most at stake in January elections is Prime Minister Nouri al-Maliki, whose slate of candidates made big gains in local polling early this year. After taking on Shiite militias of his own sect last year, Mr. Maliki is credited with helping to reduce violence.

Some in Dora say it is his political foes who are orchestrating the violence to damage the prime minister's image.

"It's in the interest of other parties to do things to weaken [Mr. Maliki] because many Iraqis thank him for bringing security to Iraq," said Ali al-Yassery, an uncle to another civilian injured in the minibus blast.

Personal Technology

Going against type

Walter S. Mossberg finds less book value in new Kindle DX > Page 29

Ford dips into state loans

Shunning bailouts, company makes use of other forms of aid

BY MATTHEW DOLAN AND JEFF BENNETT

Ford Motor Co. has shunned the kind of U.S. government bailout afforded to **General Motors** Corp. and **Chrysler** LLC. But that doesn't mean that the Dearborn, Mich., auto maker is going it completely alone.

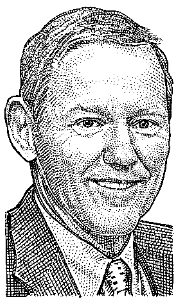
From governments around the world, Ford is trying to secure hundreds of millions in direct loans and loan guarantees to aid its credit arm and comply with environmental regulations in North and South America, Europe and Australia.

"Ford is avoiding going to down the same road as GM and Chrysler, but they are still taking advantage of money elsewhere," said IHS Global Insight auto analyst Aaron Bragman. "If someone is going to offer money without any strings attached, Ford would be stupid not to take it."

Company officials insist that any comparison between the bailout for GM and Chrysler and Ford's access to government-sponsored credit funds and longstanding fuel-economy and greenhouse-gas-reduction programs is unfair.

"You should not confuse an emergency bailout to keep a company in business with industry-government partnerships to drive green investments and free up consumer credit," Steve Biegun, Ford's vice president for international government affairs said in a statement Tuesday.

The top leadership at Ford has repeatedly said that it has no current plans to seek a U.S. government bailout or participate in the government's auto-parts-supplier aid program even as car-and-truck sales have plummeted to near-historic lows amid a global credit crisis. The company lost $1.4 billion in the first quarter of the year.



Alan Mulally

In a public-relations campaign, including interviews with executives, Ford has promoted its lack of reliance on the expected $62 billion in direct government investment in GM and Chrysler as a way for Ford to distinguish itself from its crosstown rivals.

But that hasn't stopped the auto maker from pursuing other, albeit smaller forms of government aid.

Along with most other auto makers, Ford is seeking its part of the $25 billion in loans from the U.S. Energy Department to help the industry meet future fuel-efficiency standards.

Its credit arm, Ford Motor Credit, is also hoping to receive federal government approval by the end of the year to create an industrial bank subsidiary, which would give the lending operation access to lower-cost loans.

Last week, the European Commission approved €500 million ($705 million) in loan guarantees for Volvo, Ford's wholly owned subsidiary, to be used as part of a €1.9 billion project to develop emission reductions and energy efficiency in cars.

The Australian government is expected to provide upward of 450 million Australian dollars ($360 million) to auto-financing companies including Ford Motor Credit over the next year to support its dealerships. A Ford Credit spokeswoman said the company is in talks with the government but declined to confirm the amount requested by the lending arm.

In Brazil the state-run bank Banco do Brasil announced it would make available funds to aid auto makers' financing units, hoping to increase lending and spur sales. Ford Credit confirmed Tuesday that it is utilizing the bank's funding program for dealer floor-plan financing, but could not say by how much.

Ford Credit's European operations had about $900 million of short-term funding under the European Central Bank's open market operations program as of March 31, 2009. The program issued an additional $650 million in April 2009 for Ford's lending arm in Europe.

Ford's automotive operation also secured a €600 million loan in early May from the European Investment Bank to update its manufacturing facility in Craiova, Romania, and help develop fuel-efficient technologies in Romania and Germany.

CORPORATE NEWS

McDonald to take helm at P&G in July

A.G. Lafley, who will remain chairman, praises his successor's track record over 29-year career at company

By Ellen Byron

Procter & Gamble Co. named Robert McDonald its next chief executive, succeeding A.G. Lafley, the company said Wednesday. Mr. Lafley will remain chairman in the transition, which will take place July 1.

Mr. McDonald, who turns 56 years old next week, currently serves as P&G's chief operating officer. He has spent his entire 29-year corporate career at the company, rising through the ranks by managing its core laundry and household-care brands and running its Asia business.

As chairman, Mr. Lafley will maintain a "full-time" role in managing P&G's operations, the company said. Mr. Lafley, who turns 62 this month, has served as CEO for nine years.

"I've worked with Bob for most of my career at P&G, and he and I have worked side-by-side over the past decade," Mr. Lafley said in a statement. "He has broad experience in every facet of P&G's business and in virtually every part of the world. He has a strong and consistent track record of business results and has been an integral member of my leadership team. He thinks strategically and operates systemically."

Mr. McDonald's appointment comes at a critical time for the 172-year-old company, maker of iconic household products including Crest toothpaste, Pampers diapers and Tide detergent. As the recession wears on, cash-strapped shoppers are opting for more-affordable household goods, including store brands. In response, P&G has been developing more lower-priced products.

Last month, the company issued a sharply lower-than-expected earnings forecast for the fiscal year starting July 1.

Like Mr. Lafley, Mr. McDonald advanced by working for P&G's core businesses: fabric and home-care brands. He has also managed the company's Asia business. Serving as operations chief since 2007, Mr. McDonald has worked to make the company's sprawling manufacturing and transportation systems more efficient. He also overhauled the way P&G's brands work with retailers, cutting layers of management and simplifying decision-making processes.

Before joining P&G, Mr. McDonald, a graduate of the U.S. Military Academy at West Point, spent five years as a captain in the Army. He mostly served in the 82nd Airborne Division and is trained in arctic, desert and jungle warfare.

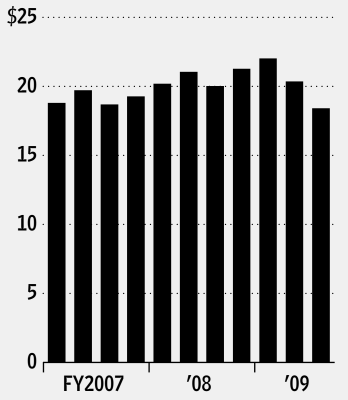
Mr. Lafley has been a steady hand at P&G since assuming the post amid an unexpected management shake-up in 2000. He shored up the company's crumbling results and sinking market share at the time, and invested heavily in its beauty products, which typically garner fatter profit margins than P&G's household cleaners and paper products. Mr. Lafley orchestrated P&G's $57 billion acquisition of Gillette and, over his nine years as CEO, doubled its revenue to $83.5 billion in the fiscal year ended June 2008.

Expectations that Mr. Lafley was preparing to step aside have grown as he approaches 10 years in his post, a term P&G is said to prefer. Signs that he was beginning to reflect on his career emerged last year, when he co-wrote a book about corporate innovations that read like a memoir of his career at P&G.

In recent months, Mr. Lafley has tried to quell speculation about his imminent departure. When asked at an analyst conference in December about his retirement, he scoffed, telling the crowd, "The rumors of my passing are greatly exaggerated," adding, "We're going to stay together, and we have a lot left to do."

