**Leading the News:** Russia's moves in Central Asia could be a wake-up call for the U.S.

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**Roche reported** a rare drop in profit and offered a gloomy outlook for 2009, saying it expects slowing sales growth. But the Swiss drug maker said it is confident it will complete its takeover of biotech company Genentech. Page 3

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■ **European shares rose** as BHP and Alcatel-Lucent reassured on earnings trends. U.S. stocks were mixed. Page 20

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■ **Panasonic forecast a loss** of $4.3 billion for the current fiscal year and said it plans to cut about 15,000 jobs, or 5% of its work force. Page 5

■ **Time-Warner posted** a $16 billion net loss for the fourth quarter, hit by a huge write-down and a slump in its Time publishing unit. Page 5

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■ **Alcatel-Lucent posted** a large fourth-quarter loss, but the telecom-equipment maker said signs show a turnaround may be under way. Page 3

■ **Hong Kong regulators** will investigate the circumstances behind a PCCW shareholder vote approving a $2.1 billion buyout of the firm. Page 4

■ **The Vatican demanded** that a bishop who denied the Holocaust recant his positions before being fully admitted into the Roman Catholic church.

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**Funding the bomb**
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Associated Press

U.S. President Barack Obama, left, and Treasury Secretary Timothy Geithner at the White House Wednesday. 'What gets people upset—and rightfully so—are executives being rewarded for failure,' Mr. Obama said.

# Obama unveils curbs on pay

By Laura Meckler

WASHINGTON—U.S. President Barack Obama unveiled on Wednesday a series of pay curbs, including a strict new limit on executive salaries for companies that receive "exceptional assistance."

The rules represent the White House's attempt to ensure that financial institutions receiving government money are held accountable for spending it responsibly.

"What gets people upset—and rightfully so—are executives being rewarded for failure. Especially when those rewards are subsidized by U.S. taxpayers," the president said.

Under the new rules, companies that receive "exceptional assistance" from taxpayers may not pay any top executive more than $500,000 a year. Any additional compensation would have to be in restricted stock that will not vest until taxpayers have been repaid.

This goes beyond current rules, which bar such companies from taking a tax deduction for compensation above half a million dollars.

"We're going to be demanding some restraint in exchange for federal aid—so that when firms seek new federal dollars, we won't find them up to the same old tricks," Mr. Obama said at the White House.

Two amendments to the U.S. stimulus bill aimed at limiting executive compensation were to be introduced in the Senate Wednesday.

Sens. Ron Wyden (D., Ore.) and Olympia Snowe (R., Maine) have put forward a plan to claw back bonuses already paid to senior executives at firms that received funds from the Troubled Asset Relief Program in the final quarter of 2008. It would give companies a choice: They could return to the U.S. Treasury any amount over $100,000 paid in bonuses to executives, or pay a 35% excise tax on the part of the bonus exceeding $100,000.

A second proposal set to be introduced by several Democratic senators would place

*Please turn to page 31*

# Moscow shifts fight for economy

By Gregory L. White

MOSCOW—Russian authorities vowed to slash spending and shift bailouts to banks from industry as the country's growing economic troubles brought a new cut to its debt rating.

With the ruble under pressure, First Deputy Prime Minister Igor Shuvalov pledged to defend the currency. But he warned the next month will be "very difficult" as the central bank seeks to keep the ruble from breaching the floor it set for the currency last month.

Igor Shuvalov

Russia spent $200 billion—more than a third of its reserves—to slow the ruble's slide since August, and many analysts question whether the central bank will be able to prevent further declines.

Citing the rapid loss of reserves and surging capital outflows, Fitch Ratings on Wednesday cut Russia's credit rating by one notch to BBB—two rankings above junk. In December, Standard & Poor's cut its rating—the first such reduction for Russia in a decade.

"The fact they were downgraded today is a reminder that they don't have infinite money and that's what they're just beginning to get their heads around," said Rory McFarquhar, an economist at Goldman Sachs in Moscow.

After months of saying Russia's large reserves—accumulated from years of surging oil prices—would allow it to ride out the global crisis, officials in recent weeks have taken a more modest tone, warning the economic pain could be severe.

Amid fears that the government would run through most of its $220 billion in rainy-day funds to cover the budget deficit this year, Mr. Shuvalov said Russia would be more cautious with reserves. He said the government plans "significant cuts in state spending" on high-profile investment projects and other areas to keep the deficit under control amid the plunge in tax revenue.

Fattened by revenue from high oil and commodity prices, the Kremlin has increased government spending in recent years, expanding salaries and benefits but also the bureaucracy. This year is expected to bring the first deficit in years.

Mr. Shuvalov's comments came in a speech to an investor conference sponsored by Troika-Dialog, a Moscow brokerage. He declared most of his presentation closed to the media, but participants recounted his comments later. A spokesman confirmed the outlines of his remarks but declined to discuss details.

Instead of helping tycoons and industry, the government will focus on shoring up the banking sector, which is facing write-offs from bad loans to Russian companies.

Later, another top govern-

*Please turn to back page*

# Total offers 102 jobs to settle U.K. strikes

By Alistair MacDonald And Angela Henshall

LONDON—French oil company **Total** SA will offer concessions to U.K. workers in a bid to end a rash of strikes protesting the use of foreign labor, underscoring the challenges British Prime Minister Gordon Brown faces in handling a rising tide of protectionist sentiment.

