News in Depth: As ex-CEOs' ranks swell, one mounts a rare comeback

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Russia goes to mat over ruble

Speculators drive currency down, meaning troubles may just be beginning

Russia has vowed to put a floor under the beleaguered ruble. It looks increasingly like a target instead.

*By **Joanna Slater** in New York and **Gregory L. White** in Moscow*

Investors and analysts say the pressure on the Russian currency is likely to mount in coming weeks. That could set up a showdown between Moscow and market players, and force unpleasant choices on the country's authorities.

Already, sellers ranging from foreign investors to local companies have driven the ruble to within a hair's-breadth of the central bank's new limit, announced just two weeks ago. The tumble comes despite higher interest rates and steps to limit the supply of rubles.

The Russian authorities "set themselves a line in the sand, and we've approached it very rapidly," says James Malcolm, a currency strategist at Deutsche Bank in London. "It's an irresistible target."

The exchange rate is a highly sensitive issue in Russia, where memories of the 1998 ruble collapse remain fresh.

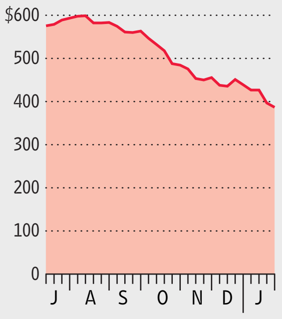
The currency's drastic reversal over the past few months—hammered by the plunge in the price of oil, Russia's main export, and a torrent of capital fleeing the country amid the global crisis—has put the Kremlin on the defensive.

Since August, Russia has engaged in a costly effort first to stop, then to slow the ruble's slide, spending more than a third of its hefty foreign-exchange reserves in the process.

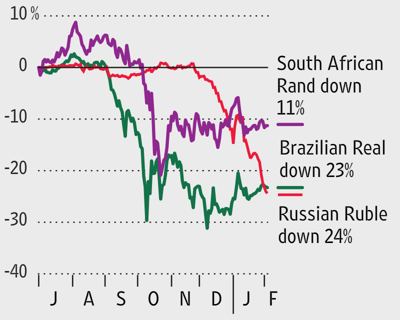
Tough brake

Russia has spent over a third of its reserves trying to slow the ruble's descent

Russia's foreign currency reserves, in billions of dollars, weekly data.



Performance of trade-weighted currencies from emerging-market economies since the end of June



Sources: Central Bank of Russia (reserves); J.P. Morgan Chase Bank (currencies). Photo: Reuters.

Top officials including Prime Minister Vladimir Putin have defended the policy, saying it was necessary to allow banks and the populace to adjust to the move. Controlling the ruble's descent also gave big Russian companies time to restructure some of their massive foreign debts, which would have become far more costly for them had the ruble plunged, analysts say.

Late last month, the government called a halt to the policy and instituted a new trading band for the ruble with a lower limit of 41 rubles against a basket of dollars and euros. By Tuesday, the ruble was kopecks away from that level. Earlier this week, it hit an 11-year low of a little over 36 rubles to the dollar.

Investors "want to try the central bank's resolve," says Markku Anttila, a currency trader who focuses on Russia at Danske Bank.

Some parts of the currency markets already are reflecting a vote of no confidence in Russia's new framework. Contracts to buy rubles in three months are incorporating an exchange rate against the dollar that lies beyond the government's band—in other words, investors are betting that the floor won't last.

The Russian government's defense of the ruble brings to mind other episodes from Asia to Latin America where govern-

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Obama cabinet nominee quits bid

Former U.S. Sen. Tom Daschle, under fire for his failure to pay more than $140,000 in taxes and interest on time, withdrew his nomination to be secretary of Health and Human Services, saying he had lost the confidence of the Congress.

*By **Naftali Bendavid, Laura Meckler** and **Jonathan Weisman***

The decision shocked Capitol Hill, where Democrats were rallying around his embattled nomination, and marked a sharp setback for U.S. President Barack Obama, who had hoped that Mr. Daschle could take the lead in pushing through Mr. Obama's ambitious plan to remake the U.S. health-care system.

Mr. Daschle's decision to withdraw was announced just hours after Nancy Killefer, Mr. Obama's nominee to oversee the streamlining of government at the White House budget office, withdrew her nomination after a minor tax matter arose.

That drew criticism from women's groups, creating as it did the impression that a woman had been pushed aside over her tax problem while the president battled on behalf of two men, Mr. Daschle and Treasury Secretary Timothy Geithner, whose tax mistakes involved far larger sums.

Mr. Daschle's nomination

Please turn to page 31

U.S. car sales fall to lowest in decades

BY JOHN D. STOLL AND JEFF BENNETT

DETROIT—U.S. auto sales plunged again in January, hitting one of the lowest levels the industry has seen in decades as car-rental companies and other fleet customers joined consumers in sharply cutting purchases.

Chrysler LLC said its U.S. sales fell 55% compared to January 2008 to 62,157 vehicles. **General Motors** Corp. said sales fell 49% to 129,227 cars and trucks. **Ford Motor** Co.'s fell 40% to 93,406; it was the first time in years Ford's sales were below 100,000 a month.

Even foreign auto makers that tend to do better than Detroit's Big Three suffered major setbacks. **Toyota Motor** Corp. and **Honda Motor** Co. reported U.S. sales declines of 34% and 30%, respectively, while luxury brand Mercedes-Benz, owned by **Daimler** AG, said its U.S. sales fell 43%.

Auto makers estimated that industrywide sales fell about 37% in January to fewer than 700,000 cars and trucks. The last time U.S. sales were below 700,000 was 1982, auto makers said.

It was a stunning figure for an industry that long ago had become accustomed to selling well over one million vehicles a month. It was the fifth month in a row that U.S. auto sales failed to reach the one million level.

An exact figure for January sales wasn't available Tuesday afternoon because some companies had yet to report their numbers.

Both GM and Ford estimated the industry's seasonally adjusted annualized selling rate fell below 10 million light vehicles, down dramatically from a reading of 15.3 million a year ago. In December, the closely watched rate was 10.3 million vehicles.

The impact of lower purchases by rental companies was evident in the big declines of GM models that usually rack up significant sales from fleet customers. Sales of the Pontiac G6 sedan, for example, dropped 82% to just 2,468. In January 2008, GM sold 13,942 G6s. The Chevrolet Cobalt and Saturn Aura each suffered declines of more than 70%.

Chrysler said its fleet sales plunged 81% in January. It said the decline is aligned with its strategy of reducing fleet sales to support the resale value of its vehicles.

Ford's top sales analyst, George Pipas, said fleet sales could rise in the coming months. Fleet sales declined in January because many rental car companies are struggling with the economy and cut purchases. January's fleet sales also were hurt as many auto makers idled their plants in December and January, Mr. Pipas said.

"The top-line January sales rate would have been in the 10 million range were it not for the fact that plants were not operating anywhere close" to capacity, he said in a conference call.

Lower sales to fleet customers isn't the industry's only problem. Declining home values and tight credit are slowing retail sales to consumers.

Mike DiGiovanni, GM's sales analyst, said the Obama administration has to address those two factors in the stimu-

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Taking a flier

A U.S. agency is opening hearings on helicopter safety levels.
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4 p.m. ET

	CLOSE	PCT CHG
DJIA	8078.36	+1.78
Nasdaq	1516.30	+1.46
DJ Stoxx 600	189.78	+1.86
FTSE 100	4164.46	+2.13
DAX	4374.96	+2.43
CAC 40	2982.39	+1.79
Euro	$1.2971	+1.26
Nymex crude	$40.78	+1.75

LEADING THE NEWS

U.K. weighs 'bad banks'

Darling says Britain will consider plans to isolate toxic assets

By Sara Schaefer Muñoz And Alistair MacDonald

LONDON—The U.K. government will consider the possibility of splitting off banks' toxic assets into separate "bad banks" if its latest package of measures to shore up their finances doesn't work, U.K. Treasury chief Alistair Darling said Tuesday.

In a sign of the government's growing concern about heavy losses at some of the country's biggest banks, Mr. Darling told a parliamentary committee that "in some cases it could be easier to do a good-bad bank split" to put banks in a better position to begin lending again. A bad bank would remove uncertainty about the extent of a bank's troubles by taking on its soured investments, leaving behind a healthier institution.

Mr. Darling's comments come weeks after the U.K. government announced a multibillion-pound package of measures aimed at shoring up banks' finances. Those measures feature an insurance plan designed to put a lid on banks' losses. Mr. Darling said the government would prefer to see the insurance plan work, because setting up a bad bank could be difficult for large institutions.

Bad banks have recently become a hot topic around the world. In the U.S., the administration of President Barack Obama is considering setting up a single bad bank to buy up toxic assets from U.S. banks. Meanwhile, the European Central Bank is drawing up guidelines for European governments that are considering bad banks, and Germany is working on legislation that would help its financial institutions create their own bad banks.

In an interview at the World Economic Forum in Davos, Switzerland, Prime Minister Gordon Brown said the U.K.'s current measures to shore up banks, including the insurance plan, are "sufficiently flexible to deal with the bad bank-good bank if necessary." But, Mr. Brown added, "We have got to recapitalize first. You've got to get the expansion of lending."

Alistair Darling

A big hurdle to forming a bad bank is that it could force the banks that participate to drastically lower the values they assign to their souring assets before they could move them to a bad bank. It also would force the government to pony up a lot of capital in one swoop. The upside of the insurance plan is that there is no cost to the government until the loans it insures suffer actual defaults.

The U.K. has experience in creating a bad bank. When it took over lender Bradford & Bingley last fall, it sold off healthy portions of the bank, and now holds B&B's soured assets.

Analysts have said more government intervention in U.K. banks might be necessary this year as losses mount. Last month, **Royal Bank of Scotland Group** PLC signaled more problems for the sector when it said it expected to report a loss of as much as £28 billion ($40 billion) for 2008.