Procter & Gamble

Revenue, in billions



Note: Fiscal years end June 30
Source: the company

Operating Chief Robert A. McDonald takes the reins as CEO at a time when investors are questioning whether P&G can continue its high growth rate.

Reuters

Ad firms gird for leaner times as P&G names new chief

By Suzanne Vranica

The change in top management at **Procter & Gamble** could further an already troubling trend for Madison Avenue: a winnowing of the number of advertising firms used by big ad spenders.

ADVERTISING

Advertising executives greeted with some trepidation the news that P&G was getting a new chief executive. On Wednesday, P&G said Robert McDonald will become CEO, effective July 1, succeeding A.G. Lafley. Mr. Lafley will remain chairman.

In ad circles, Mr. McDonald is regarded as a no-nonsense executive who, along with P&G's global marketing chief Marc Pritchard, has been streamlining the way the company works with advertising and marketing companies.

That effort could cut a number of ad agencies and marketing firms out of the spoils, according to ad executives close to the company. P&G, the world's biggest advertiser, spends about $8.7 billion annually on promotions ranging from TV ads to in-store marketing programs for products like Tide laundry detergent and Pampers diapers.

"They are pushing to get more service for less money," says one ad executive familiar with the company.

A P&G spokeswoman declined to comment.

Madison Avenue is undergoing a broad contraction sparked by the economic crisis and tumult in the auto industry. **General Motors**, which until last year was the second-largest ad spender in the U.S., behind P&G, has already slashed the fees it pays to its ad firms and—ad executives familiar with the company say—will likely cut down on the number of ad firms it employs.

Mr. McDonald's appointment raises questions about how P&G's massive advertising budget might be affected. The consumer-products company slashed its U.S. ad spending on conventional media, including TV and print, and Web display ads by 6% last year to $3.2 billion, according to **WPP**'s TNS Media Intelligence.

P&G has been moving more of its ad dollars to digital media, and has been pressuring media companies for price breaks. Ad executives familiar with P&G suggest that both patterns will continue under the new regime.

With Mr. McDonald, people will see "much leaner and more efficient ways to build a brand than P&G has in the past," says an ad executive familiar with the matter.

P&G now works with thousands of ad and marketing firms around the globe. Mr. McDonald probably will seek to cut down on the number of firms it uses, according to people familiar with the matter. One executive suggests that smaller firms are likely to be more vulnerable as P&G seeks to further consolidate its ad business in an effort to save money.

P&G recently said it was continuing with a new approach to marketing in which it pulls together a team of experts culled from different ad and marketing companies to work on a given brand under one leader. It's a process, dubbed internally "the brand franchise leadership model," that P&G began slowly adopting in 2007.

P&G, like many marketers, has become frustrated with the lack of collaboration between its ad and marketing-services firms. Marketing services include in-store marketing and direct mail, among other functions.

The new approach is intended to eliminate turf wars. The company is hoping to foster collaboration among the people who create ads for TV and print and the other experts who do things such as research consumer behavior and design Web promotions.

"We are establishing a brand-agency-leader design that will simplify our business, lower our costs and improve capability by eliminating thousands of individual contracts and generating much more holistic advertising and marketing," Mr. Lafley said last month at an investor conference in New York.

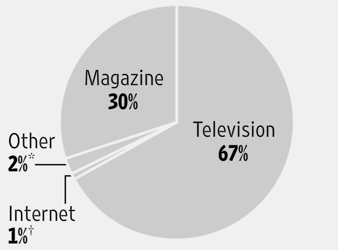
One executive close to P&G suggests that the company may ultimately try to reduce the number of ad-holding companies it deals with to two. It currently uses Paris-based **Publicis Groupe**, Dublin-based WPP Group and New York-based **Omnicom Group**.

Over the past few years, under Mr. Lafley and Jim Stengel, P&G's former global marketing czar, the company expanded the number of firms it employed as it sought to bring more creativity to its marketing. For example, it added **Wieden + Kennedy**, the Portland Ore. firm known for its **Nike** campaigns, to its roster of ad shops in 2006.

—Ellen Byron contributed to this article.

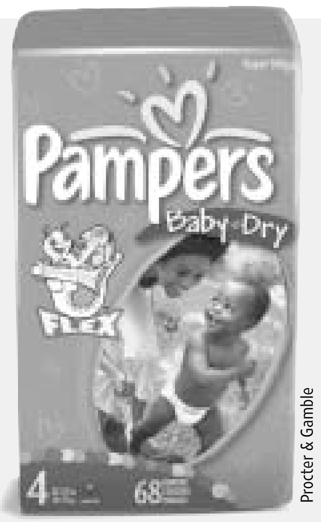
Big footprint

Procter & Gamble's U.S. ad spending in 2008, by type



Total ad spending: $3.2 billion

*Includes newspaper, radio and outdoor
†Display ads
Source: TNS Media Intelligence



Procter & Gamble

French council deals blow to Sarkozy's campaign against Web piracy

By Leila Abboud

France's highest legal authority struck down a key provision of a controversial law that would have cut off Internet access to people who repeatedly download copyrighted content illegally.

The decision is a setback for President Nicolas Sarkozy, who argued that the law was crucial to protecting artistic creation in the digital era. It was a victory for activists and Socialist politicians who bitterly opposed the law as an invasion of privacy.

The law was to have set up a "three-strike" system in which music labels and movie studios monitor file-sharing Web sites to identify computers that are illegally downloading copyrighted content. They then report suspected pirates to a government committee, which reviews the cases and can require Internet service providers to identify the offenders.

The government committee would have first warned the offender by email and registered mail, and then cut off their Internet access for up to a year if the illegal downloads continued.

The French Constitutional Council ruled Wednesday that the law's reliance on the government committee to make decisions on when to cut off people's Internet access made it incompatible with the French Constitution.

As a result, the law will be enacted without the "third-strike" of cutting off Internet access. Instead the government agency only will be permitted to send out mail and email warnings to suspected pirates. If it wants to further sanction an alleged illegal downloader, it will have to go to court.

Mr. Sarkozy's plan was being closely watched because it would have made France the first in the world to cut off Internet access to those accused of copyright violations.

At center of autos' legal storm

Lawyer who slowed Chrysler deal weighs new challenge to GM

BY JEFFREY MCCRACKEN
AND NEIL KING JR.

A government lawyer labeled him a terrorist. A top adviser to **Chrysler** LLC called him ridiculous.

As the Obama administration pushed Chrysler through bankruptcy court in record time, no one caused it more angst than Thomas Lauria. The **White & Case** bankruptcy lawyer won a stay from Supreme Court Justice Ruth Bader Ginsburg Monday that temporarily threw Chrysler's proposed alliance with Italian auto maker **Fiat** SpA into limbo.

Late Tuesday, the court turned down the attorney's 11th-hour appeal on behalf of some Indiana pension funds.

But Mr. Lauria, whom friends and foes alike say is tenacious to a fault, is likely to remain a thorn in the side of the administration's automotive task force. A hodgepodge of **General Motors** Corp. bondholders have asked him to represent them in a challenge to GM's bankruptcy filing.

Mr. Lauria hasn't formally accepted the job, but before the ruling Tuesday, he said from his home base in Miami, "I must admit, I am enjoying the heck out of this." (The epithets hurled at him by his opponents were uncovered in emails he subpoenaed in the case.)