Total offered to allot to U.K. workers 102 of 200 temporary construction jobs at its Lindsey oil refinery in the town of Immingham, in eastern England.

Contract construction workers at the refinery walked off the job last week to protest the plan to use Italian laborers on a coming expansion at the refinery site. The British contract workers aren't permanent Total employees.

The dispute sparked a series of wildcat strikes by an estimated 2,000 workers at more than a dozen other refineries, power plants and energy facilities across the U.K. Strikers at several sites returned to work Wednesday.

The Lindsey workers will vote Thursday morning on Total's proposal. The offer is supported by Unite—the U.K.'s largest manufacturing workers' union—which advised Total's contract workers but doesn't represent all of them. Derek Simpson, joint general secretary of the Unite union, said no Italian worker on the Lindsey construction project would lose his job as a result

*Please turn to page 31*

## Inside

**Framing a solution**

Eyewear maker Luxottica will offer better benefits to soften the impact of pay cuts. **Corporate News, page 4**

## Markets

4 p.m. ET

| | CLOSE | PCT CHG |
|---|---|---|
| DJIA | 7956.66 | -1.27 |
| Nasdaq | 1515.05 | -0.08 |
| DJ Stoxx 600 | 194.67 | +2.58 |
| FTSE 100 | 4228.60 | +1.54 |
| DAX | 4492.79 | +2.69 |
| CAC 40 | 3068.99 | +2.90 |
| Euro | $1.2885 | -0.66 |
| Nymex crude | $40.32 | -1.13 |

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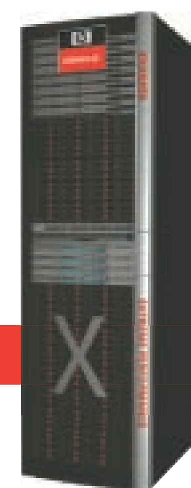

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## LEADING THE NEWS

# Russia plans Central Asian force

### *Rapid-reaction team would match NATO, Medvedev says*

A day after the president of Kyrgyzstan won $2 billion in Russian aid and announced plans to oust the U.S. from a vital air base in his country, the Kremlin unveiled plans to form a potent new military force in Central Asia with former Soviet satellites that it says will match NATO standards.

*By **Alan Cullison** in Moscow and **Yochi J. Dreazen** in Washington*

Moscow's moves mark the Kremlin's most aggressive steps yet to reassert its influence in the region and counter a U.S. military presence there that it has long resented.

The moves pose a challenge to the administration of Barack Obama, which has hoped for an era of easier relations with Moscow after years of tumult and confrontation. Since he took office last month, Mr. Obama has distanced himself from Bush administration initiatives that antagonized Moscow, suggesting softer stances on issues like missile defense and expansion of the North Atlantic Treaty Organization in Europe, and softening rhetoric toward Iran.

But Russia is signaling that it will be a tough defender of its interests in any case, especially in its traditional backyard of the former Soviet Union. On Wednesday, just a day after Kyrgyzstan said it planned to evict U.S. troops from its soil, Russia announced a financial rescue fund for a group of ex-Soviet allies, and won their agreement to form a military rapid-reaction force.

"Russia would like to reassert itself in the region, and it is using the financial crisis as an opportunity," said Nikolai Zlobin, senior fellow at the World Security Institute, a Washington-based think tank. "Russia might not be the most powerful country in the world, but in the former Soviet Union it is king."

Russian paratroopers will form the core of the force, which is expected to consist of about 10,000 men. Russia's envoy to NATO, Dmitry Rogozin, said Kyrgyzstan may host some of the troops at the base that will be vacated by the U.S. military. Russian President Dmitry Medvedev said the force will be ready "to rebuff military aggression," fight international terrorism, drug trafficking and organized crime, and handle natural and technological disasters.

"These are going to be quite formidable units," Mr. Medvedev said. "According to their combat potential, they must be no weaker than similar forces of the North Atlantic alliance," or NATO.

Though Russia has been fighting the effects of the global crisis, its financial footing is far better than that of most former Soviet states, and lately it has been using money to strengthen ties with those countries. When Kyrgyzstan President Kurmanbek Bakiyev said he intended to shut the base, Moscow said it was extending $2 billion in loans and an additional $150 million in financial aid to the country.

Russia also is discussing aid packages to Armenia and Belarus, other former satellites hit hard by the financial crisis. Russia has strong-armed others, such as Ukraine, that had been paying below-market rates for natural gas.

The Kyrygz push to close the Manas Air Base stunned Pentagon officials. Kyrgyzstan had made similar demands before, and American officials said they initially assumed the government was merely trying to get better financial terms for the use of the base.

"Frankly, we thought it was a negotiating tactic, and we were ready to call their bluff," said a military official. "But it's becoming clearer that, no kidding, they want us out."

The initial agreement between Washington and Bishkek allows either government to cancel their Manas deal 180 days after giving written notice of the intent to do so. U.S. officials said they expect the Kyrgyz parliament to formally approve ending the deal this weekend, which would mean the six-month countdown would start early next week.

The loss of Manas would be a blow to the escalating U.S. war effort in Afghanistan.

"We have contingencies, and it's not fatal, but there's no way around the fact that this would be a real blow," said a senior Pentagon official. "It could also leave us more dependent on Russia, which is not a place we'd like to be."