In one sign of the amount of hard-to-sell assets U.K. banks are holding, the Bank of England said Tuesday that banks had put up some £287 billion of such assets as collateral for loans of government bonds since April, when the central bank set up a special facility for the purpose. The banks received only £185 billion in government bonds in return for the assets, which included mortgage bonds. The large difference between the two numbers suggests that the central bank found the asset quality poor and thus required severe "haircuts"—the added collateral the banks had to put up to protect the central bank from losses.

Separately, Mr. Darling will announce as early as next week the formal terms of the Treasury's relationship with UK Financial Investments Ltd., the vehicle that will manage the government's stakes in banks. That agreement, the purpose of which is partly to show that the banks will be run at arm's length from the government, will resemble the mandates that investors give to fund managers.

—Carrick Mollenkamp contributed to this article.

Talks continue in effort to quell British strikers

By Lananh Nguyen

LONDON—A rash of strikes protesting the employment of foreign workers in the U.K. spread to at least one new site Tuesday, as negotiations to resolve the strikers' concerns entered a second day.

Workers at **Royal Dutch Shell** PLC's Stanlow oil refinery joined hundreds of others across the U.K. who have walked off the job in support of strikers at **Total** SA's Lindsey refinery in Immingham, northern England.

Contract workers at Lindsey stopped work last week to protest a decision by Total to award a construction subcontract to an Italian company that intends to bring in staff from abroad rather than use local workers.

The strikes reflect growing tensions across Europe, as a deepening recession prompts workers, companies and others to demand aid and protection from their governments. In Greece on Tuesday, police clashed with farmers on the island of Crete who sought to board ferries with their tractors to stage a protest in Athens. The farmers are seeking government aid to help them through a period of low prices for their goods.

Some 800 protesters gathered to demonstrate at Lindsey on Tuesday, according to local police. They were supported by strikers at more than nine other oil refineries, power plants and energy facilities across the U.K. Meanwhile, strikes ended at four facilities: **Ineos** PLC's Grangemouth refinery, **BP** PLC's Kinneil gas-processing facility, the Sellafield nuclear-power site in northwest England, **Chevron** Corp.'s Pembroke refinery, and the Dragon and South Hook liquefied natural-gas terminals. Pembroke workers returned to work Monday, while the rest returned Tuesday.

Jacobs Engineering Group Inc., the Lindsey project's main contractor, met with Total and union representatives Tuesday in talks to resolve the dispute. The discussions began Monday and are being mediated by an independent, government-funded body called the Advisory, Conciliation and Arbitration Service, or ACAS.

ACAS said it will investigate the dispute by looking at contractual arrangements, tendering processes, meeting minutes, and national and local wage agreements. ACAS expects to publish its findings by Feb. 13.

The unions claim legal precedents set by the European Union enable employers to undercut wages and working conditions for U.K. workers, and in some cases exclude U.K. workers from projects altogether.

Total defends its tender process as fair and competitive. "We recognize the concerns of people but we must stress that it has never been, and never will be, the policy of Total to discriminate against British companies or British workers," the company said in a statement.

Operations and energy supplies weren't affected at any of the plants where walkouts were reported. Other sites hit by walkouts included **ConocoPhillips**' Humber refinery, **ExxonMobil** Corp.'s Fawley refinery, **Scottish and Southern Energy** PLC's Fiddler's Ferry power station, **Drax Group** PLC's Yorkshire power station, and ScottishPower's Cockenzie and Longannet power plants. ScottishPower is the U.K. unit of **Iberdrola** SA of Spain.

CORRECTIONS & AMPLIFICATIONS

UBS AG has said it is cooperating with U.S. and Swiss investigations into the bank's alleged role in assisting U.S. clients evade taxes. Additionally, the bank has repeatedly said it will correct problems identified in the inquiries. A Jan. 27 Money & Investing article incorrectly said UBS has publicly denied any wrongdoing.

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

SAP pushes Web-based software

Giant takes a page from smaller rivals as it battles economy

By Leila Abboud

As it responds to the economic slump, **SAP** AG plans to imitate the Web-based software makers that have been chipping away at its business.

The German software company will introduce Wednesday a new version of its flagship business package that lets customers pay for and use just the pieces they really need. Companies could, for example, get new payroll software without changing the inventory database. The new software, called Business Suite 7, also eliminates the need to do onerous upgrades.

It is a strategy that takes a page from the book of makers of "on demand" software, such as **Salesforce.com** Inc., which have flourished in recent years as businesses have sought simple, low-cost software that doesn't require teams of technicians.

Usually, SAP's big corporate customers buy a software suite that can do all their back-office functions including payroll, inventory and billing. Every few years customers must do a systemwide upgrade to get new features and tools, a costly process that takes several months.

SAP hopes that making the package less expensive and easier to use will attract buyers. But the product release comes as a gloomy economy has left companies reluctant to spend on technology. In addition, the new approach means SAP will generate revenue through smaller, more frequent deals, instead of getting a big licensing fee for a software suite from each customer.

The new product is important to SAP. Spending on information technology is expected to drop 3% this year to $1.66 trillion, according to Forrester Research Inc. That would mark a reversal after seven years of growth.

SAP and its main rivals, **Oracle** Corp. and **Microsoft** Corp., have already seen revenues slump as businesses put the brakes on spending. All three are laying off workers, with 3,000 departures at SAP.

"The Business Suite is a key test for SAP to show that it can reduce the total cost of owning and running its systems," said R. "Ray" Wang, an analyst at Forrester Research. The advent of Web-based software "is putting tremendous pressure on conventional software companies like SAP to become more nimble, more innovative and cheaper."

Salesforce.com, which sells business software over the Internet, saw its revenue rise 48% to $787.2 million in the nine months ended Oct. 31. Its products can be activated immediately, paid for on a monthly subscription and don't require any hardware or periodic upgrades.

"These are tough times for any company that's selling big-ticket software," said Bruce Francis, vice president of corporate strategy for Salesforce.com. "It's obvious that the industry is moving toward [Web-based tools] and the current environment just shines a spotlight on this."

With its new approach SAP will generate revenue step by step, said Jim Snabe, who headed the product's development. First-time customers will be allowed to try out parts of the software suite gradually and pay as they go.

Instead of signing big contracts with upfront payments for a suite, SAP will likely sign smaller deals but in higher volume. "This changes our sales approach," Mr. Snabe said. "We have to continuously prove ourselves to our customers now."

SAP said it was too early to know exactly how the new product and pricing startegy will affect its revenue but said the launch was factored into its forecast of "flat or slightly down" revenue growth this year. The company had revenue of €11.57 billion ($14.86 billion) in 2008.

Roche Pharma, the pharmaceutical unit of Switzerland's **Roche Holding** AG, uses SAP software for human-resources planning and clinical-trials management, among other tasks. Roche did four full upgrades in the previous year, requiring a team of 15 technicians, said Jennifer Allerton, chief information officer of Roche Pharma.

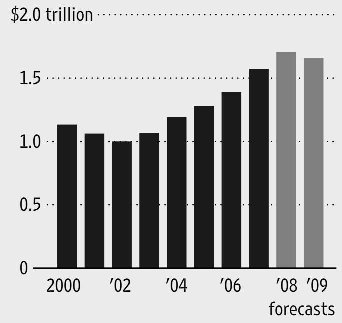
Ms. Allerton was attracted by the prospect of getting rid of upgrades. "Upgrades are expensive, annoying and they provide no business value," Ms. Allerton said. "With the new Business Suite, we won't have to [do them] anymore."

Roche Pharma declined to say how much it expects to save from switching to SAP's new product.

—Ben Worthen contributed to this article.

IT downturn

Global spending on information technology



Source: Forrester Research

CORPORATE NEWS

Scrutiny grows over helicopter safety

U.S. transportation safety board set to open hearings that could lead to tougher regulation of industry

BY ANDY PASZTOR AND CHRISTOPHER CONKEY

A recent rise in the number of fatal helicopter crashes is prompting the industry to concede that years of voluntary U.S. regulations have resulted in an unacceptably low safety level.

On Tuesday, the National Transportation Safety Board was set to open a set of wide-ranging hearings on helicopter safety that is expected to ratchet up pressure on the Federal Aviation Administration to take a tougher stance on a segment of commercial aviation that has so far avoided the kind of intense scrutiny airline travel has faced.

The NTSB for years has championed stricter standards to protect the estimated two million Americans who ride in helicopters annually. But the FAA, along with much of the helicopter industry, has resisted implementing many of the recommendations for stricter oversight, saying formal regulations typically take too long to put in place and could force many smaller operators out of business.

Helicopter operators and manufacturers have successfully argued against across-the-board requirements for increased maintenance and additional safety equipment, such as ground-collision warning systems and night-vision goggles, on the grounds that they are costly and unnecessary. They instead have preferred voluntary compliance.

But some recent incidents have highlighted a safety situation that chopper manufacturers and operators now say is untenable. Only some operators have taken steps on their own. While airline-safety levels have climbed steadily over the years, crash rates for choppers haven't budged in two decades.

Even as helicopters become an increasingly crucial component of executive travel, tourism and industries such as oil and gas exploration, by some measures the odds of being in a serious chopper accident are roughly 300 times greater than for U.S. airline passengers. Emergency-medical crashes alone claimed at least 35 lives since late 2007, roughly twice as many as during the previous 12 months.

"What we're looking for is stronger oversight toward risk assessment, decision making and technology," said Matthew Zuccaro, president of Helicopter Association International, a trade group in Alexandria, Va.

The FAA's focus on voluntary industry compliance was intended to provide "a good head start" to improve safety, according to spokeswoman Laura Brown.

The FAA said it now will likely step up its oversight and is "considering possible rule making," Ms. Brown said. The agency favors drafting a "long-term safety initiative" requiring installation of flight-data recorders on helicopters and enhanced training for dispatchers of emergency-medical choppers, she said.