When the court cleared the way for the Chrysler sale, Mr. Lauria said he was disappointed, and added: "I think it's pretty interesting that you can have a transaction as big as this, that impacts parties' rights as broadly as this, and no matter how hard you try, you can't get a substantive review from an appellate court."

Mr. Lauria, a 48-year-old New York native, has never argued any cases before the Supreme Court. But as counsel for companies and creditors, and as head of his firm's bankruptcy practice, he has been in the thick of some of the nation's biggest and messiest bankruptcy cases for almost 20 years.

Associated Press

Thomas Lauria outside federal court in Manhattan Friday, when he argued that Chrysler's restructuring plan unfairly favors unsecured stakeholders.

Mr. Lauria represented Carl Icahn when the financier tried to buy the bankrupt Pan Am in 1998. He squeezed a $2.5 billion payout from the Adelphia Communications bankruptcy in 2004 on behalf of some of the country's biggest banks. He also shepherded energy company Mirant Corp. through a grueling, 30-month bankruptcy, for which he earned $900 an hour.

Judge D. Michael Lynn of the Northern District of Texas, who presided over the Mirant case, says Mr. Lauria "is, if anything, overly tenacious." He sometimes focuses "on the justice of his client's position to the exclusion of the merit of the opposition's arguments," the judge adds.

It is a widely shared view among lawyers who have worked with Mr. Lauria or battled against him. "I don't know many lawyers in the bankruptcy practice who take the idea of zealous representation of their client as seriously as he does," says Richard Chesley, a Chicago bankruptcy lawyer who has worked with Mr. Lauria on a couple of cases.

When a group of disenchanted Chrysler lenders came to Mr. Lauria in early April, asking him to represent them, "it just smelled like something that was interesting," Mr. Lauria says.

It got interesting fast. On April 30, when Chrysler filed for Chapter 11 protection, President Barack Obama blamed the bankruptcy on Mr. Lauria's clients, whom the president branded "speculators."

Mr. Lauria's notoriety grew when he appeared May 1 on a Detroit radio station and said the administration had "directly threatened" one of his clients, Perella Weinberg, and would use the White House press corps to "destroy" his client.

The firm and the White House denied the allegation, and Mr. Lauria eventually stopped commenting on it. But his remarks were picked up by a slew of conservative blogs and Web sites, making him a cult hero to people opposed to government intervention in the economy.

Under heavy pressure to fold, Mr. Lauria's clients abandoned their court challenge within the first week. A week later, he got a call from the Indiana pension funds.

The funds were investors in Cerberus Capital Management LP, the private-equity firm that acquired the auto maker in 2007.

Three of them—the Indiana State Teachers' Retirement Fund, the Indiana State Pension Trust and the Indiana Major Moves Construction Fund—later invested $17 million in Chrysler's secured debt.

"As I've said countless times, it wasn't the investment that was made by our Hoosier pension funds that put Chrysler in bankruptcy," says Indiana State Treasurer Richard Mourdock. "It's been the egregious actions of the U.S. government." He says he chose White & Case and Mr. Lauria for the case "because we needed someone who had some background on this."

Some rival attorneys wondered aloud what Mr. Lauria hoped to gain. A Chrysler liquidation—the likely consequence—would have given the pension funds a smaller return than the 29 cents on the dollar they have been offered.

As for Mr. Lauria, he says his experiences of the last month "cause me to worry that there is something very wrong with the system," and he says he wonders "whether our judiciary is today able to fulfill its constitutional mission to ensure that the rule of law prevails—particularly in the face of perceived crisis."

—Alex Kellogg contributed to this article.

U.K. to examine Ticketmaster-Live Nation deal

BY AARON O. PATRICK
AND ETHAN SMITH

A U.K. antitrust regulator said it will investigate the proposed merger of **Ticketmaster Entertainment** Inc. and **Live Nation** Inc., in a move that could ultimately force the combined group to sell part of its British operations.

On Tuesday, the British government's Office of Fair Trading said it had referred the merger to the Competition Commission for an investigation because "there is a realistic prospect of a substantial lessening of competition." A review by the U.S. Justice Department's antitrust division is already under way.

The Office of Fair Trading conducts preliminary reviews of mergers and refers only a small number each year to the Competition Commission. The commission wouldn't have the authority to stop the merger of Ticketmaster and Live Nation—the world's largest companies in ticketing and concert promotion, respectively—because its jurisdiction doesn't extend beyond the U.K. But it could force a sale of their British assets if it finds the merger would reduce competition in the U.K. Over the past five years the commission has ruled that about half the mergers it fully investigated are anticompetitive, according to a spokesman.

The commission wouldn't have the authority to stop the merger. But it could force a sale of the companies' British assets.

In separately issued statements, both Ticketmaster and Live Nation called the measure "a standard part of a full regulatory review."

The merger, proposed in February, has been controversial, as many consumer advocates believe the constituent companies already dominate their respective fields, and compete on a limited basis in the ticketing business. The companies would have a combined stock-market value of about $870 million, at Wednesday's share prices.

The Office of Fair Trading said it is concerned that the deal could prevent one of Ticketmaster's European rivals, CTS Eventim AG, from entering the U.K. market. CTS, based in Germany, has an agreement to sell concert tickets for Live Nation in the U.K. starting this December. It isn't clear what will happen to the arrangement if the merger goes through.

The U.K. live-music market is worth about £1.9 billion ($3.1 billion) a year, according to the Office of Fair Trading. The Competition Commission has 16 weeks to make a preliminary ruling and 24 weeks for a final ruling under British law, a commission spokesman said.

Stainless-steel firms lift prices as costs rise

BY ROBERT GUY MATTHEWS

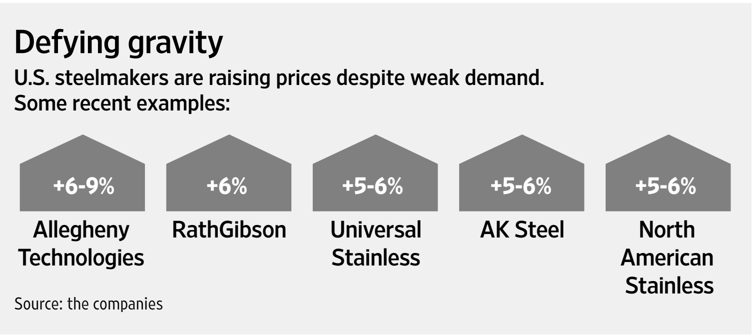
BRIDGEVILLE, Pa.—Many producers of stainless steel, facing high operating costs, are increasing prices despite weak demand.

" We are raising prices because of the increased costs of operating our mills at the current lower levels. We are not seeing an increase in demand," said Dennis Oates, chief executive officer of **Universal Stainless & Alloy Products** Inc. He has boosted prices 5% to 6% twice since the beginning of May.

Other producers in the capital-intense steel business are beginning to do the same. In April, **Allegheny Technologies** Inc., **AK Steel Corp.** and **North American Stainless** Inc. each said they would increase prices for some types of stainless steel about 5% to 6%. Last month, **RathGibson** Inc., a small specialty steelmaker based in Lincolnshire, Ill., told customers it was increasing prices 6% on average.

"Unlike mill increases announced in recent years, this is obviously not driven by increasing global demand, but rather by fixed costs being proportioned across significantly lower demand," the company said in a letter to customers.