## CORRECTIONS & AMPLIFICATIONS

**The new version** of **SAP** AG's business-software suite is installed and runs on a corporate customer's computers. A Leading the News headline in some editions Wednesday incorrectly described the product as Web-based.

**On business-networking** site LinkedIn, visitors who clicked links on fake celebrity-profile pages were taken to third-party sites where malicious software, called malware, was hosted. A Jan. 29 Marketplace article on cyber-crime incorrectly implied that the malware was downloaded when users clicked on the profile pages themselves.

**Under a proposed alliance** with **Chrysler LLC**, **Fiat** SpA would provide technology to Chrysler that would cost Chrysler $3 billion or more to develop on its own. A Leading the News article Tuesday incorrectly indicated Fiat would directly invest money in Chrysler's vehicle portfolio.

# Insurers report stronger results on overseas gains

By Vladimir Guevarra

Three major European insurers—Italy's **Assicurazioni Generali** SpA, the U.K.'s **Aviva** PLC and Spain's **Mapfre** SA—offered a shot of optimism to the sector Wednesday when they posted stronger 2008 figures, partly thanks to their overseas operations.

Although the global economic crisis hasn't hit insurers as deeply as banks, worries about a spillover into the sector and the need for some companies to raise new capital have been growing. Wednesday's results underscore the importance of overseas growth strategies for insurers, as their domestic markets offer much less room for growth.

Generali, the biggest of the three by market capitalization, said its full-year direct premiums rose 4.1%, thanks to higher sales in Central and Eastern Europe. Direct premiums, which don't include those for reinsurance, rose to €67.4 billion ($87.9 billion) from €64.8 billion a year earlier. It will release its full year results, including final gross premiums on March 20.

London-based Aviva said it posted an 11% increase in life-and-pensions new-business sales for 2008, as sales in North America, Asia and some parts of Europe made up for a lackluster growth in the U.K. New-business sales rose to £36.3 billion ($52.5 billion) from £32.7 billion in 2007, the London-based company said.

Aviva's sales in the U.K. grew only 1% to £11.86 billion while sales in North America were up 57% at £5.71 billion, helped by a good performance of AmerUs, which Aviva bought two years ago.

Spain's Mapfre said its 2008 net profit jumped 23% to €900.7 million from €731.1 million a year earlier, boosted by new acquisitions and moderate growth in insurance premiums in Spain and Latin America.

Mapfre's chairman expects 2009 revenue to beat last year's revenue.

*—Sabrina Cohen and Christopher Bjork contributed to this article.*

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# Roche profit declines 8%

## *Rare slide reflects currencies, Tamiflu; slower sales forecast*

BY JEANNE WHALEN AND ANITA GREIL

Swiss drug maker **Roche Holding** AG reported a rare drop in profit and offered a gloomy outlook for 2009, saying it expects slowing sales growth and flat earnings per share.

Roche shares took one of their biggest falls in years Wednesday after the company said profit declined 8% in 2008, a poor performance for a company that has been among the industry's best performers. Still, the company said it is confident it will complete its roughly $40 billion takeover of biotech company **Genentech** Inc., for which Roche last week announced a hostile tender offer.

Roche attributed the weaker-than-expected results to a strong Swiss franc, lower income from financial investments and lower sales of flu drug Tamiflu, which governments have been buying less to stockpile against a possible flu pandemic. Roche, which sells prescription drugs and also equipment for diagnosing and monitoring disease, said profit was also hurt by tough competition in the U.S. for diabetes monitoring tools.

At a meeting at Roche headquarters in Basel, Switzerland, Chief Executive Severin Schwan told reporters that Roche plans to start meeting with Genentech shareholders to discuss the offer after the beginning of the tender, which is scheduled to start in the next two weeks. Roche is offering to buy the 44% of Genentech it doesn't already own.

Asked on a conference call what would happen if Roche didn't complete the Genentech takeover, Chief Financial Officer Erich Hunziker said, "Over the last seven, eight years did you ever see that this management team did not achieve a major task which we had announced to you?"

Roche said full-year net profit attributable to shareholders fell to 8.97 billion francs, from 9.76 billion francs in 2007. Roche doesn't publish quarterly earnings. For the full year, sales slipped 1% to 45.62 billion francs from 46.13 billion francs. In local currencies, sales rose 6%.

In Switzerland, Roche shares fell 9.1% to end at 147.8 francs.

This year, Roche said it expects sales growth in the midsingle-digit percentage range in local currencies, a slowdown from 2008 guidance of high-single-digit sales growth. The company expects its CellCept drug for transplantation to face competition from generics, and breast-cancer drug Herceptin to see slowing sales amid high market penetration.

Roche said it will have high research and development costs this year, and low income from financial investments, which will keep overall earnings per share flat at 2008 levels. Mr. Schwan said Roche's 2008 R&D spending of 9 billion francs was among the highest at any drug company, underscoring Roche's commitment to innovation "at a time when many of our competitors are short-sightedly relying on cost-cutting exercises as a recipe for success."

Associated Press/Keystone

Roche CEO Severin Schwan, above, at a news conference on Wednesday. The Swiss drug maker posted a rare decline in profit as full-year sales slipped 1%.

Sales at Roche's prescription-drug unit were hurt by a fall in Tamiflu revenue. The Swiss franc's appreciation against the dollar, the euro and other currencies further dented sales.