Royal Dutch Shell PLC's Gulf of Mexico operation temporarily stopped flying at least 12 Sikorsky S-76C models, built by a unit of United Technologies Corp., until investigators figure out why both engines on one helicopter shut down several weeks ago enroute to an oil platform, killing eight people. Safety officials eventually are likely to make further recommendations focused on improving the safety of such offshore flights.

Landov

A helicopter crashed through a roof in Kenosha, Wis., in September.

One roadblock to new safety rules, air-safety experts say, is that basic engineering, maintenance and operational shortcomings of some fleets currently go overlooked. "Many helicopter design issues that could be fixed relatively simply are not getting fixed" because regulators aren't mandating the changes, said David Hoeppner, a University of Utah engineering professor who specializes in analyzing metal fatigue and parts reliability on helicopters.

Given their extensive vibration and peculiar aerodynamics, helicopters require significantly more maintenance per hour of operation than airplanes. Yet FAA rules for approving new models, ensuring reliability of backup systems and collecting data about in-service performance are less stringent. "The industry has been in a state of denial about the problems for some time," said Kansas City, Mo., attorney Gary Robb, who has won some of the largest damage awards against the industry.

In addition to equipment, the NTSB hearing is expected to stress the importance of beefed-up training so pilots and flight dispatchers can better understand and cope with weather, terrain and other hazards. Some safety experts are pushing for a technical approach that combines installing digital flight-data recorders with onboard cameras designed to record a helicopter's flight path. After a crash, they would help investigators unravel what happened.

Lockheed increases CEO bonus

BY AUGUST COLE

At a time when captains of the auto industry and Wall Street are seeing their compensation wiped out, defense contractor **Lockheed Martin** Corp. has raised its chief executive's target bonus and is doling out special stock awards to a handful of other senior executives.

At his request, Lockheed Chairman and CEO Robert Stevens will receive no salary increase this year from 2008.

But the company is raising his target bonus, essentially, his added cash if the company meets performance expectations, to 150% of his base salary instead of 125%. The actual bonus can be much larger or smaller, depending on the company's performance.

The annual target bonus of Ronald Sugar, chairman and CEO of rival **Northrop Grumman** Corp., is 130%.

According to Lockheed's most recent proxy filing, Mr. Stevens's salary for 2007 was $1.63 million plus a bonus of $3.9 million. But Lockheed's total compensation cost reached $30.9 million, a figure that includes such items as salary, pension gains and accounting expenses associated with stock grants. Details of his compensation for last year are expected to be filed this spring, a Lockheed spokesman said.

"Recent survey information for CEO positions revealed that the existing target-award percentage for Mr. Stevens was below market," Lockheed wrote in a Securities and Exchange Committee filing on Wednesday.

Reuters

Lockheed said the bonus for its chief executive, Robert Stevens, was below market.

Lockheed capped a record year in 2008 when it reported $42.73 billion in sales and $3.22 billion in net income, reflecting growth during the Bush administration's ramp-up of military and government contracting. Lockheed's profit and sales are expected to rise further this year.

Lockheed, Bethesda, Md., which leads the Pentagon's $300 billion F-35 Joint Strike Fighter program and is the U.S. government's biggest defense contractor, also is handing out special restricted stock awards to five executive vice presidents that the company wants to make sure won't be wooed away. The awards vest over three years and are forfeited if the executive leaves before then.

The executives include the heads of Lockheed's business units and Chief Financial Officer Bruce Tanner. The largest award, 40,300 restricted-stock units, went to Chris Kubasik, a former Lockheed finance chief who now runs the company's electronic-systems business.

The target bonuses for these executives remains at 75% of their salary.

Northrop posts strong sales, but big charge prompts loss

BY AUGUST COLE

Northrop Grumman Corp. reported record sales but still booked a fourth-quarter loss Tuesday because of a $3.1 billion charge related to acquisitions—a rare sign of how the stormy financial markets can affect the otherwise ironclad defense sector.

Northrop said its business operations aren't affected by the charge, which is tied to the falling value of its stock and past acquisitions of satellite maker TRW and shipbuilders Litton Industries and Newport News. 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," the company said.

However, like the rest of the defense sector, Northrop's core operations were strong. Contract backlog reached $78 billion, a record and an important measure of how much work defense companies have yet to do at a time of rising uncertainty around big government programs.

After reporting record sales for 2008, the company expects a further increase this year. Northrop Chairman and Chief Executive Ron Sugar told investors during a conference call that "we're reasonably comfortable that our program set is solid, but like everybody else we are going to wait and see how the president's budget lays out for 2010 and beyond." The government's 2010 fiscal year starts Oct. 1, 2009.

Including the $3.1 billion charge, the Los Angeles company's fourth-quarter loss from continuing operations totaled $2.54 billion, or $7.76 a share.

The charge is tied to past acquisitions of a satellite maker and two shipbuilders.

A year earlier, the company reported earnings of $457 million, or $1.32 a share.

On an adjusted basis that excludes the charge, fourth-quarter operating earnings were $524 million, or $1.57 a share.

Fourth-quarter revenue hit $9.2 billion, up 4% to a record. Revenue was also a record for the year at $33.89 billion. The 6.5% increase brings the company's annual sales ahead of rival **Boeing** Co.'s Integrated Defense Systems division for the first time.

FOCUS ON AUTOMOBILES

GM, Chrysler cut further

Worker buyouts will include cash and vehicle vouchers

A WSJ News Roundup

General Motors Corp. and **Chrysler** LLC, under pressure to comply with viability requirements set by the U.S. Treasury Department, plan to soon unveil attrition programs to trim labor costs further.

GM spokesman Tony Sapienza said the buyouts will mainly target GM's 22,000 retirement-eligible hourly employees, though any union employee can take the offer. He said employees will be informed of the specifics of the offer on Friday.

Bloomberg News/Landov

General Motors, which makes the Cadillac cars above, is planning a new round of buyouts targeting the company's 22,000 retirement-eligible hourly employees.

GM and Chrysler, recipients of federal loans to help them survive a severe slump in auto sales, must submit plans to the government by Feb. 17 on how they intend to get back on track. Cutting hourly labor costs represents a substantial portion of what is expected to be included in those plans.

A UAW spokesman couldn't be reached to comment.

According to people familiar with the situation, GM union officials have been told that the program is intended to "address the number of surplus employees and create the potential for hiring entry-level employees when the business environment improves," according to these officials.

All hourly employees will be able to retire either on a normal or a voluntary basis, depending on their tenure, and receive a $25,000 vehicle voucher and $20,000 cash, according to people familiar with the matter. The vehicle voucher will be valid for 18 months.

GM told union officials that there are certain restrictions being placed on the company's plan by the Treasury Department, including restriction of the use of pension funds to pay for attrition packages.

For Chrysler, retirement-eligible workers who leave will get a $50,000 incentive plus a $25,000 Chrysler vehicle voucher, according to a union official who reviewed a notice from the company. Workers who take a buyout and leave with no retiree health-care benefits get $75,000 and a $25,000 car voucher, the person said. Last year, retirement-eligible workers received $70,000, while those who took buyouts got $100,000.

"Given the difficult economic and market conditions in the U.S., Chrysler LLC determined in December 2008 that it would offer another phase of special [attrition] programs," Chrysler spokeswoman Shawn Morgan said without confirming details of the offer.

The majority of unionized hourly workers will have until Feb. 25 to decide, she said.

She said the original plan was to offer the program in December and January, but "due to the fact that many of the company's facilities had suspended production for extended periods in December and January, the program offerings are being rolled out now."

A **Ford Motor** Co. spokeswoman had no comment on whether the auto maker will offer a similar program.

Ford hasn't asked for a federal bailout.

—Alex P. Kellogg contributed to this article.

Citroën set to revamp its brand

By David Pearson

PARIS —As car makers around the world struggle to stay afloat, France's **PSA Peugeot-Citroën** is going ahead with plans conceived before the slump to revitalize its Citroën brand with a new logo and a more up-market product line.

The revamp aims to shake off the brand's image as a maker of solid, innovative but unexciting vehicles and appeal to younger car buyers as well as their parents. It's also designed to give dealerships cars that attract a wider range of customers than they see at present, people at the company familiar with the plans said.

The makeover, to be presented to Citroën dealers on Feb. 4 and unveiled to the press on Feb. 5, includes a redesign of the brand's celebrated double-chevron logo that has been Citroën's emblem for 90 years, gracing such design icons as the bug-eyed DS and the compact 2CV. The inverted Vs that make up its logo are expected to lose their sharpness and look more like a boomerang.

Logo redesigns aren't unusual but don't happen often. The current version of Citroën's double-chevron badge has been in service for 25 years. The rampant lion logo of Citroën's sister brand Peugeot was last updated in 1995.

Citroën declines to say how much the rebranding cost, but noted that the redesign and revamp began in 2007 and says it isn't a response to the sales slump that kicked off in the second half of last year.

Over the past 10 years, Citroën has seen a 40% increase in volume sales, driven by an expanded catalog of vehicles and a move into new, fast-growing foreign markets, although it doesn't have an official sales network in the U.S. It hasn't escaped the downturn. Citroën, the smaller of Peugeot-Citroën's two brands, saw its world-wide sales dwindle by 7.2% in 2008 to 1.36 million vehicles, dragged down by collapsing markets in both mature and less-developed countries.

A keystone of Citroën's rejuvenation is expected to be the gradual introduction of a line of vehicles with premium features—top-end variants of mainstream models in the brand's lineup.

Citroën designers are working on a production derivative of the C-Cactus, a concept car that's been around for a year or so that was supposed to show the same characteristics but not design as the iconic 2CV: simplicity, utility, economy, and playfulness. It could be one of their first all-electric cars, but won't be on the market before 2010 or 2011.

Scania's net profit plunges 44%

By Ola Kinnander

STOCKHOLM—**Scania** AB Tuesday posted a 44% decline in fourth-quarter net profit amid sagging demand for its vehicles, and said it is dismissing 2,000 workers on temporary contracts in a move to cut costs.