To understand why steelmakers would raise prices when demand is terrible, it helps to understand modern factories—and the operating demands of their equipment.



At Universal's plant here a huge disk-shaped blower called a preheater shoots hot air—around 1,260 centigrade—at a giant ladle that holds melting steel. The preheater must be kept running even if the plant isn't making steel. It is kept hot to prevent the refractory bricks inside from disintegrating.

The same is true with the mill's baghouse, essentially a huge vacuum for pollutants. Its industrial-size fans run continuously because turning the motors on and off can damage them. Whether the mill makes two batches or six of steel, the costs are the same. "We're getting pinched," said Mr. Oates.

John E. Lichtenstein, managing director of Accenture's Metal Industry Group, said raising prices in this economy is a smart business move for some steelmakers. In past recessions, steel mills would actually increase mill production, believing that selling steel cheaply at least brought in cash.

The problem, though, is that sales prices eventually fell so low the mills went into bankruptcy."The whole mind-set has been changed in the industry," he said. "Sometimes you have to accept the fact that raising prices is a risk. But you are better off not chasing that last sale to the bottom."

The latest increases aren't industrywide, however, and steel prices in general continue a downward trend, with producers reducing or keeping prices unchanged.

In the past, many producers would stay in business and continue to sell their commodities at lower and lower prices, hoping the market would turn higher in time to save their businesses. But the low prices and higher operating rates actually delayed recovery.

The world's steel plants currently are operating at less than 45% of capacity—among the lowest such rates ever—which has escalated production costs and led to huge losses.

Universal Stainless said it had a loss of $3.8 million in the first quarter of 2008, citing among other things, the costs of running its plants at such low operating rates.

The losses come in spite of significant strides in the company's costs and productivity. Streamlined trucking routes and computer tracking systems have reduced delivery times by 10%. Universal now makes 45,000-kilogram batches of the most common steel product, instead of filling individual orders.

Retailer Inditex's profit falls 16%

Owner of Zara chain hit by currency losses but says sales are up

By Christopher Bjork

MADRID—Zara chain owner **Inditex** SA on Wednesday posted a 16% drop in net profit for its fiscal first quarter, as the value of local currencies in some key markets tumbled.

Net profit fell to €184 million ($259 million) for the three months ended April 30 from €219 million a year earlier. Europe's largest fashion retailer by revenue, ahead of Sweden's **Hennes & Mauritz** AB, blamed the decline on falling margins, which were hit by the rise of the euro against currencies such as the British pound, the Mexican and Chilean pesos and the Polish zloty.

Sales rose 5.9% to €2.34 billion, boosted by the opening of 95 new stores, including a flagship Zara store on New York's 5th Avenue, and its first Bershka and Pull & Bear stores in China. Inditex had opened 145 stores in the year-earlier period.

Pablo Isla

"We continue to gain market share globally," Chief Executive Pablo Isla said during a conference call. He reiterated plans to open between 370 and 450 new stores in the current fiscal year. Inditex plans €600 million in capital expenditure for the year.

Inditex sells its garments in more than 4,300 stores in 73 countries, at an average price of between €15 and €20 per item. But low prices and geographic diversification didn't completely shelter the company from the global slump in consumer spending.

Its gross margin, a key measure of a retailer's profitability, fell to 56.9% from 57.8% a year earlier. Costs grew 9%, mostly because of Inditex's aggressive international expansion.

Management said the gross-margin drop was mostly due to the rise in the euro, but retail analyst Anne Critchlow of Société Générale said the drop also suggested the company was marking down more of its products than planned. She also noted that inventories grew faster than sales, pointing to slower-than-expected sales of the spring collection.

Yet Inditex said sales between May 1 and June 7, after stripping out currency fluctuations and adjusting for seasonal effects, rose 9% from a year earlier, as it continues to outperform competitors.

The robust current trading figure also bodes well for rival H&M, which last month said total April sales were up 19% from a year earlier. The Swedish retailer will report first-half results later this month.

Analysts say Inditex's fast-fashion business model and reasonable pricing gives the apparel maker an edge over rivals in the downturn. It makes most of what it sells close to Spain and spends more on logistics by shipping out garments to all its stores twice a week. But the system allows the retailer to react faster to fashion fads and get products out to stores before rivals, allowing it to sell at a premium.

This summer, Inditex's flagship Zara brand is trying to lure shoppers with pastel-colored garments, tube-shaped skirts for women and marine-colored sailing clothing for men.

Spanish retailer

Inditex's daily share price on the Madrid Stock Exchange

Wednesday's close: €34.30, up 5.1%

Source: Thomson Reuters Datastream

Arcandor halts talks with Metro to assess options

By Kirsten Bienk And Erin Fines

FRANKFURT—A day after filing for insolvency, German travel and retail company **Arcandor** AG put talks with rival **Metro Group** AG over a possible linkup on hold, saying it was now considering all options, including other potential partners.

Metro wants to acquire the majority of Arcandor's Karstadt department stores and combine them with its own Kaufhof chain.

The halt to negotiations comes a day after Arcandor filed for insolvency and two days after the German government rejected Arcandor's request for €650 million ($915 million) in guarantees from a fund created to help companies weather the global credit crisis and also a €437 million rescue credit from state-owned bank KfW.

Arcandor spokesman Gerd Koslowski said Wednesday that after the insolvency filing the company will now look into all its options, which include a combination of the Karstadt department-store business with Kaufhof, or with another partner. Mr. Koslowski said it is too early to discuss other potential partners.

Arcandor's management wants to preserve and restructure the entire company without splitting it up, Mr. Koslowski said. Arcandor has said that 43,000 jobs will be affected.

But UniCredit analyst Volker Bosse said the insolvency will likely result in splitting up the company.

On Tuesday Metro repeated an earlier offer to take over about 60 of Arcandor's 91 Karstadt stores, potentially saving many of the retail jobs at Karstadt. Under the plan Metro proposed last month, it wouldn't take on Arcandor's headquarters, debt, administrative costs or employee obligations. Metro said it would take two or three years for a combined company to become profitable.

Metro said it doesn't fear any antitrust hurdles to a deal. Chief Executive Eckhard Cordes said he has already held preliminary talks with Germany's Cartel Office, but didn't reveal any details.

Mr. Cordes said Metro is willing to pay a "fair price" for the Karstadt stores, but analyst Zafer Ruezgar of WGZ Bank said the purchase price is unlikely to exceed the value of current inventory.

CORPORATE NEWS

Neiman swings to a loss

Retailer will revamp offerings to include lower-priced goods

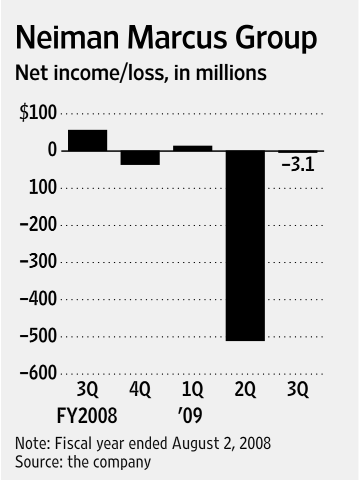
By Tess Stynes

Neiman Marcus Group Inc. swung to a fiscal third-quarter loss on a 24% sales decline and disclosed a merchandising strategy that calls for more lower-priced goods.