Roche's large portfolio of cancer drugs performed well, with sales rising 15% for the year. Cancer drugs Rituxan, Avastin and Herceptin each posted sales of more than 5 billion francs.

In the diagnostics division, operating profit fell 28%. The company blamed amortization of intangible assets from recent acquisitions and investments in the acquired companies, as well as fierce competition in the U.S. diabetes market.

# Alcatel posts $5.07 billion loss, but CEO sees progress

BY LEILA ABBOUD AND JETHRO MULLEN

Telecom-equipment maker **Alcatel-Lucent** reported a fourth-quarter net loss of €3.89 billion ($5.07 billion) because of a write-down related to aging technologies and deteriorating market conditions, yet the new chief executive said there are signs that a turnaround is under way.

After five months on the job, Alcatel-Lucent Chief Executive Ben Verwaayen has made progress on several problems that hurt the company's margins and profitability last year.

The company has stemmed losses on a wireless technology, known as W-CDMA, by dropping overlapping product lines. Alcatel-Lucent had promised to halve the losses in that wireless line last year. In an interview, Mr. Verwaayen said the company has exceeded that goal.

*Ben Verwaayen*

In China, where Alcatel-Lucent last year undertook the controversial strategy of cutting prices on mobile technology so as not to lose market share, the company is now well-positioned to win new contracts, Mr. Verwaayen added.

These are "positive signs" that Alcatel-Lucent is on the right track, Mr. Verwaayen said, adding that the company met its targets for cash flow, revenue and profit. "But we still have a lot of work to do to convince our shareholders that this is a management team that will deliver," he said.

Investors sent Alcatel-Lucent's shares up 2.5% to close at €1.50 in Paris Wednesday.

In its earnings statement, Alcatel-Lucent said fourth-quarter revenue fell 5.3% to €4.95 billion from €5.23 billion a year earlier. Analysts had forecast revenue of €4.9 billion, so the results came in largely in line with market expectations.

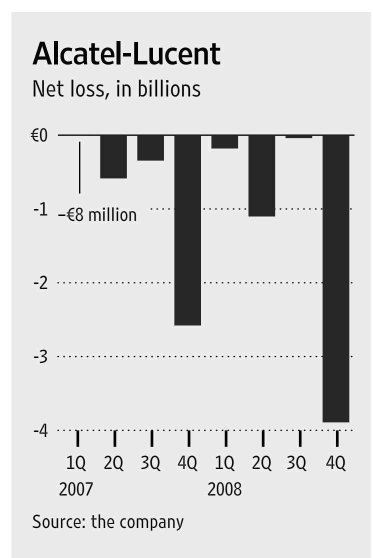
Pierre Ferragu, a London-based analyst at Sanford C. Bernstein, said the "fairly good" fourth-quarter result showed that "the change in management is bearing fruit." But he cautioned that Alcatel-Lucent still faces major challenges, such as its weak wireless technology and an overreliance on the fixed-line phone business, which was starting to decline in some markets.

The €3.91 billion write-down announced by the company Wednesday reflects "weaker market conditions" and Alcatel-Lucent's decision to abandon some aging technologies in favor of new, higher-growth technologies, said Chief Financial Officer Paul Tufano.

In the fourth quarter of 2007, the company had announced a net loss of €2.58 billion, also because of a write-down on CDMA assets. Alcatel-Lucent, like all companies, must regularly assess the value of its intangible assets, known as goodwill, which include its reputation, customer base and work force.

Beyond the write-down, Alcatel-Lucent faces a tough year ahead as big telecommunications operators such as **Verizon Communications** Inc. and **Vodafone Group** PLC slow their spending on fixed, mobile and Internet networks. The economic downturn means fewer customers will sign up for pricey new services such as mobile television, so the operators have little incentive to invest in equipment.

Analysts expect capital expenditures at telecom companies to drop this year. Alcatel-Lucent says the market for telecom equipment could drop 8%-12%, while its rival Nokia Siemens Networks—a joint venture between **Nokia** Corp. and **Siemens** AG—expects at least a 5% decline. **Telefon AB L.M. Ericsson**, a leading maker of wireless-phone networks, predicts a flat market.




Alcatel-Lucent has been unprofitable since it was created in a merger between Paris-based Alcatel SA and Lucent Technologies Corp., based in Murray Hill, N.J., in December 2006. Linking Alcatel with Lucent was supposed to create a company big enough to weather rising industry competition and consolidation among the telecom operators that buy equipment. Instead, the new company was forced to cut prices as rivals tried to pick off its customers, hurting profitability. Planned cost savings from the merger didn't materialize.

Mr. Verwaayen was brought in last summer to turn the company around, and revive a work force traumatized by fallout from the merger. In December he announced a companywide effort to ratchet down costs to improve profitability, as well as a new strategic focus on innovation and certain new technologies such as fourth-generation mobile products known as LTE. He promised €750 million in savings this year through staff cuts, better procurement strategies and stricter pricing policies with customers.

"We need to do more to expand our margins," Mr. Verwaayen said. "But from a psychological point of view, I think we're making progress."

# Exit path gets tougher for founders of start-up firms

BY RUSS GARLAND

For founders of companies backed by venture capital, the road to an exit keeps getting longer—and the chances to take some money off the table along the way are even fewer in a recession.

The idea that founders and top management should get some liquidity before investors do isn't a popular one in the venture business. The paradigm is for everyone to pull together to build a great company—with financial gains for all shareholders when the company goes public or gets bought.