The Swedish truck maker said net profit came to 1.52 billion Swedish kronor ($181.6 million), compared with 2.71 billion kronor a year earlier. Revenue fell 7.7% to 22.66 billion kronor from 24.54 billion kronor.

Orders in the latest quarter plunged to 2,423 trucks and buses from 26,007 vehicles a year earlier.

To save money as production stands nearly still, Scania said about 2,000 workers with temporary contracts will be let go—a reduction to 10,000 from 12,000 temporary employees. At the end of the year, Scania had 34,777 employees. The company said it still has a surplus of production workers but that it will retrain permanent employees in the first half of 2009 instead of laying them off.

Swedish peer **Volvo** AB, the world's second-biggest truck maker by sales after **Daimler** AG, is scheduled to report earnings on Friday.

—Ian Edmondson contributed to this article.

New 'Halo' cars make sharp turns in hard times

By Joseph B. White

Looking for an emblem of the times? Check out the turn auto companies in the U.S. are executing with the concept of the "halo car."

A halo car is a vehicle built primarily for the purpose of promoting a car maker or its brand. Halo cars have come in various guises over the decades, but auto designers and marketers have generally stuck with a familiar formula: engineer a convertible or a sporty coupe with aggressive styling and plenty of power under the hood—or at least, plenty of power relative to the car's weight. The company's public relations department would sprinkle the car with plenty of fairy dust, and the factory would build just enough to give every dealer a few to plant on the lot next to all the humdrum sedans and family haulers.

These cars (and sometimes trucks) also have served as emblems, even funhouse reflections, on America's cultural mood swings—at least how Detroit perceives them.

When Chrysler got into trouble during the early 1990s, the company reached into its bag of tricks and produced an outrageous car called the Dodge Viper. The Viper was an in-your-face Detroit reinterpretation of an exotic Italian sports car. The Viper's exterior design borrowed the proportions of a 1960s Shelby Cobra race car, but fortified with a large bottle of steroid pills. Under the hood was a modified V-10 truck engine.

Launching the Viper made absolutely no business sense in the context of the sour economy of that time. But it did deliver a proud Detroit salute to the hand-wringers who worried then that America was about to be eclipsed by Japan. The Viper was Chrysler's way of saying that at least one American car maker wasn't dead, yet.

Buoyed in part by the kind of brash styling and fondness for horsepower symbolized by the Viper, Chrysler rebounded later in the 1990s to do very well before selling itself to Daimler-Benz AG in 1999. The Viper is still in production today and is one of a very few cars you can buy that is still made in the City of Detroit.

Now, a new era of sinking sales, diminished economic expectations and anxiety about the environmental toll of 20th Century industrial-age technology is prodding auto makers to rethink the whole idea of the halo car.

Old-school halo cars tempted with extreme horsepower. New halo cars attract attention with super-clean drivetrains that use far less petroleum, or better, none at all.

Old halo cars borrowed their looks from classic designs of the auto industry's fossil-fuel chugging past. New halo cars seek inspiration from consumer electronics and communications technology.

GM's Vice Chairman for Product Development Bob Lutz personifies the auto industry's new read on the culture. Mr. Lutz championed the Viper during his years at Chrysler. He used to dismiss hybrid cars as expensive money losers that didn't return enough in fuel-cost savings to consumers to cover the additional price of the electric power system.

But about four years ago, Mr. Lutz and his colleagues saw that Toyota was getting an enormous reputation boost out of its high-mileage Prius hybrid that transcended practical considerations such as profit per vehicle or out-of-pocket costs to the buyer. In other words, the Prius is a halo car—different from the Viper but not so different in intent or impact. Now, Mr. Lutz is a driving force behind the development of the Chevrolet Volt at GM, an electric car with a small gasoline engine for backup power.

Can cars like the Chevrolet Volt become the halo cars of the future—the kinds of cars that excite American consumers to trade in their 20th Century rides and give the industry the boost it so badly needs?

At this week's auto show in Washington, D.C., industry executives and show organizers are putting a spotlight on vehicles that run on something other than petroleum. They include cars such as the Volt, the Fisker Karma, a sports car that uses an electric-drive system similar to the Volt's, the Honda FCX fuel cell model, the Mini E electric car and an electric car from Mitsubishi.

These are the sort of cars currently in style with Washington's political leaders—who are bankrolling General Motors Corp. and Chrysler LLC—and with the influential slice of the U.S. buying public that believes it's time to act on climate change by curbing the greenhouse gases pumped out of car engines.

But these low volume halo cars don't represent reality for most Americans. At an estimated $40,000 a piece, Chevy Volts will be relatively high priced compared to other Chevrolets.

The auto industry's challenge as it fights toward the light at the end of a very long economic tunnel will be to get beyond the mere symbolism of halo cars, and create mainstream cars that offer appealing styling and improved efficiency.

German car registrations decline

By Christoph Rauwald

FRANKFURT—New-car registrations in Germany, Europe's biggest auto market, declined 14% in January, the German car makers association said Tuesday, though it added that a €2,500 ($3,211) incentive to scrap old cars should spark demand.

The car makers group, VDIK, said 189,400 vehicles were registered in Germany last month, down 14% from a year earlier.

"It was foreseeable that January wouldn't bring the trend reversal. But we can look forward to the coming months with optimism," thanks to the scrapping incentive, VDIK President Volker Lange said in a statement. Recent order-intake figures are "significantly above the prior-year level," Mr. Lange said, without providing further details.

"The difficult situation is unlikely to change in the first half of this year, but we expect less severe declines in February," Merck Finck analyst Robert Heberger said.

Monday, deteriorating car sales figures for Spain, Italy and France underscored the woes embroiling the European auto market as the economic downturn continued to hurt consumer spending on big-ticket items. Western Europe is a crucial source of earnings for global auto makers.

After steep falls in 2008, Spain and Italy continued to see demand for cars evaporate further in January. Sales in Italy declined 33% to 157,418 vehicles. Spain was hit harder with a 42% slump to 59,385 vehicles.

FOCUS ON AVIATION

SAS to slice work force

Airline to sell assets, launch rights issue as its loss broadens

By Ola Kinnander

STOCKHOLM—Airline **SAS** AB unveiled a major overhaul Tuesday, saying it plans to cut nearly 40% of its work force, sell assets and launch a rights issue to fund the restructuring. The announcement came as the Scandinavian carrier reported a wider fourth-quarter net loss, hurt by a write-down related to Spanair, its unprofitable Spanish unit.

Shares in SAS fell 19% in a broadly higher Stockholm market.

SAS's restructuring plan is aimed at restoring stability after a difficult 2008.The plan's main features include a focus on the Nordic market and business travelers; a new, more efficient organization; an improved cost base; and a strengthened capital structure.

As part of the restructuring, SAS said it plans to cut about 8,600 jobs from its work force of 23,000 by laying off about 3,000 employees and cutting an additional 5,600 positions as it sells or outsources various operations. To focus on the Nordic market, SAS said it would sell stakes in airlines such as Air Greenland, BMI and Estonian Airways. SAS also will ground an additional 14 planes.

The company said it needs fresh capital to implement the restructuring, and is seeking six billion Swedish kronor ($717 million) in a rights issue. The rights issue is backed by the governments of Sweden, Denmark and Norway, which together own half the airline, and by its largest private shareholder, the Wallenberg Foundations. J.P. Morgan Chase & Co., Nordea Bank AB and Skandinaviska Enskilda Banken AB are expected to underwrite the rights issue, SAS said.

For the three months ended Dec. 31, SAS posted a fourth-quarter net loss of 2.77 billion Swedish kronor, compared with a loss of 596 million kronor a year earlier. SAS's revenue fell to 12.92 billion kronor from 13.01 billion kronor a year earlier.

The results were weighed down by a charge of 2.18 billion kronor related to the disposal of Spanair. SAS said Friday that it sold 80.1% of the unprofitable airline to a private consortium from Spain's Catalonia region for €1 ($1.28).

SAS said it is benefiting from a lower jet-fuel price, and that a deal struck with unions last month will save it 1.3 billion kronor annually.

Last year "will probably go down in history as one of the most challenging and turbulent years that the entire aviation industry has ever experienced," SAS Chief Executive Mats Jansson said in a statement.

Airlines were battered in 2008 by record-high fuel prices and dwindling demand as consumers tightened their belts amid a widespread economic downturn. SAS suffered more than most carriers. It was forced to replace its fleet of 27 Dash 8 Q400 turboprops, which are made by **Bombardier** Inc., after three nonfatal accidents. In August, a Spanair plane crashed in Madrid, killing 154 people.

Orion Securities analyst Alexander Solovjov said SAS's rights issue and the likely difficulties it will have in implementing its far-reaching restructuring plan probably will keep the airline's share price "depressed for some time."

Associated Press

SAS Chief Executive Mats Jansson announced a restructuring plan that includes cutting 8,600 jobs and selling or outsourcing some operations.

Lufthansa raises outlook for '08 as costs decline

By Jan Hromadko

FRANKFURT—German flag carrier **Deutsche Lufthansa** AG raised its 2008 earnings outlook Tuesday, saying its fourth-quarter results were better than expected.

Based on initial estimates, the airline said it now expects to report operating profit of €1.3 billion ($1.7 billion) for 2008. Its previous projection was €1.1 billion.

"Lower revenues associated with a noticeable slowdown in demand were offset by cost reductions as a result of the decreasing fuel price and favorable valuation effects," Lufthansa said. A company spokeswoman said the valuation effects include currency-exchange rate gains.

Lufthansa shares gained 7.8% in Frankfurt trading Tuesday.

The raised profit outlook demonstrates the German carrier is better positioned than its main rivals, said UniCredit analyst Uwe Weinreich. For instance, Lufthansa's fuel hedging is more flexible than that of Air France-KLM SA.