Until the new strategy kicks in, the Dallas luxury-goods retailer known for its lavish holiday gifts catalog and designer apparel expects to offer promotional and other events to boost sales.

The company described the new strategy as "rebalancing" its merchandise to include less-pricier goods within its designer collections.

In addition to ongoing expense cuts, Neiman said it would reduce capital spending in its next fiscal year by about 25% from the between $105 million and $115 million it expects to spend this year.



Burt Tansky, the company's chief executive officer, said Wednesday that the retailer doesn't see the economic slide ending soon. "We believe that the recovery is tentative and any improvement will be gradual," he told investors in a conference call. As a result, it is pursuing what he called a "conservative" merchandise-buying plan for the fall.

He said that while customers hadn't questioned its prices in the past, "we are sensing a shift in our customer's mind-set."

Neiman's new merchandising strategy "will strengthen our position in mid-price" goods, he said. "This is not something that will occur overnight," Mr. Tansky cautioned, noting the larger impact wouldn't be seen in its stores until the spring.

For the quarter ended May 2, privately held Neiman reported a net loss of $3.1 million, compared with prior-year net earnings of $55.4 million. Gross margin fell to 36.5% from 40% amid higher markdowns and promotion costs. Last month, Neiman reported revenue for the quarter fell to $810.1 million from $1.06 billion as sales at stores open at least a year declined 27%. The retailer operates 40 Neiman Marcus stores, the Bergdorf Goodman store in New York City, and six Cusp boutiques.

China Minmetals boosts OZ bid

By Laura Santini and Alex Wilson

China Minmetals Non-Ferrous Metals Co. increased its bid for assets of Australian miner **OZ Minerals** Ltd. by 16% to US$1.39 billion ahead of a shareholder vote Thursday to approve the deal.

Wednesday's sweetened offer, endorsed by the board of OZ Minerals, came amid a day of intense uncertainty about whether the offer would face competition from Australian investment bank **Macquarie Group** Ltd., which put together a proposal for a recapitalization designed to thwart the Minmetals offer. Earlier on Wednesday, Macquarie abandoned the plan.

"Minmetals' offer also provides greater stability to OZ Minerals' assets and security of employment to OZ Minerals staff around Australia and in Laos," Minmetals said in a statement.

Before the higher offer was made, Bruce Loveday, OZ's executive general manager of business support, said proxies are strongly in favor of the Minmetals transaction, although he also noted shareholders have the ability to withdraw their proxy votes and turn up to vote at the meeting. Minmetals' original offer was for US$1.2 billion.

This week, Macquarie had urged shareholders to reject Minmetals' offer in favor of a 1.4 billion Australian dollar (US$1.1 billion) recapitalization that would be financed through a rights offering to existing OZ Minerals investors.

But the board of OZ Minerals rejected the Macquarie plan, as well as another recapitalization proposal put forward by RFC Corporate Finance and RBC Capital Markets.

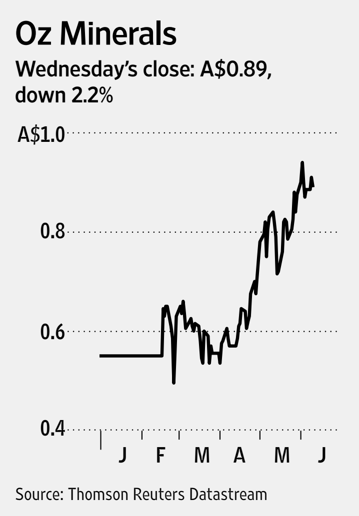
Even after the board's decision, Macquarie tried to take its plan to shareholders, arguing that a rebound in metals prices had pushed the implied value of the company much higher and that shareholders would be better off taking in fresh capital rather than selling to Minmetals.

But according to a person familiar with the situation, Macquarie eventually decided it didn't have the time to conduct due diligence needed to guarantee financing of its plan.

Minmetals is buying all of OZ's assets, apart from the Prominent Hill mine in South Australia state and the Martabe project in Indonesia.

In its independent expert report on the deal before the revised offer, corporate advisory firm Grant Samuel valued the assets being sold to Minmetals at between US$1.4 billion and US$1.6 billion but said that the deal was still in the best interests of shareholders given OZ's debt woes.

The revised offer signals Minmetals' determination for the deal to succeed, in the wake of a failed bid for Australian mining assets by another Chinese company.



Last Friday, **Aluminum Corp. of China**'s planned $19.5 billion alliance with Anglo-Australian mining giant **Rio Tinto** fell apart in the face of a rival proposal for an iron-ore joint venture between Rio and **BHP Billiton** Ltd. An upturn in commodity and equity markets allowed Rio to raise $15.2 billion in a rights issue instead of ceding a stake to its Chinese suitor.

Volvo attracts new Chinese suitor

By Norihiko Shirouzu

BEIJING—**Beijing Automotive Industry Holding** has expressed interest in acquiring Volvo, becoming the second Chinese company to eye the Swedish unit of **Ford Motor** Co., according to three people familiar with the situation.

A team of executives from Chinese government-owned Beijing Auto was expected to visit Volvo's Swedish headquarters as early as Thursday to meet with its executives and tour its research-and-development and manufacturing facilities, the knowledgeable people said.

Three or four parties have expressed interest in Volvo. One of them is an investment group led by Chinese auto maker **Geely Holding** and its chairman, Li Shufu. Geely Holding is parent of Hong Kong-listed Geely Automobile Holdings Ltd.

Beijing Auto couldn't be reached for comment late Wednesday.

Beijing Auto is one of China's biggest car makers, with joint ventures that produce **Hyundai Motor** Co. vehicles and **Chrysler** LLC Jeeps for the Chinese market. Last month, the company expressed interest in acquiring **General Motors** Corp.'s German Adam Opel unit, but that move also came after the bid deadline, and the approach went nowhere.

Volvo, which posted a $736 million operating loss in the fourth quarter of last year, is expected to fetch less than $3 billion, according to IHS Global Insight analyst Rebecca Lindland. In 1999, Ford paid $6.45 billion for Volvo.

GLOBAL BUSINESS BRIEFS

Grupo Ferrovial SA

Passenger traffic falls 7.3% at airport operator BAA

Airport operator BAA Ltd. said it handled 11.8 million passengers in May, down 7.3% from a year earlier as the recession continued to deter travelers from venturing abroad. BAA, which is owned by Spanish infrastructure company **Grupo Ferrovial** SA, said the decline was consistent with downward trends recorded since December. Heathrow Airport, one of the world's busiest airports, handled 3.9% fewer passengers, recording the smallest decline of the seven airports BAA operates. Stansted Airport, one of the three airports BAA is being forced to sell by the U.K. antitrust regulator, suffered the sharpest fall in traffic, down 18.5%. The number of passengers using Gatwick Airport fell 6.5%. Edinburgh Airport was the only airport to see traffic rise, boosted by new low-cost-airline services.

Bank of America Corp.

Fares Noujaim, one of the highest-ranking Merrill Lynch bankers left at **Bank of America** Corp. since its purchase of Merrill, has been tapped to become a vice chairman of corporate and investment banking. Mr. Noujaim, who hails from Bear Stearns Cos., was appointed in June 2008 as Merrill Lynch's president in the Middle East and North Africa. In his new job he will be based in New York. Mr. Noujaim's appointment comes as a number of Merrill bankers have left amid a growing culture clash, with Merrill bankers bristling at BofA's more-corporate approach to banking. Mr. Noujaim said business at BofA is beginning to click and the bank is gaining market share across various product lines. Mr. Noujaim will report to Brian Moynihan, the president of global banking and wealth management at BofA since January.