In the years before the financial meltdown, some lucky entrepreneurs were able to cash out as venture capitalists battled to back the hottest start-ups.

Such stock purchases will be "much less common in a capital-constrained environment where both companies and purchasers of stock would rather see the capital going into the company," says David Cowan, a partner at Bessemer Venture Partners.

The problem for entrepreneurs, and venture investors, is that it can take nearly a decade for a start-up to go public or get acquired, especially now that the market for initial public offerings is stopped up. Start-ups typically are developing products and testing markets, and their value lies in high-growth potential—not their existing business.

Founders sold existing stock they held in their companies to investors in slightly less than 10% of initial venture financings surveyed for the Dow Jones Venture Capital Deal Terms Report. That percentage probably reflects a number of companies that founders had bootstrapped to near profitability by the time the venture capitalists invested.

Pascal Levensohn, managing partner and founder of Levensohn Venture Partners, says his firm has bought shares from company management once in a dozen years and that was for strategic reasons. "We would all like to see everyone get out at the same time," he says.

Venture capitalists worry that managers won't work as hard to grow the company if they get an early payoff.

For venture investors in third- or later-round financings, the dynamics can be different because they sometimes want to increase their ownership stakes beyond what the company is willing to sell. This can be accomplished by buying common stock from founders and top management, or sometimes preferred shares from prior investors.

It's not unusual for later-stage investors to buy about 10% of an entrepreneur's stock, says J. Sanford "Sandy" Miller, a general partner at later-stage venture firm Institutional Venture Partners. "It's been a way into some new companies for us."

But even in these types of financings, the economy is having a negative effect because company valuations have fallen, making the sale of shares to investors less attractive to entrepreneurs, Mr. Miller says. Also, investors are more concerned about providing operating capital to the company so it can survive the economic downturn.

# CORPORATE NEWS

# Luxottica to expand employee benefits

*As recession stings Italy's industrial north, eyeglass maker agrees to dental care and discounts for top producers*

Italian luxury eyewear maker **Luxottica** SpA is expected to unveil a new social benefits program for its domestic work force, an attempt to nudge consumer confidence as the global economic downturn hits prosperous pockets of Italy's industrial north.

By *Stacy Meichtry* in Rome and *Jennifer Clark* in Milan

The economic slump has crimped global demand for many made-in-Italy goods, from luxury handbags to cars. Consumer spending within Italy fell 2.3% in 2008, compared to the year earlier, according to Italy's state statistics office ISTAT. Manufacturers have slowed production to a crawl, and companies such as Italian automaker **Fiat** SpA have placed tens of thousands of workers on leave, requiring the state to subsidize wages while the workers are suspended.

Cities in northern Italy are home to some of Italy's biggest employers, including luxury-goods firms such as Luxottica that rely on highly-specialized workers to craft products that are distinguishable from lower-priced rivals.

Under the terms of an accord reached after 15 months of negotiations with unions, Luxottica will spend more than €2.5 million ($3.2 million) a year on benefits for its workers ranging from dental care to scholarships, according to Nicola Pelà, Luxottica's head of human resources. The measures are apart from union contracts that cover wages and working conditions. Employees' health care and social services are covered by the state social welfare system. The company is expected to disclose the plan on Thursday when it reports sales for the final three months of 2008.

"The assumption is practical: You cannot deliver and produce quality products unless people enjoy a decent quality of life and have the basic needs fulfilled," Mr. Pelà said in an interview.

Luxottica, which produces eyeglasses under license for brands such as Prada and Salvatore Ferragamo near the Belluno district of Northern Italy, announced plans earlier this year to place about 6,000 workers on temporary, state-subsidized leave for a total of four days during January and February. Last month, **Safilo** SpA, Italy's second biggest eyeglass maker, said it will idle plants for two months as it grapples with slumping sales and a heavy debt load.

The shutdowns are taking a toll on factory towns, as households scrimp on spending to offset lost wages. Workers who are placed on state-subsidized leave take an average 20% pay cut while their jobs are suspended.

Mr. Pela said the new benefits will remain in place regardless of whether the economic downturn persists and further production suspensions become necessary. However, the timing of the program's launch will help offset the financial strain on employees hit by temporary layoffs, he said.

Even before the economic downturn gripped the luxury industry, towns specializing in luxury goods faced tough odds. Over the past decade an increasing number of brands have begun to buy textiles and semifinished materials from countries with lower-cost labor like China.

Associated Press

'You cannot deliver...quality products unless people enjoy a decent quality of life,' said Luxottica's Nicola Pelà. Above, a model shows eyewear in the company's collection.

As competition with China tightened, worker wages across the luxury industry stagnated and workers struggled to keep apace with rises in the cost of living. Luxottica's average monthly salary of €1,200, Mr. Pela said, was "above market rate," but needed a supplement. At the same time, Luxottica didn't want to simply raise wages, which are heavily taxed in Italy, he added.

Under the new system, Luxottica aims to leverage its scale to buy basic goods, such as baby food, and services at discount prices and distribute them to employees who reach production and efficiency targets.

The targets, Mr. Pela said, are an essential part of the new program. Eyeglass production, from the lenses down to the screws that hold them in place, is a highly precise trade. Glasses that aren't screwed together properly get scrapped, driving up company costs. "Anything from a wrong paint job, to a screw that doesn't go in perfectly, to damaged lens can stop [eyeglasses] from getting to the market," he said.