Air France-KLM and British Airways PLC both issued profit warnings last month for their fiscal years ending March 31.

Mr. Weinreich warned that Lufthansa, like its rivals, will feel the market deterioration this year. "We expect Lufthansa's 2009 operating profit to come in at around €492 million," he said, but called it a very conservative estimate.

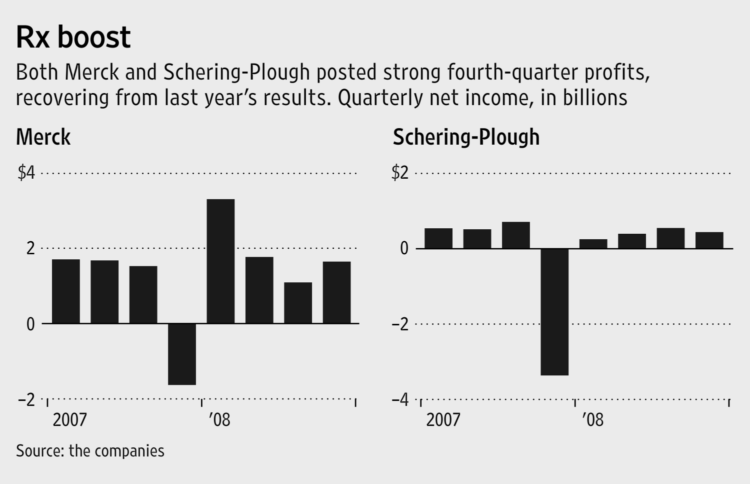
Lufthansa will report its 2008 results March 11.

CORPORATE NEWS

Drug makers return to profits

Merck and Schering overcome sales drop at cholesterol venture

By Peter Loftus



U.S. drug makers **Merck** & Co. and **Schering-Plough** Corp. swung to better-than-expected fourth-quarter profits from year-earlier losses that were weighed down by charges. Cost cuts helped offset unfavorable currency-exchange rates and sluggish sales growth for certain products.

The companies said sales declined 26% for the two cholesterol drugs they co-market, Vytorin and Zetia, which have been hurt by patient studies that raised questions about safety and effectiveness. Neither company records sales from the venture, but they split profits roughly 50-50 as equity income from affiliates.

The results underscored the challenges for Merck, which has seen sales growth slow significantly for top products, including the Singulair asthma and allergy drug and the Gardasil cervical-cancer vaccine. Merck, which has laid off thousands of workers to pare expenses, has been hurt by low-cost competition, drug-safety concerns, vaccine-supply glitches and research setbacks. Next year, it faces the loss of U.S. patent protection for hypertension drugs Cozaar and Hyzaar.

Schering-Plough has also cut its work force in response to the downturn in cholesterol drugs. But analysts view the company as less vulnerable to generics than many of its rivals, and its late-stage research pipeline is seen as promising.

On Tuesday, Merck said overall 2009 sales were likely to come in toward the lower end of its previous forecast of $23.7 billion to $24.2 billion, partly because of a reduced forecast for Gardasil. Merck sales totaled $23.85 billion in 2008. The company cited a delay in U.S. regulatory approval to expand the vaccine's use to women up to age 45. It is currently approved for ages 9 to 26.

Merck reaffirmed its December forecast for 2009 earnings.

Merck Chief Executive Richard Clark said sales of Singulair and Gardasil "were not where we would have liked them to be." Mr. Clark also told analysts on a conference call that the economic downturn is hurting Merck's sales.

Merck is on the hunt for license deals and acquisitions that can build up its research and commercial portfolios. Indeed, Merck Chief Executive Richard Clark said on a conference call with analysts Tuesday that he would consider a "large-scale" acquisition that could generate significant cost savings. His comments come a week after **Pfizer** Inc. agreed to buy **Wyeth** for more than $60 billion—a deal that triggered predictions of further industry consolidation.

"Concerning a large-scale transaction, as I said before, I wouldn't rule anything out," he said. "I don't think any CEO in this environment can categorically rule out any transaction. There are opportunities across the whole spectrum we would look at."

Merck reported net income of $1.64 billion, or 78 cents a share, reversing a net loss of $1.63 billion, or 75 cents a share, a year earlier. The 2007 quarter included a pretax charge of $4.85 billion to cover the costs of settling litigation over Merck's former pain drug Vioxx. The latest quarter included a charge of $62 million to cover future legal defense costs for Vioxx litigation. Excluding one-time items, earnings rose to 87 cents a share from 80 cents.

Sales fell 3% to $6.03 billion, with the stronger dollar contributing one percentage point of the decline.

Analysts polled by Thomson Reuters were expecting earnings, excluding items, of 74 cents a share on revenue of $5.98 billion. Merck's gross-profit margins rose to 75.6% from 75.3%, amid lower materials and production costs.

Singulair sales declined 3% to $1.1 billion for the fourth quarter. The drug was hurt by the availability of an over-the-counter version of allergy drug Zyrtec from **Johnson & Johnson**, lighter allergy seasons and reports of suicidal behavior in Singulair users, which U.S. regulators are investigating.

Gardasil sales dropped 16% to $286 million, having lost momentum from its 2006 launch. Merck continued to have difficulty persuading women ages 19 to 26 to get the shot. Merck now expects 2009 Gardasil sales of $1.1 billion to $1.3 billion, down from a previous range of $1.4 billion to $1.6 billion.

Combined sales of Cozaar and Hyzaar dropped 1% to $881 million. Sales for the osteoporosis drug Fosamax plunged 60% to $318 million because of the loss of patent protection in early 2008.

On the growth side, the diabetes drug Januvia had sales of $413 million, up 64%, and the Zostavax shingles vaccine had sales of $162 million, up 89%.

Schering-Plough's fourth-quarter net income totaled $480 million, or 27 cents a share, reversing a year-earlier loss of $3.33 billion, or $2.08 a share. The year-earlier period included costs related to Schering-Plough's acquisition of Organon BioSciences NV. Excluding one-time items, earnings rose to 39 cents a share from 27 cents.

Net sales rose 17% to $4.35 billion, helped by Organon. The stronger dollar crimped sales by six percentage points.

Analysts surveyed by Thomson Reuters had expected earnings, excluding items, of 30 cents a share on revenue of $4.51 billion.

Gross margin rose to 64.9% from 58%.

Among Schering-Plough's noncholesterol treatments, sales of anti-inflammatory drug Remicade climbed 8%, while allergy treatment Nasonex rose 3% and brain-tumor treatment Temodar increased 4%.

—Mike Barris contributed to this article.

Dow Chemical reports a $1.55 billion loss

The legal and financial bonfire that engulfed **Dow Chemical** Co. a month ago intensified as the company reported a big and unexpected loss even as it jousted with former allies in court.

*By **Doug Cameron, Leslie Eaton** and **Ana Campoy***

The 111-year-old U.S. manufacturer said Tuesday it lost $1.55 billion in the fourth quarter. Orders for its products—used to make everything from autos to diapers—evaporated in December as the global economy cratered.

The Midland, Mich., company said it has been forced to consider slashing its nearly century-old dividend, closing more plants and even selling a dozen businesses, including some of its most successful.

Dow said it had filed suit in a U.S. federal court against its Kuwaiti partners over the late-December collapse of a joint venture with the state-run petrochemical company. That was to have given Dow $9 billion in return for a half interest in some of its commodity-chemicals businesses.

Dow Chairman and Chief executive Andrew Liveris said Tuesday that Dow was seeking more than $2.5 billion in damages and has filed for arbitration of the lawsuit in London, though he declined to comment in detail on either effort.

Without the Kuwaiti money, Dow has said it can't close on another deal, an acquisition announced in July of **Rohm & Haas** Co., a Philadelphia maker of high-tech chemicals. Last week, Rohm sued Dow in Delaware Chancery Court to try to force completion of the $15.3 billion deal.

Dow fired back on Tuesday, saying that Rohm's shareholders have no legal right to contest its decision to delay the merger. Forcing the deal to move ahead now would be impossible "without jeopardizing the very existence of both companies," Dow said in its legal brief.


Andrew Liveris

Dow warned that it could default on several debt agreements if it is forced to consummate the Rohm & Haas pact. Dow, the world's third-largest chemicals group by market value, said in a court filing that closing the deal on the terms agreed last year would lead to "irreparable harm" and likely credit-rating downgrades.

Mr. Liveris said the company's ability to fund a deal was hit by the slump in demand, with December volume likely to continue for a few quarters, if not longer. "The basic-chemical sector is going to have a terrible '09," he said on a conference call.

He called on Rohm to restart talks on the proposed deal after Dow failed to meet a closing deadline last week.

Dow's fourth-quarter loss highlighted the company's continuing exposure to the weakening commodity-chemicals business, which it had sought to address with the Rohm & Haas acquisition and the joint venture with **Kuwait Petrochemical** Corp.

Mr. Liveris said Tuesday that Dow was in "face-to-face" talks with a number of interested parties about the plastics business involved in the abortive Kuwaiti venture, while expressing hope that a deal could be revived.

The company has intensified the restructuring announced in December when industry volumes started to plummet. Targeted cost savings from the actions have been raised to $500 million from $350 million by year end, and to $750 million from $700 million by the end of 2010.

Mr. Liveris said a decision about whether to close some idled capacity permanently wouldn't be taken for two to three months. "We see some signs of life [in demand]...and I see that as a bonus," he added.

Dow warned in its rebuttal to Rohm & Haas of "unforeseeable consequences" if faced with a downgrade and the inability to issue commercial paper. "A confluence of dramatic and unforeseeable shocks—to Dow, to the chemical industry as a whole, and to the banks and financial markets—has made it impossible to consummate Dow's planned acquisition of Rohm & Haas at once without jeopardizing the very existence of both companies," the company said in the 62-page filing.

Dow said conditions that would have obligated it to close the deal haven't been satisfied. The company also denied that Rohm had suffered a "material adverse effect" in its business as a result of the deal's collapse.