Rémy Cointreau SA

Inventory cutting by customers and costs associated with leaving a distribution network helped drive **Rémy Cointreau** SA's fiscal 2009 net profit 13% lower. The French drinks maker posted a net profit of €86.1 million ($121.2 million) for the year ended March 31, down from €98.4 million a year earlier. The company declined to give a forecast for fiscal 2010 earnings because of the uncertain economic climate. Operating profit fell 14% to €137 million, the company said. Operating profit at Rémy Cointreau's cognac division, its main operation, fell to €75.1 million from €93.5 million a year as "sustained price increases didn't fully offset the volume declines in the U.S. and Russia, or the impact of destocking as a result of leaving [distribution network] Maxxium." The company left a distribution deal with Maxxium in March.

HeidelbergCement AG

HeidelbergCement AG of Germany on Wednesday sold a 14.1% stake in PT **Indocement Tunggal Prakarsa** for about $310 million, an official at **Royal Bank of Scotland** said. The sale to investment funds, arranged by RBS, reduced Heidelberg's stake in the Indonesia-based cement maker to 51%. The shares were sold at 6,000 rupiah (60 U.S. cents) each, a 12% discount to Indocement's closing price Tuesday of 6,850 rupiah. Heidelberg, which bought a majority of Indocement in 2001 after the Asian financial crisis, plans to use the proceeds from the stake sale to pay down debt.

Deutsche Lufthansa AG

Deutsche Lufthansa AG said it carried six million passengers last month, down 4.4% from a year earlier, as the global economic slump cut into demand. The Cologne, Germany, airline said its overall passenger-load factor, a measure of how full its aircraft are, fell to 74% from nearly 80%. Lufthansa's operations include Swiss International Airlines and budget carrier Germanwings. Capacity fell 1.6% overall but rose 0.9% in Europe. This mainly reflected additional capacity at Lufthansa Italia. The company's cargo volume fell 10% to 141,000 metric tons amid a decline in trade.

United Co. Rusal

Russian aluminum producer **United Co. Rusal** said it has secured an extension until July 28 for a standstill agreement on $7.4 billion owed to foreign creditors. The agreement gives Rusal, owned by billionaire Oleg Deripaska, some breathing space in its efforts to restructure nearly $14 billion in debt, just over half of which is owed to a group of foreign banks. The previous standstill agreement, which freezes principal payments while a restructuring deal is negotiated, was due to expire Thursday. Rusal said it would take the extra month for foreign banks' credit committees to approve the terms. More than 70 banks are involved in the deal. The company said lenders had been waiting to hear if state-owned Vnesheconombank would extend a $4.5 billion loan it gave to the company last year.

BHP Billiton Ltd.

BHP Billiton Ltd. said it has agreed to cuts in contract prices for metallurgical coal of 58% with a significant number of its customers. Demand for metallurgical coal, used in the steelmaking process, has been hit hard by the downturn in global steel markets. BHP, together with joint-venture partner **Mitsubishi** Corp., is the world's largest exporter of seaborne metallurgical coal. Analysts said the price cut is in line with previously reported settlements between BHP and Japanese steelmakers and won't result in changes to earnings forecasts.

Brown-Forman Corp.

Brown-Forman Corp.'s fiscal fourth-quarter earnings skidded 20% as falling demand, plus costs related to job cuts, hit the liquor and wine producer's bottom line. Even so, results beat analysts' expectations. In April, Brown-Forman said it would cut 6% of its work force, offer early retirement to some U.S. workers and make other cost cuts. The maker of Jack Daniel's whiskey, Finlandia vodka and Fetzer wines has been hurt by distributors cutting orders for its products and drinkers increasingly switching to lower-price beverages and drinking less at bars and restaurants. For the period ended April 30, Brown-Forman had net income of $79.6 million, or 53 cents a share, off from $99.1 million, or 65 cents a share, a year earlier. Revenue fell 12% to $683.3 million. Analysts surveyed by Thomson Reuters were expecting earnings, excluding special items, of 49 cents a share on revenue of $678 million. Gross margin widened to 52.5% from 51.9%.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Capital-raising shines, for now

Big U.S. banks show signs of strength but ridding 'toxic assets' may prove key to a rebound

By David Wessel

Eight months ago, in the worst moments of the Great Panic of '08, then-Treasury Secretary Henry Paulson persuaded Congress to provide $700 billion for what he said was the crucial task of buying lousy real-estate loans and securities, the "toxic assets," from the nation's banks.

CAPITAL

Four months ago, Treasury Secretary Timothy Geithner proposed to leverage some of that money with private money to buy as much as $1 trillion in what he delicately dubbed "legacy assets" from the banks to repair their balance sheets and get them lending again.

The government has yet to buy any of these assets. Instead, it bought about $200 billion worth of shares in the banks, and this week it allowed 10 big banks to repay $68.3 billion of that taxpayer money. The key: Big banks have raised about $65 billion in private capital in the past several weeks, an accomplishment that seemed unimaginable just a few months ago.

So is it no longer necessary for the government to get toxic assets off banks' books to get credit flowing again? Is bolstering banks' capital a substitute for ridding them of smelly loans and securities?

We're about to find out. Until this historic episode, the internationally accepted recipe for fixing a banking crisis had three ingredients: take bad assets off bank books, temporarily guarantee their debts and deposits, recapitalize the banks. The notion was that removing toxic assets usually was necessary before a bank could attract new capital or a buyer and get on with the business of making loans.

Banks need capital to absorb losses when borrowers don't repay their loans. If a bank's capital cushion is large enough, it can absorb all the losses it faces and remain solvent. (Say a bank is carrying a loan at 80 cents on the dollar, but it's really worth 50 cents. Investors don't want to lend that bank money or, if they do, they charge a lot. That makes it hard for the bank to lend readily. With a fat enough capital cushion, the bank's solvency is assured even if it has to mark the loan down to 50 cents.)

Fotosearch

The very stressful stress tests conducted by the regulators were intended to calibrate how much capital the big banks needed in a terrible, though not worst-case, economy. Arithmetically, if banks raise enough capital, then there's no need for the government to buy the toxic assets. And we all live happily ever after.

Perhaps. But ridding toxic assets accomplishes two other things.

First, it removes any doubt about looming undisclosed losses. As long as toxic assets remain on bank books, there's uncertainty about whether they've been marked down enough to reflect reality. If they're gone, it doesn't matter. (One alternative: If everyone believes a bank has done a brutally honest appraisal of its value of the securities and, especially, its harder-to-value loans, and disclosed those numbers, then it doesn't matter who owns the asset. That was a major goal of the stress tests.)

Second, it removes a huge distraction for management, which may be prerequisite to focusing on making new loans, the objective of all these efforts.

Michael Bleier, a banking lawyer at Reed Smith in Pittsburgh who spent 14 years as general counsel at Mellon Bank, says this is a big deal. In 1988, Mellon created a "bad bank" to hold and sell $1.4 billion worth of bad real-estate and energy loans that were then worth 47 cents on the dollar. "One of the key reasons we did this was that management's time and attention was being taken up with questions like: What are you going to do with this stuff?" Mr. Bleier said. "By not getting rid of the assets, management attention is somewhat diverted."