Luxottica also plans to distribute scholarship money for the children of employees to attend local vocational schools and colleges. In the luxury industry, where know-how is often passed down through generations of craftsmen, keeping young people close to home is essential.

Valeria Fedeli, a union representative for Luxottica's employees, applauded the benefits program. However, the program won't cure the economic pain, she said. "We're still in a crisis situation."

# Hong Kong to examine shareholder vote on PCCW deal

By Jonathan Cheng And Lorraine Luk

HONG KONG—Local securities regulators will investigate the circumstances behind a **PCCW** Ltd. shareholder vote that blessed a $2.1 billion buyout of the company, in the latest hurdle to deal maker Richard Li's years-long efforts to settle the fate of one of his major investments.

Officials with the Hong Kong Securities and Futures Commission took possession of voting records Wednesday night, about an hour after the end of a raucous seven-hour shareholder meeting marked by unsuccessful efforts by some investors to postpone the vote. In a statement, the commission said it "will be making inquiries," but declined to comment further.

At issue are claims by local media and a high-profile shareholder activist that some people received shares in the company in exchange for their support. The claims didn't identify who might have issued the shares.

PCCW officials said the Hong Kong company had no knowledge of any improper share transfers but will look into the matter. A spokesman Wednesday said it would cooperate with the commission, as would the buyout group led by Mr. Li. The spokesman said Mr. Li wasn't available for comment.

Of the shareholders who voted, 82% approved the deal. Under the deal, Mr. Li's group would buy out the 52% of PCCW shares it doesn't already own for 4.50 Hong Kong dollars (58 U.S. cents) a share. The amount is a 55% premium to the share price before the group expressed initial interest in October but is below the stock's rough trading range of HK$5 in recent years.

The deal will now go before Hong Kong's High Court for approval under the city's laws Feb. 24. Attorneys in the industry said regulators or minority shareholders could challenge the buyout then.

Some investors at the meeting said they would continue to oppose the deal. "I intend to fight for my rights as a shareholder," said Daisy Cheung, a retired housewife who said she bought PCCW shares in 2000, a year when they sometimes traded above HK$100 a share during the dot-com bubble. She declined to disclose additional information about her holdings.

The probe marks the latest complication Mr. Li faces in settling once and for all the fate of PCCW. Mr. Li tried to sell all or part of the company three times before trying to take it private in the current deal. Mr. Li said in the prospectus that there would be no drastic changes to the business model in the event of a privatization, though he raised the possibility of an initial public offering when markets improve.

Once an Internet highflier, PCCW now is Hong Kong's dominant fixed-line telephone provider—a steady cash-generating business, but one that offers limited prospects for growth, given Hong Kong's stable population. Analysts say it must strike partnerships with other firms in new markets it has shown an interest in, such as the Middle East, if it hopes to expand beyond home.

Citing PCCW's trading range of about HK$5 in recent years and even higher levels during the dot-com boom, some investors have opposed the buyout as too low.

Mr. Li is the 41-year-old son of Hong Kong billionaire Li Ka-shing and a fixture of the city's business establishment and society pages. Unlike his older brother, Victor Li, who is considered his father's heir apparent at ports-and-property conglomerate **Hutchison Whampoa** Ltd., Richard Li tried to make his name outside the family business. In the 1990s he sold a satellite business called Star TV to **News** Corp. for US$25 million in cash and stock. News Corp. is also the owner of Dow Jones & Co., publisher of The Wall Street Journal.

*Richard Li*

Mr. Li then dove into the Internet. By 2000 he was running Pacific Century CyberWorks Ltd., an Internet startup and precursor to PCCW that bought Hong Kong Telecom—the city's telephone monopoly—from Britain's **Cable & Wireless** PLC in a deal valued at US$38 billion, then Asia's biggest-ever buyout. The company continued to expand into a hodgepodge of Internet investments, from interactive-video programming to electronic commerce.

But after the tech bubble burst that year, PCCW's stock plunged, and its liabilities outweighed its assets. By 2002, PCCW was scaling back its ambitions, calling off bond issues and laying off employees. Its stock was trading under HK$1 a share by the fall of 2002.

Mr. Li then appeared to seek an exit from PCCW. In 2005, **China Network Communications Group** Corp. took a 20% stake in PCCW. The next year, the Beijing-controlled company scuttled a deal by Mr. Li to sell PCCW's main assets to two overseas private-equity groups, insisting the fixed-line operator stay in the hands of Hong Kong people.

Shortly after, in an episode involving several twists and turns, Mr. Li ultimately opposed an offer to buy out his stake. The group making the offer included as partners two of his father's charities.

Last year, PCCW withdrew its attempt to sell a stake in its media and telecommunications assets, citing the market downturn.

Under the current deal, Mr. Li and related entities would own about two-thirds of the company. **China United Network Communications Group** Co., a mainland telecommunications company controlled by Beijing and in the process of acquiring China Network Communications Group, would own the rest.

A number of shareholders who attended the meeting tried to postpone it because of the claims in the media, but the proposal was voted down. Many shareholders continued to shout during the meeting, prompting PCCW nonexecutive director David Ford, who was running the meeting, to call for order.

"It would not be appropriate for shareholders to be denied to have the right to vote on the scheme...because of unsubstantiated rumors," he told shareholders.