Dow's fourth-quarter net loss of $1.55 billion, or $1.68 a share, compared with year-earlier net income of $472 million, or 49 cents a share. The latest quarter included $1.02 a share in charges from restructuring and goodwill write-downs, among other items.

Revenue fell 23% to $10.9 billion as volume slid 17%, reflecting lower demand in all operating segments and geographic markets.

Analysts polled by Thomson Reuters expected earnings of seven cents a share on $13.37 billion in revenue.

Dow has announced plans to cut 5,000 full-time jobs, or 11% of its work force, close 20 plants and sell several businesses.

—Tess Stynes contributed to this article.

Motorola has loss, says finance chief is leaving firm

By Roger Cheng

Motorola Inc. swung to a fourth-quarter loss, suspended its dividend and said its chief financial officer is leaving, as the weakening handset business continues to squeeze the company.

Motorola is finding it increasingly difficult to sell its cellphones, partly because of a lack of interest and a weak lineup, but also because the overall cellphone market is slowing.

The company said its cellphone market share had fallen to 6.5% in the latest quarter, nearly half the position it held a year ago, and the smallest among the top five competitors.

"They better hurry and fix mobile devices or it will become irrelevant," said RBC Capital Markets analyst Mark Sue.

Motorola on Tuesday posted a quarterly loss of $3.58 billion, or $1.57 a share, compared with a year-earlier profit of $100 million, or four cents a share. Results were hurt by several one-time items, including an allowance for deferred tax valuation, and expenses related to layoffs and goodwill charges, which amount to $1.56 a share.

Revenue fell 26% to $7.14 billion, with results propped up by the company's enterprise-mobility segment.

The Schaumburg, Ill., company said Paul J. Liska has resigned as chief financial officer and will be succeeded temporarily by Edward J. Fitzpatrick, senior vice president and corporate controller. The company has started a search to identify a permanent successor.

Motorola has slashed costs at its mobile-devices unit, choosing to focus on a handful of products including high-end smartphones that use more sophisticated software such as that from **Microsoft** Corp. and **Google** Inc.'s Android software.

Last month, Motorola said it would cut 4,000 jobs, or about 6% of its work force. That comes on top of 3,000 cuts announced in the fall.

For 2009, Co-Chief Executive Sanjay Jha said Tuesday the company will focus on fewer phones with a better mix. He expects handset sales to fall faster than the broader market because of a smaller contribution from low-end phones.

"We're much more focused on the mid to high tiers," Mr. Jha told analysts.

Motorola will develop more Android phones this year, and focus on Windows Mobile in 2010.

The industry is suffering from a global slowdown. The total number of handsets that shipped in the fourth quarter fell more than 10% to 295 million units, according to Strategy Analytics. The company expects 2009 global sales to fall 9%.

The company expects a first-quarter loss excluding items of 10 cents to 12 cents a share. Analysts, on average, projected a loss of six cents a share.

Motorola shipped 19.2 million handset units in the quarter, down 53%. The mobile-device division posted a wider loss as sales slumped 51%.

Revenue from the home-networks segment fell 4.7% as earnings rose 34%. The enterprise business, recently divided from home networks, posted a 3.6% rise in revenue as earnings increased 3.3%.

—Kerry E. Grace contributed to this article.

CORPORATE NEWS

ADM profit jumps 24%

Ethanol unit posts loss as earnings rise at agriculture arm

By Lauren Etter

Grain giant **Archer-Daniels-Midland** Co. reported a 24% jump in its fiscal second-quarter net income despite a slowing global economy and losses in its ethanol business.

ADM executives warned investors Tuesday that the global slowdown could soon start affecting the Decatur, Ill., company. Already ADM has slowed production in some markets where demand for grain-based products has fallen, the executives said in a conference call with analysts.

Its strong results came from record performance in the company's agriculture services business, which handles and transports grain from farm to market before it is processed into products such as cooking oil, animal feed and sweeteners. Booming global demand in recent years and weather problems in some places meant huge volumes of grain were shipped overseas from the U.S.

While ADM's performance beat analyst expectations, executives sounded several cautionary notes. Part of the company's success in the quarter hinged on sales made before the economic downturn, and was pegged to extreme volatility in the commodities markets.

DAILY SHARE PRICE

Archer-Daniels-Midland

On the New York Stock Exchange
late afternoon Tuesday: **$27.76**
52-week change: **down 34%**

Source: WSJ Market Data Group

The economic landscape has shifted dramatically since. Commodities markets have cooled, leaving farmers "reluctant sellers" of their grain because of low prices, said Steve Mills, ADM's chief financial officer.

Meat and soft-drink consumption in the U.S. and abroad also has tapered off, as consumers eat out less frequently, company executives said. Both industries are tied closely to ADM, which supplies them with animal feed and corn-sweeteners.

Overall U.S. agricultural exports are expected to fall by about 15% this year as the "combination of weaker global demand, falling prices and an appreciating dollar create a very unfavorable outlook for U.S. exports," according to the U.S. Department of Agriculture.

ADM said net income for the period ended Dec. 31 was $585 million, or 91 cents a share, compared with $473 million, 73 cents a share, a year earlier. Revenue rose 1% to $16.67 billion.

Operating profit at ADM's agricultural services jumped to $462 million, from $315 million a year earlier. Operating profit at its oilseeds business—another star performer—jumped 46% to $319 million.

"We do see challenges ahead," said ADM Chief Executive Patricia Woertz on a call with investors Tuesday. She added that, "as a global producer of many basic and essential commodities, I think ADM is perhaps better positioned than most to manage through economic downturns."

ADM's ethanol business sustained losses as ethanol processing margins "collapsed during the quarter," Mr. Mills said.

The entire U.S. ethanol industry is struggling as demand for the corn-based motor-fuel falls along with gasoline. Cash-strapped consumers have cut back on driving as the economic crisis ripples through the economy.

Schneider award is called too big

By Mike Gordon
And Peppi Kiviniemi

Damages won by French electrical-equipment maker **Schneider Electric** SA after the European Commission wrongfully blocked its 2001 merger with rival Legrand SA should be substantially reduced, according to a legal opinion prepared for Europe's highest court Tuesday.

Advocate General Dámaso Ruiz-Jarabo at the European Court of Justice recommended that the commission, the European Union's executive branch, should be liable for procedural costs incurred by Schneider but not for the larger losses caused by the forced sale of Legrand.

Schneider was seeking as much as €1.7 billion ($2.2 billion) in compensation.

The opinion marks an important step in a long-running battle between Schneider and the commission. The dispute started in 2001, when the commission blocked a merger between Schneider and Legrand, arguing that it posed a threat to competition in the French electrical-equipment market.

However, a year later, the European Court of First Instance, Europe's second-highest court, overturned the commission's decision, saying that the commission had failed to give the company an opportunity to defend itself adequately during the investigation.

In 2007, the same court ruled that the commission was liable for two-thirds of the losses the French company had incurred from the sale of Legrand to a consortium led by Wendel Investissement and Kohlberg Kravis Roberts & Co. as a result of the overturned merger decision. It was the first time the commission had been ordered to pay damages for an incorrect antitrust decision.

The commission in turn appealed to the European Court, Europe's highest court, against the ruling that it should pay damages, alleging the lower court had made legal errors.

In his opinion on Tuesday, the advocate general said that Schneider's alleged €1.7 billion loss from the sale of Legrand doesn't directly rise from the commission's unlawful blocking of the merger, but was a matter of Schneider's "own free choice."

Schneider had been under no compulsion to sell the company so quickly, he said, and could have waited for a more opportune time. It had also taken a huge risk in buying Legrand ahead of the commission's merger clearance.

Legal opinions by senior court advisers are routinely prepared in cases at the European Court. The advocate general's opinion isn't binding on the court, but is followed in about 80% of cases.

"We are studying carefully the conclusions of the advocate general and we await the final judgment from the ECJ," Marc Pittie, a lawyer for Schneider, said by telephone. He declined to comment further. The commission said it won't comment until a judgment has been reached.

–Adam Mitchell contributed to this article.

As Verizon divests, AT&T steps up

By Amol Sharma

In the bidding for the roughly $3 billion in wireless assets Verizon Wireless must divest as part of its purchase of Alltel Corp., one strong but controversial contender is emerging: **AT&T** Inc.

Verizon's chief rival is among the bidders, along with a joint bid from private-equity firms **Carlyle Group** and **Kohlberg Kravis & Roberts** & Co. and a separate bid from **Providence Equity Partners** LLC, according to people familiar with the matter. At least one cable provider also has expressed interest, one of the people said.

Verizon Wireless agreed to sell the assets to get government approval for the $28.1 billion Alltel purchase, which closed last month.

AT&T is in the strongest financial position of any of the interested companies and is in a good position to walk away with a large chunk of the available assets, the people say.

Critics, including consumer advocates and Verizon's smaller competitors, say such a deal—allowing one giant telecom provider to transfer customers to another—wouldn't be in the interest of consumers. AT&T and Verizon Wireless, a joint venture of **Verizon Communications** Inc. and **Vodafone Group** PLC, have a combined 160 million subscribers, nearly 60% of the entire U.S. market.

—Matthew Karnitschnig contributed to this article.

GLOBAL BUSINESS BRIEFS

Det norske Oljeselskap ASA

Oil firm gets Noreco offer to merge, says timing is bad

Norwegian oil company Noreco proposed a merger with larger rival **Det norske Oljeselskap** ASA to create the Nordic country's second-largest offshore operator behind StatoilHydro ASA. However, Det norske was quick to say that the timing wasn't right for the deal, because a new board that took office Tuesday hadn't had time to study the company. **Norwegian Energy Company** ASA, which operates under the name Noreco, proposed a share swap that would give current Det norske shareholders a controlling 52.5% ownership in a merged company. The combined entity would have a market capitalization of more than four billion Norwegian kroner ($568 million) based on current market prices and combined production from 10 North Sea fields of around 18,000 barrels of oil equivalent a day.