The bad bank was a success at its sole mission: It sold the assets and closed its doors in 1995. And the good bank, Mellon, was healthy enough to be making acquisitions in late 1989 (and was later acquired by Bank of New York.)

Mr. Geithner's Public Private Investment Program to buy toxic *loans* is going nowhere; the PPIP to buy *securities* may yet materialize. If markets and banks deem all this no longer necessary because the financial system has pulled back from the abyss and banks have raised more capital than expected, that's good.

That's not the only possible explanation. Bankers always will be reluctant to sell if they have to mark down loans; they'd rather wait and hope for better times. But the Treasury offered investors a sweet deal here—and found few takers amid much anxiety about whether participating would subject investors to congressional scrutiny and limits on executive pay. If the lack of appetite for these deals instead reflects Wall Street worries about the political risk of doing business with the U.S. government, that's not so good.

At a Senate hearing this week, Mr. Geithner said lack of interest in toxic-asset sales reflects elements of both explanations. And he isn't ready to abandon the effort. If the economy takes a bad turn, or attitudes toward banks change—particularly toward banks that weren't deemed healthy enough to give back taxpayer capital—a mechanism for removing toxic assets may yet prove essential to reaching a happy ending.

U.S. won't cap salaries at banks that got aid

By Deborah Solomon

The Obama administration is dropping its plan to cap salaries at firms receiving U.S. government bailout money, leaving them subject to congressionally imposed limits on bonuses.

The move is likely to end months of confusion on Wall Street about separate pay directives from the White House and Congress.

In addition to standing behind the restrictions passed by Congress in February, the administration is pushing for broad changes in compensation practices across the financial-services industry.

It also will appoint a "pay czar" to monitor the firms receiving the most government aid.

Treasury Secretary Timothy Geithner said Wednesday it is time for companies' compensation practices to be better aligned with sound risk management and long-term growth. "This financial crisis had many significant causes, but executive compensation practices were a contributing factor," he said in a statement.

Mr. Geithner said the administration will be working with Congress to pass "say on pay" legislation. That legislation would give the Securities and Exchange Committee authority to require companies to give shareholders a nonbinding vote on executive-compensation packages.

"Say on pay, which has already become the norm for several of our major trading partners, and which President [Barack] Obama supported while in the Senate, would encourage boards to ensure that compensation packages are closely aligned with the interest of shareholders," Mr. Geithner said.

The announcement comes one day after the Treasury Department told 10 of the largest U.S. financial institutions that they may repay $68 billion in government-bailout cash. The announcement set the stage for giant banks like **J.P. Morgan Chase** & Co., securities firms **Goldman Sachs Group** Inc. and **Morgan Stanley** and the other approved companies to escape the grip of tight restrictions.

The pay provisions were a key motivator for some banks to repay the TARP money. The most restrictive portions of Congress's rules targeted senior executives and top earners at firms receiving more than $500 million in government funds, limiting bonuses to no more than a third of total annual compensation.

The push to revamp compensation practices at all financial firms suggests the administration hasn't dropped its goal of making far-reaching changes to how banks pay employees. But this element of the plan will likely come in the form of recommendations, which may raise questions about how effective they can be.

The Treasury's decision to drop the salary caps culminates a months-long debate within the administration about how to marry compensation restrictions required by Congress, under a provision authored by Democratic Connecticut Sen. Chris Dodd, with the pay guidelines the president outlined earlier this year.

In a ballyhooed February announcement, the administration said it planned to limit salaries to no more than $500,000 for top executives at firms receiving "exceptional assistance."

—Maya Jackson Randall and Henry J. Pulizzi contributed to this article.

Airbus suspects sensors were a factor in crash

By Andy Pasztor And Daniel Michaels

U.S. and European air-safety regulators are considering requiring that airlines replace certain airspeed sensors on Airbus jets. An internal Airbus memo shows investigators increasingly suspect faulty speed indications were major contributors to last week's crash of Air France Flight 447.

Plane maker Airbus informed airlines earlier this week that the "unreliable airspeed situation" appears to fit with "several messages" sent from the Airbus A330's automated maintenance-monitoring system to Air France shortly before the plane went down in an Atlantic storm.

Additional messages "might be consistent with the unreliable airspeed indication but require further analysis," according to a copy of the Airbus "Accident Information Telex" sent to carriers using the A330 model.

The memo, dated Monday, indicates that other important devices and systems on the plane apparently continued functioning after the initial airspeed problems cropped up. It emphasized that available data don't suggest any loss of electrical power supply, loss of cockpit instrument displays or flight-computer malfunctions.

The update suggests that investigators believe incorrect airspeed indications, perhaps coupled with pilot actions and other factors, could have been central to what happened. But it also concludes that the automated maintenance messages don't explain "the complete sequence of events which led to [the] accident."

Regulators may be heading down a similar path. The European Aviation Safety Agency, or EASA, which certifies all Airbus planes, is "analyzing data" to decide if certain previous Airbus recommendations on changing airspeed probes—known as pitot tubes—should be made mandatory, a spokesman said. So far it has been up to individual airlines whether to replace the sensors, and how quickly.

The Federal Aviation Administration is also assessing the situation. "We're analyzing the data because we want to understand this better," said FAA spokeswoman Laura Brown.

The Air France jetliner with 228 people on board en route from Rio de Janeiro to Paris disappeared from the sky just after midnight local time on June 1. Brazilian military officials said Tuesday that a total of 41 bodies have been recovered.

Air France-KLM SA and many other Airbus operators said they were already replacing probes well before the crash, because Airbus issued notices that the units had experienced in-flight malfunctions. In March 2006, Airbus, a unit of **European Aeronautic Defence & Space** Co., proposed the change for its A320 family single-aisle models, according to an Airbus official. Later, it proposed a similar change to its A330 and A340 models.

The nonbinding recommendations covered probes produced by **Thales** SA of France. A Thales spokeswoman declined to comment.

US Airways Group Inc., **Delta Air Lines** Inc., **Frontier Airlines Holdings** Inc. and **UAL** Corp.'s United Airlines said they are in the process of replacing the Thales probes on Airbus planes.

ECONOMY & POLITICS

Iran hopefuls target female voters

Candidates try to set themselves apart from Ahmadinejad

By Farnaz Fassihi

Reuters

Zahra Rahnavard, the wife of Iranian presidential election candidate Mir Hossein Mousavi, at a rally in Tehran Tuesday.

TEHRAN, Iran—For the first time in Iran's 30-year history of presidential elections, candidates are going all out to win over female voters, making a flurry of last-minute appeals before Friday's balloting.

Today's campaigns are a departure from the past, when candidates spoke of women voters in general terms, mostly centered on their respect for a mother's role in society or through economic assistance to widows.

In this election, the three candidates challenging President Mahmoud Ahmadinejad, whose tenure is associated with stringent crackdowns on womens-rightsactivists, have tried to set themselves apart from the incumbent by focusing on female voters.

"Iranian women can be a major force and now candidates are realizing our support can deliver them victory and credibility," says Elahe Koulaee, a professor of political science at Tehran University and a former parliament member.

The top reform contender, Mir Hussein Mousavi, broke the taboo of mixing personal life with politics by campaigning with his wife, Zahra Rahnavard, an artist and scholar who has been dubbed by local media as Iran's Michelle Obama.