Local media and local shareholder activist David Webb claimed over the weekend that some people received 1,000 PCCW shares in exchange for supporting the deal. Those shares would fetch a total HK$4,500 under the terms of the buyout. The claims couldn't be verified because of a quirk in Hong Kong rules that closes share-registration information to the public three days ahead of a shareholder vote.

Also Wednesday, PCCW said it will implement cost-cutting measures, including layoffs, but declined to elaborate on the extent of the job cuts.

Trading in PCCW's shares was halted Wednesday. On Tuesday they finished at HK$4.17 a share.

CORPORATE NEWS

# A new music titan nears

## *With Ticketmaster, Live Nation would record, promote, sell*

By Ethan Smith

**Ticketmaster Entertainment** Inc. and **Live Nation** Inc. are close to a merger, people familiar with the matter said, in a deal that would consolidate two of the most powerful forces in the music industry under one roof.

The combined company would be called Live Nation Ticketmaster, and would merge the world's biggest concert promoter with the world's dominant ticketing and artist-management company. The resulting firm would be able to manage everything from recorded music to ticket sales and tour sponsorship. It could package artists in new ways, for example, allowing corporations such as a cellphone provider to sponsor a concert tour and to sell an exclusive download of a song.

*Michael Rapino*

A combined Live Nation and Ticketmaster would dominate ticketing and have close ties to more than 200 major artists, including Madonna and Jay-Z.

Because it would be so vertically integrated, the new company also would be able to muscle out competing concert promoters and have more power to dictate ticket prices to consumers.

The boards of both companies have yet to approve the all-stock merger, these people said. Terms of what these people described as a merger of equals have yet to be worked out. It was unclear Tuesday which company would be acquiring the other. Live Nation's market capitalization, at $390 million, is slightly higher than Ticketmaster's $351 million. But the concert promoter has more debt and less cash.

Sticking points remain to any deal. Because a merger would concentrate so much power in the music industry under one company, it would require review by antitrust authorities. The deal, which wouldn't entail any exchange of cash, could be announced as early as next week, these people said.

Spokesmen for Live Nation and Ticketmaster didn't respond to requests for comment.

The new company would have close ties to more than 200 artists, thanks to Ticketmaster's acquisition last year of Front Line Management, whose artist managers handle the affairs of about 200 major acts, including the Eagles, Miley Cyrus and Christina Aguilera. That transaction vaulted Front Line's veteran chief executive, Irving Azoff, to the helm of Ticketmaster.

Live Nation brings to the table close ties of its own to several major artists, including Madonna and Jay-Z.

The structure of the new entity hasn't been determined, and it isn't entirely clear, for instance, what titles would be held by Mr. Azoff and Live Nation Chief Executive Michael Rapino. Both men are expected to remain at the combined organization.

# Magazines, charge drive Time Warner to big loss

By Shira Ovide And Merissa Marr

In his first year on the job, **Time Warner** Inc.'s chief executive, Jeff Bewkes, has thrown himself into reshaping the U.S. media conglomerate to focus on movies, television and magazines. But an unraveling in the performance of its magazine division is casting doubt on the unit's future in the company.

On Wednesday, the Time Inc. business, home to newsstand staples like Time, People and Sports Illustrated, posted its worst quarterly results since Time Warner's merger with AOL in 2001. The unit's adjusted fourth-quarter operating profit slumped 35%. Those results, along with a write-down and another ugly quarter for AOL, drove Time Warner to a net loss for the period of $16 billion.

While New York-based Time Warner's television networks and movie business fared slightly better, prompting the company to predict flat profit for 2009, Time Inc. was battered by a 20% decline in advertising revenue. Mr. Bewkes said in a conference call Wednesday that the conditions squeezing the magazine unit "may continue for some time."

*Jeff Bewkes*

Print-advertising revenue at Time Inc.'s U.S. magazines shrank in 2006 and 2007, but until 2008, gains in online advertising had kept overall revenue growing. Amid the gloomy market for ad spending, Mr. Bewkes has publicly mused about the fate of the unit, which publishes 24 titles in the U.S.

Mr. Bewkes told shareholders last month that the publishing business needs to increase its earnings at "a clip that is satisfactory to investors to be part of the company." If it can't do that, "then it would have to be capitalized in another way, essentially possibly in private ownership," he added.

Mr. Bewkes spent 2008 pushing through a spinoff of Time Warner's majority-owned cable unit and deep in talks on a possible deal to merge AOL with **Yahoo** Inc. After an increasingly dour performance, AOL's adjusted operating income slumped 15% in the fourth quarter.

Time Warner said **Google** Inc. had informed the company that it intends to exercise its right to sell its 5% stake in AOL, which Google currently values at about $250 million. Time Warner said it was considering its options, which include buying back the stake or spinning off AOL. In 2006, Google paid $1 billion for the AOL stake as part of an agreement to handle searches on AOL sites.

Time Warner's $4.47-a-share fourth-quarter loss—which included a previously announced charge of $24.2 billion to reflect the dwindling value of its cable operations, Time Inc. and AOL—compares with year-earlier net income of $1.03 billion, or 28 cents a share. Revenue fell 2.7% to $12.31 billion.

As part of Mr. Bewkes's mandate to winnow costs throughout the company, Time Warner said it expects to make further cost cuts, including the elimination of 1,250 jobs at **Time Warner Cable** Inc. The stepped-up cost-containment effort comes amid a backdrop of sharp declines in advertising spending, a trend that is crushing many media companies. Even as its readership remains fairly steady, the ad declines are denting some of Time Inc.'s most important titles.