Vodafone Group PLC

Cellphone-service provider **Vodafone Group** PLC said Tuesday that revenue for its fiscal third quarter rose 14%, led by a 28% gain in its Asian Pacific and Middle Eastern operations. For the three months ended Dec. 31, the company, based in Newbury, England, reported revenue of £10.47 billion ($15 billion), up from £9.16 billion a year earlier. Revenue from Europe was up 15%, driven by the weakening of the British pound. Service revenue rose 12% at Verizon Wireless Inc., Vodafone's joint venture with U.S.-based Verizon Communications Inc. The company also upgraded its full-year revenue forecast to reflect the declining value of the pound. For the year ending March 31, Vodafone now expects to post revenue between £40.6 billion and £41.5 billion, up from a previous range of £38.8 billion to £39.7 billion.

Enel SpA

Enel SpA, the Italian power company that may buy out its partner in Spanish utility **Endesa** SA, said Tuesday that its preliminary 2008 earnings before interest, taxes, depreciation and amortization rose 45%, lifted by the consolidation of its stake in Endesa. Enel said its Ebitda rose to more than €14.2 billion ($18.24 billion) in 2008 from €9.8 billion in 2007. Revenue climbed 40% to €61 billion from €43.7 billion. Net debt—a key figure analysts watch for after Enel borrowed billions to buy a 67% stake in Spain's Endesa and jointly run it with **Acciona** SA—was about €50 billion on Dec. 31, down from €51.4 billion on Sept. 30. Enel said its 2008 results also were boosted by the consolidation of Russia's OAO OGK-5 from last June.

Terna SpA

Italian power-grid company **Terna** SpA said Tuesday it will invest about €3.4 billion, or about $4.4 billion, between 2009 and 2013 to eliminate bottlenecks, after agreeing to buy more than 18,000 kilometers of domestic high-voltage lines. The company also posted a 3% increase in full-year revenue for 2008 to €1.39 billion and a 1% rise in earnings before interest, taxes, depreciation and amortization to €985 million. Terna said it will invest €3.4 billion over the next five years to improve energy security among its power lines, increase interconnectivity with neighboring countries and expand the network. In December, Terna agreed to buy Enel SpA's domestic high-voltage power lines for €1.15 billion.

Areva SA

Areva SA, the French state-controlled nuclear power company, said it was set to sign an agreement with **National Power Corporation of India** Ltd. on Wednesday to study the possibility of building French-designed nuclear reactors in India. Officials at NPCIL couldn't immediately be reached for comment. India, where nuclear power accounts for about 2.5% of electricity supply, is aiming to revive its nuclear program now that an international embargo—imposed on India because it didn't sign a nonproliferation treaty—has been lifted. Separately, Areva said it won a "long-term" contract valued at more than €5 billion ($6.4 billion) to supply enriched uranium to utility **Électricité de France** SA. Areva will provide the services through its Georges Besse II plant, which is under construction.

Swedish Match AB

Swedish Match AB said Tuesday it has agreed to establish a joint venture to commercialize smoke-free tobacco products outside of Scandinavia and the U.S. together with **Philip Morris International** Inc. Each company will own a 50% stake in the joint venture, which will be based in Stockholm. "We see large commercial potential in the long run, but it will take time," said Swedish Match Chief Executive Lars Dahlgren. "We are willing to invest in this venture." He said the joint venture aims to commercialize Swedish snuff and develop other smoke-free tobacco products such as chewing gums. In the third quarter of 2008, Swedish Match's snuff sales rose 16% to 992 million Swedish kronor ($119 million).

Benetton Group SpA

Sintonia, the Luxembourg-based holding company for the **Benetton Group** SpA's infrastructure assets, named former **Eni** SpA executive Stefano Cao its new chief executive. Sintonia said that Mr. Cao's appointment will become effective Feb. 16 and there hadn't been a CEO before him. Mr. Cao, 57 years old, most recently was the head of exploration and production at Eni, Italy's largest energy company by market value, and acted as the leading negotiator in the Kashagan dispute with the Kazakh government. He worked at the company for 30 years before retiring last summer. Sintonia is a holding company in the infrastructure sector and has shares in **Atlantia** SpA and an indirect stake in **Telecom Italia** SpA.

Vinci SA

French construction and concession company **Vinci** SA on Tuesday posted a 10% rise in 2008 revenue despite a fourth-quarter slowdown and said that it was confident about its prospects for 2009, without offering a forecast. Vinci said that its revenue last year totaled €33.5 billion ($43.03 billion), up from €30.4 billion in 2007. In the fourth quarter, revenue grew 2% to €8.8 billion. Looking ahead to 2009, Vinci didn't give a forecast but said that "in a more difficult and uncertain environment," the company "is entering 2009 with confidence and heightened vigilance." In the past 12 months, Vinci shares have shed about 38% of their value amid the worsening economic crisis and its potential effects on the construction sector, as well as lower traffic affecting its toll division.

—Compiled from staff and wire service reports.

Google's influence grows in Washington

Search giant, active with Obama's transition, stands to benefit from parts of economic-stimulus package

When a group of chief executives visited the White House last week to talk about stimulus with U.S. President Barack Obama, **Google** Inc.'s Eric Schmidt wasn't hard to spot, perched in a prime seat on the new president's left side.

By ***Amy Schatz, Jessica E. Vascellaro*** *and* ***Brody Mullins***

Associated Press

Google Chief Eric Schmidt, right, looked on as U.S. President Barack Obama met with business leaders last week.

Mr. Schmidt campaigned for Mr. Obama before the election, and Google officials were active in helping with the president's transition. Now Google figures to be one of the tech companies that benefits from an economic stimulus that is likely to include billions of dollars for information technology.

Mr. Schmidt, in an interview, described the provisions to deploy Internet in rural and other areas as "a very big deal for us." Google, which benefits when more people use the Web, also has been pushing for the government to help update the energy grid to accommodate more renewable energy, which the company hopes can help it lower the costs of running its data centers.

Google's effort to increase its presence in Washington is as much about playing defense as offense, in some ways. Google's rivals lost a number of regulatory battles to the search giant in Washington last year and are gearing up to fight over issues expected to be hotly debated this year, including Internet openness and stricter privacy rules.

Congress is expected to look into whether it should set rules to protect consumers' Internet privacy this year, a touchy issue for the search giant, which collects vast amounts of user data. The company is still smarting over the Justice Department's decision in November to block it from pairing up with rival **Yahoo** Inc. on some search advertising on the grounds that Google already dominates the search market.

Last year, Google helped defeat broadcasters in a fight over whether unlicensed wireless gadgets can soon begin using vacant TV airwaves. The company also led a fight against the cellular industry over whether new wireless networks must be open to all phones and gadgets.

In return, **AT&T** Inc., which has sparred with Google over a number of issues, is now funding a think tank called the Future of Privacy Forum that is focusing on improving Internet privacy and raising awareness of the issue in Washington. The phone giant and other broadband providers continue to spar with Google over the issue of net-neutrality rules, which would bar Internet providers from slowing or blocking some Internet traffic.

Privacy advocates are already fretting about the White House using Google's YouTube service, which tracks visitors via electronic cookies that allow companies to track what users look at on the Internet and better target advertising to them. "Given the relationship of Schmidt to the campaign, I think there's a real concern there's a kind of open office, revolving door between Google and their goals and the Obama administration," said Jeff Chester, founder of the Center for Digital Democracy, a consumer-privacy advocacy group.

Mr. Schmidt said Google plans to be involved in discussions about "privacy and the balance of consumer versus government" power in the coming year, while paying close attention to ensuring that the support for broadband and for science and technology research reflected in the stimulus bill gets realized. "There is no question technology has more influence with this president," he said. "I think it is a personal interest."

At the same time, Mr. Schmidt played down the company's clout with the administration.

"Many people think they have a lot of influence with this president," he said. Google and Mr. Obama do share a belief that technology can improve government and business, he said. "I think our influence is moderate, not tremendous."

Fund-raising disclosures show that Google employees ranked as the fourth-largest corporate source of campaign cash for Mr. Obama's presidential run. After the election, five Google executives, including Mr. Schmidt, YouTube co-founder Chad Hurley and chief legal officer David Drummond gave a total of $166,000 to fund the Obama inauguration, according to data released by the transition team. That makes Google employees the third-largest source of donations for Mr. Obama's inauguration, according to data compiled by the nonpartisan Public Citizen. Google also allowed executives to take leaves of absence to help the Obama transition with policy planning.

A White House spokesman said the transition team solicited opinions from a variety of interest groups, academics and corporate executives, not just Google.

"President Obama has ensured that these transition volunteers are recused for one year from contacts with agencies and departments about particular matters over which they had substantial responsibility," said White House spokesman Nick Shapiro.

Last fall, Google opened a new sales office in the Washington suburbs to sell its search, mapping and software products to government agencies. The search giant is hoping to capitalize on the expected surge in government contracts so agencies can meet Mr. Obama's promise of using technology to make government more transparent.

These products are just a sliver of Google's revenue. But Mike Bradshaw, Google's director of federal enterprise sales, said it is important for Google to try to get its products into government agencies to "help them make their information more available."

Google also has been trying to get Democratic and Republican politicians to use its free tools, said Adam Kovacevich, a Google spokesman. "We're building a presence in Washington for the long term, and that means establishing relationships on both sides of the aisle."

Geithner, keeping Japan in mind, charts aggressive course

By Michael M. Phillips

WASHINGTON—If there is one thing U.S. Treasury Secretary Timothy Geithner learned from watching Japan sink into a decade-long economic quagmire, it's this: Don't dither.