Mehdi Karroubi, a reformist cleric, has said he is against forcing women to wear the Islamic veil. He recently debated with his team the number of cabinet posts women should fill. Mr. Karroubi's top political advisers lobbied for the foreign ministry, speculating that when relations with the U.S. normalize, the new foreign minister could shake hands with Secretary of State Hillary Clinton.

Conservative candidate Mohsen Rezaie, who formerly headed Iran's Revolutionary Guards, has an advisory team of accomplished women and said he plans to reform the law so it ensures more equality for women. Mr. Rezaie has said he will place Iranian women in top posts in politics, education and management both in and outside the country.

Female voters have responded to the candidates' appeals, with many attending rallies and street demonstrations.

Mr. Mousavi's following among professionals and educated women, is thanks in part to his wife—a well-known artist and Iran's first female professor. She also was chancellor of a prominent women's university, Al Zahra, a job she lost when Mr. Ahmadinejad took office.

"She is very liberal and intellectual, we feel like we can trust her to fight for our rights," said Shirin Shadi, a 23-year-old university student who studies physical education and wants to see restrictions eased on the Islamic garb female athletes wear.

During a recent candidates' debate on live television, President Ahmadinejad mentioned Ms. Rahnavard, engaging in a rare public attack against a prominent woman. Mr. Ahmadinejad held up a folder with a picture of Ms. Rahnavard and questioned the validity of her doctorate in political science.

Many women rallied behind Ms. Rahnavard, saying the president had insulted all educated, professional women. Ms. Rahnavard has said she will file a defamation suit against Mr. Ahmadinejad if he doesn't publicly apologize to her. The president says he stands by his statements.

At a rally in Tehran on Wednesday, Ms. Rahnavard told a crowd of women and youth, "He wants to force all women to sit at home and be housewives. I am a symbol of Iranian women. By insulting me, he has insulted all of you."

Mr. Ahmadinejad has been mostly silent about his position on women and his wife rarely appears in public. Yet half-way through the election season, his sister, Parvin, began to campaign for him among conservative women.

The president also held a rally specifically for women; to boost turnout, his campaign brought supporters by bus from his political base south of the capital and from nearby towns and villages.

Last year, Mr. Ahmadinejad's government introduced into parliament two bills that would make polygamy easier for men and impose a tax on women's dowry. The bills were dropped after an uproar and pressure from womens-rights activists who marched to the parliament in tens of thousands demanding to meeting with lawmakers.

Iranian women are among the most highly educated and socially active in the Middle East. Women have a 77% literacy rate and account for 60% of university students, according to local census. Half of the eligible voters in Iran, which has a population of 72 million, are females.

In April, a spectrum of secular and conservative womens-rights activists formed a coalition and made a list of demands from Iran's next president. Top on their list is that Iran signs the United Nations' Convention on the Elimination of All Forms of Discrimination Against Women.

"Our vote is for the candidate who guarantees our rights. It's extraordinary to see our efforts have paid off and the society and politicians are not indifferent to our demands," said Nasrin Setoudeh, a lawyer and prominent women's rights activist.

Strike disrupts London Underground service

A WSJ News Roundup

Associated Press

Commuters cross Waterloo Bridge in London on Wednesday. A strike disrupted Underground service, forcing many people to take other forms of transportation.

Millions of Londoners had a grim commute Wednesday, taking boats, buses and bicycles or walking in the rain as a strike by subway workers crippled the city's subway system.

It was the most disruptive strike on the Underground system since September 2007, when a walkout also shut down most of the capital's Tube. Mayor Boris Johnson said the strike was causing huge disruption, and urged union leaders to return to talks aimed at resolving disputes over pay, disciplinary issues and job losses.

The Rail, Maritime and Transport Union, which represents thousands of drivers, station staff and maintenance workers, ordered members to walk out late Tuesday after last-minute talks broke down. The strike is set to last until Thursday evening

Every day, about 3.5 million people use London's 402-kilometer-long Underground. Nine of the city's 11 subway lines were fully or partly closed Wednesday.

Big financial firms in London said they were operating as usual, with many giving staff the option to work from home. A spokesman for Nomura said it had organized a shuttle to carry employees between Nomura House in London's City district to its other main office in Canary Wharf.

The city has been hit by several transit strikes in recent years as unions and management clashed over the privatization of subway maintenance and the subsequent collapse of the Metronet consortium responsible for maintaining the system.

The London Chamber of Commerce estimated the strike could cost as much as £100 million ($164 million) in lost productivity. The union accused Underground management of scuppering a last-minute deal to avert the strike, and said it would be willing to return to negotiations. But no new talks had been scheduled as of Wednesday afternoon.

Mr. Johnson, the mayor, said the walkout was "unnecessary and misery-making," and that "the two sides are extremely close" to reaching a deal.

U.N. gets closer to draft targeting North Korea

A WSJ News Roundup

Seven key nations agreed to a draft United Nations resolution imposing tough new sanctions against North Korea, diplomats said, ending weeks of wrangling over a plan to respond to Pyongyang's conducting its second nuclear test.

Ambassadors from the five permanent U.N. Security Council nations—the U.S., China, Russia, Britain and France—and the two countries most closely affected by the test, Japan and South Korea, reached agreement Wednesday after two weeks of closed-door negotiations, the diplomats said.

"If all goes well we're expecting a vote on the resolution on Friday," a U.N. diplomat said. Since the draft already has support from the five veto-wielding members, its adoption is virtually certain.

Past sanctions, however, have had little effect in dissuading North Korea from pursuing its nuclear ambitions.

The draft would expand an arms embargo against North Korea, seek to curtail the North's financial dealings with the outside world and freeze assets of additional North Korean companies.

It would also authorize searches of ships on the high seas suspected of carrying banned weapons and nuclear material pending approval from the nation whose flag the ship was flying. If the country doesn't give its consent, the flag nation is required to direct the vessel to proceed to "an appropriate and convenient port for the required inspection by the local authorities." The draft resolution doesn't authorize the use of force to compel a ship to port.

Circulated to the 15 members of the U.N. Security Council, the draft is a "very strong" response to the North, said Susan Rice, the U.S ambassador to the U.N., Wednesday. "This sanctions regime, if passed by the Security Council, will bite, and bite in a meaningful way," she said.

She added that a total ban on North Korean arms exports, as called for in the draft, would cut off a significant source of revenue for Pyongyang.

North Korea has repeatedly bristled at any talk of sanctions. On Monday, Pyongyang's main Rodong Sinmun newspaper said the country will consider any sanctions a declaration of war and will respond to it with "due corresponding self-defense measures."

On Tuesday, North Korea said it would use nuclear weapons in a "merciless offensive" if provoked.

With Russia and China on board, Western countries are hoping for a unanimous vote in favor of sanctions that would send a strong signal of international unity. Council members Vietnam and Libya, however, are seen as potential hurdles to a unanimous vote, Western diplomats say.

The U.N. draft reflects compromises arrived at to satisfy the objections of China and Russia. Beijing and Moscow had opposed language in earlier drafts requiring countries to inspect North Korea vessels carrying suspicious cargo that might violate a partial U.N. trade and arms embargo.

The draft would have the Security Council condemn "in the strongest terms" the North's nuclear test on May 25 "in violation and flagrant disregard" of the sanctions resolution it approved after Pyongyang's first nuclear test in October 2006.

It would also demand a halt to any further nuclear tests or missile launches.