Mr. Geithner is keeping Tokyo's mistakes very much in mind as he and the rest of President Barack Obama's economic team address the deep U.S. recession and persistent credit crunch. Recalling how Japanese authorities prolonged their nation's slump by hemming and hawing over public spending, interest rates and bank rescues, Mr. Geithner is leading the charge for an overwhelming response to the U.S. crisis, including a nearly $890 billion stimulus package, fresh help for homeowners and a renewed effort to help financial institutions get rid of their bad investments.

Today's crisis in the U.S. "is dramatically worse today because, collectively, policymakers were a little slow to escalate both on the fiscal side and on the financial side," Mr. Geithner said in a recent interview. He recalls 2008 debates about whether inflation or the credit crisis were bigger risks, whether policymakers should be "trying to teach people a lesson or save the country. ...That made fear and panic worse than it should have been."

With its new plan, the administration is "going to do our best" to apply the Japanese lesson, Mr. Geithner said.

Mr. Geithner is expected early next week to lay out the framework of the administration's approach for addressing the crisis—likely to range from a revamped bank bailout to a foreclosure-prevention plan to a redo of the financial regulatory system. Coupled with the stimulus package being hammered out with Congress, the Obama administration is set to commit trillions of taxpayer dollars to jumpstarting the economy.

Reuters

U.S. Treasury Secretary Timothy Geithner on Capitol Hill Monday. He is leading the charge for a response to the U.S. crisis, including stimulus and help for homeowners.

Mr. Geithner was a junior Treasury bureaucrat on Dec. 29, 1989, when Japan's Nikkei Average stock index, boosted by skyrocketing real-estate prices, hit its all-time high of 38,915.87 and began a plunge from which it has yet to recover. (It closed at 7825.51 Tuesday). A few months later, Mr. Geithner arrived in Tokyo and took up a position as assistant financial attaché in the U.S. Embassy.

During Mr. Geithner's two years in Tokyo, and after he returned to a series of senior jobs in Washington, he and other Treasury officials became convinced Japan was experiencing a trifecta of economic woes its leaders were reluctant to address. The country's economy was stalled. Its banks and securities firms were overloaded with bad loans. And the yen was so strong that it was diluting the nation's export-led growth strategy.

Japanese authorities feared cutting interest rates would spur inflation. Out of fear of deficits, they followed up big spending packages with tax increases, blunting any resulting stimulus. It wasn't until relatively late in the decade, when banks began failing, that Japanese authorities injected public capital into the system and set up a Resolution and Collection Corp. to dispose of bad loans.

"There's a huge temptation to see the light at the end of the tunnel before it's really there," Mr. Geithner said, "and therefore to kind of shift back to restraint before you have recovery fully established."

ECONOMY & POLITICS

Focus on financial fraud

U.S. attorney general vows aggressive push; FBI may get funding

BY EVAN PEREZ

WASHINGTON—One of the biggest challenges facing Eric Holder as he takes over the U.S. Justice Department is how to tackle white-collar crime amid public pressure to prosecute Wall Street bankers and others blamed for the global financial crisis.

Mr. Holder was confirmed by the Senate on Monday in a 75-21 vote, and was sworn in shortly afterward as the first African-American attorney general.


Eric Holder

Mr. Holder left a lucrative practice in Washington at Covington & Burling LLP, where he defended corporate clients in criminal probes, to take over a department that has seen its record on financial crimes come under attack.

The Justice Department early in the Bush administration cultivated a get-tough reputation on corporate fraud following the collapse of Enron Corp. But in recent months critics have found fault with the department for not doing more to uncover the mortgage-related frauds that have caused some of the problems crippling banks around the world.

Democrats and Republicans in Congress are questioning the department's allocation of resources at the Federal Bureau of Investigation, which after the Sept. 11, 2001, attacks diverted agents to terror cases from white-collar crimes. The Senate version of the economic-stimulus legislation now being debated in Congress includes a proposal for $75 million for the FBI to hire hundreds of new agents "to investigate mortgage fraud, predatory lending, financial fraud and market manipulation."

Mr. Holder on Tuesday promised an aggressive push on financial-fraud cases. "We're not going to go on any witch hunts, but to the extent that what this nation is facing is the result of fraud and misconduct we'll find it and we'll hold people accountable."

Current cases are focusing largely on individuals, rather than companies. That partly reflects fears that indicting companies for wrongdoing could cause them to collapse, putting innocent employees out of work at a time of economic distress.

William Black, economics and law professor at the University of Missouri at Kansas City, said companies involved in malfeasance should still be targeted.

"There are excuses not to prosecute corporations: People are scared to death of the pushback, politically, if you cause a company to fail. As long as we have that kind of attitude, you will have no deterrence," Mr. Black said. "I fear the new administration has not learned that lesson at all."

The Bush administration has defended its record on white-collar crime. The Justice Department tallied nearly 1,300 corporate-fraud convictions by the end of 2008, including more than 200 chief executives and presidents, more than 120 corporate vice presidents, and more than 50 chief financial officers, according to figures supplied by the department.

As deputy attorney general under President Bill Clinton, Mr. Holder issued guidelines on white-collar defendants that came to be known as the Holder Memorandum. Critics later called the tactics in the memo excessive, including the threat of indictment against companies to gain access to information that is usually protected by attorney-client privilege.

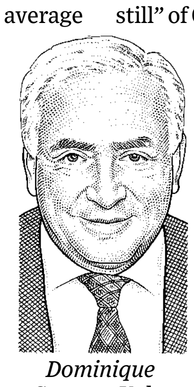
After moving to private practice, Mr. Holder was more sympathetic to the corporate view. In writings and interviews, he raised questions about the wisdom of indicting companies in high-profile investigations such as the one of Arthur Andersen. The accounting firm went out of business after it was indicted, even though the government lost much of the underlying case upon appeal.

IMF cuts Asia forecasts to average 2.7% growth

BY DAVID ROMAN AND WILLIAM MALLARD

SINGAPORE—The International Monetary Fund cut its forecasts for Asia's 2009 economic growth, saying the "major downturn" in the global economy is hitting Asia hard, but that the region could bounce back quickly if countries take the right policy steps.

The IMF expects Asian gross domestic product to grow an average of 2.7% this year, with developing Asian nations growing 5.5% driven by resilient growth in China and India, IMF Managing Director Dominique Strauss-Kahn said Tuesday. As recently as November, the IMF forecast that Asia would grow 4.9% this year.


Dominique Strauss-Kahn

The IMF's downgrade is roughly in line with recent cuts in estimates by private-sector economists.

Mr. Strauss-Kahn said Asian economies have solid fundamentals, but that there is "a lot of downside risk" to the international lender's regional forecasts due to worries about the aftershocks from the global crisis and the health of the banking systems of some countries.

But he said that there is also room for optimism and that some Asian economies are well-positioned to lead a global recovery starting late this year if they increase government spending, cut interest rates further, and strengthen their banking systems.

He said the IMF expects average Asian growth to bounce back to 5% in 2010.

Export-reliant Asia "was not the epicenter of the crisis," but the region "has been hit hard because of the global linkages" as its export markets have weakened drastically, he said. "Asian economies cannot recover alone but, when the recovery starts, some of them will recover very fast."

The IMF last week slashed its global 2009 forecast to a "virtual standstill" of 0.5% growth from its November projection of 2.2% growth, with a recovery to 3% in 2010.

"Some Asian countries are very good candidates to lead the recovery process," depending on recovery in their export markets and steps taken at home, Mr. Strauss-Kahn said. "The problem is to shift from an export model to a domestic-growth model."

Many Asian economies have room to increase fiscal and monetary stimulus, said Anoop Singh, director of the IMF's Asia and Pacific department.

"All over Asia inflation rates are falling faster than the interest rates," he said. "Therefore, in many cases there remains considerable room for further monetary easing."

Mr. Strauss-Kahn reiterated the IMF's forecast that China will grow 6.7% this year. He said it "will be very challenging but possible" for Beijing to hit its 8% official target and would require big policy changes, especially shifting the focus of growth to domestic demand and away from exports.

Lower U.S. mortgage rates help to bolster home sales

BY CONOR DOUGHERTY

Distressed-home sales and falling mortgage rates helped stimulate the U.S. housing market in December. But recovery remains a way off as rising unemployment, a surplus of housing inventory and more home vacancies continue to weigh on home sales.

The National Association of Realtors Tuesday said its index of pending home sales, which measures contracts signed but not closed, rose 6.3% in December from a month earlier. The index is designed to measure the direction of the housing market and should therefore translate into rising home sales in the beginning of this year.

Economists say the rise is partly the result of lower mortgage rates that pushed potential buyers into the market. The average rate for a conforming 30-year fixed mortgage fell to as low as 5.06% in December, a full percentage point from late November, according to HSH Associates, a financial publisher. Rates were 5.38% Monday evening.

Falling mortgage rates have effectively cut the price of already less-expensive homes, making monthly payments more affordable and nudging prospective home buyers into the market. "The lower mortgage rates offset the need for big price declines," said Dan Oppenheim, a housing analyst at Credit Suisse.

That is good news for anyone trying to sell a home but probably doesn't foretell a housing turnaround. At the same time that home prices and mortgage rates have been falling, companies have slashed jobs, adding those who might have been home buyers to the ranks of the unemployed. The U.S.lost about two million jobs in the final four months of 2008; economists estimate the nation lost 538,000 nonfarm jobs in January and that the unemployment rate will have risen to 7.5% from 7.2% in December.

There also is a glut of unsold homes, and during the past few months roughly half of real-estate sales have been made up of distressed or foreclosed homes that are sold at bargain rates, and quickly. Rising home inventories and competition from distressed sales have created a brutal market for home sellers. Economists say the housing market will remain tough until inventories fall and foreclosure sales are a smaller slice of the market.

A separate report Tuesday, from the U.S. Census Bureau, showed the homeowner-vacancy rate increased to 2.9%, from 2.8% in the third quarter. The vacancy rate hovered between 2.8% and 2.9% throughout 2008, compared with between 2% and 2.8% from 2005 to 2007.