Mr. Bewkes stressed at last month's investor meeting that it wasn't appropriate to decide on Time Inc.'s future in the middle of a recession. But at the beginning of the year, in a move viewed as laying the groundwork for some possible deal making, Time Inc. was divided into three pieces—news magazines; entertainment titles, such as People; and lifestyle magazines, including Real Simple.

# Panasonic projects loss, to cut jobs

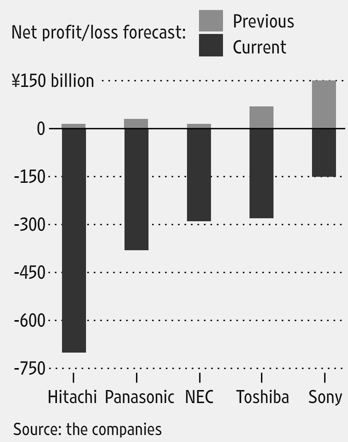
By Daisuke Wakabayashi

TOKYO—**Panasonic** Corp. joined a growing list of Japanese electronics firms forecasting a huge loss for the current fiscal year and said it plans to cut about 5% of its work force to combat a sharp slowdown in demand and to ease the burden of a strong yen.

The announcement by Panasonic, which aggressively restructured earlier this decade and is considered one of the standout performers within Japan's electronics industry, is further evidence of how grim the outlook is for the country's flagship manufacturing industries.

Panasonic now expects a net loss of 380 billion yen ($4.3 billion) for the fiscal year ending March 31, down from a November profit forecast of 30 billion yen. Panasonic said it will take a 345 billion yen charge, 190 billion yen more than originally planned, to restructure the company.

The Osaka-based company plans to lay off 15,000 workers, split evenly between its Japanese and overseas staff, and close 27 manufacturing sites, or about 12% of its global production facilities. The goal is to shave 100 billion yen in costs in the coming fiscal year ending in March 2010.




Japan's export-reliant electronics companies are being hit by the double whammy of a slide in overseas demand and while a strong yen is eating into what little overseas sales there are. In the October-to-December quarter, Panasonic's overseas sales fell 29% while the yen rose nearly 15% against the U.S. dollar.

In the last two weeks, Japan's major electronics firms have announced more than 60,000 job cuts and have slashed earnings forecasts to project losses totaling $20 billion. **Hitachi** Ltd. and **Toshiba** Corp. are each forecasting that they will report the biggest annual loss in their company history.

Another factor working against Japan's electronics companies is that their South Korean rivals are being helped by a weak won. A weaker currency at home helps increase the value of revenue made abroad, while making it cheaper to manufacture products at home.

Panasonic, which agreed to buy smaller rival Sanyo Electric Co. in a $9 billion takeover, expects to post an operating loss of close to 200 billion yen in the current quarter ending March 31.

For the fiscal third-quarter ended Dec. 31, Panasonic reported a net loss of 63.1 billion yen on a 20% drop in sales to 1.88 trillion yen. It managed to post a profit of 26.4 billion yen on an operating basis.

# AOL taps ex-Yahoo official as head of Web advertising

By Emily Steel And Jessica E. Vascellaro

In yet another attempt to salvage its advertising business, **Time Warner** Inc.'s AOL unit on Tuesday named Gregory Coleman, **Yahoo** Inc.'s former executive vice president of global sales, to succeed Lynda Clarizio as president of its Web advertising division.

The move is a sign that AOL, which is being pummeled by the ad downturn, continues to struggle to transition from a subscription to an advertising business. Mr. Coleman—who left Yahoo about a year ago after a major reorganization that changed his role—is the third executive in a little more than a year to attempt to jumpstart the business, called Platform-A, which sells ads across AOL and thousands of other sites.

"No doubt Greg is joining Platform-A at a difficult time. The deepening economic recession is affecting every corner of the economy, including our own," AOL Chief Executive Randy Falco wrote in an internal memo to staff announcing the appointment.

Time Warner has signaled that the economy has had a worse-than expected impact on ad revenues at AOL. AOL posted a 6% decline in ad revenue for the third quarter, its worst performance of the year.

With Mr. Coleman, AOL is turning to a veteran ad sales executive, credited with igniting Yahoo's advertising business several years ago, to try and reverse its fortunes. Before his seven-year stint at Yahoo, Mr. Coleman was senior vice president of Reader's Digest Association and president of U.S. Magazine Publishing.

His appointment comes as Yahoo and AOL have been in on-and-off discussions about a possible combination for almost a year. Yahoo's new chief executive, Carol Bartz, has said she is in no rush to decide on major strategic issues as she continues to study the business.

## FOCUS ON AUTOMOBILES

# China tops U.S. in auto sales for first time

*Despite inroads, consolidation is likely as slump persists*

By Norihiko Shirouzu

SHIJIAZHUANG, China—Sales in China's intensely competitive auto industry exceeded the U.S. for the first time last month. But even as the industry gains a higher global profile, it is about to get leaner—and potentially less splintered.

Chinese consumers bought 790,000 vehicles in January, according to **General Motors** Corp. In the U.S., total car and light-truck sales were just under 657,000 that month, according to Autodata Corp.

Like the U.S. in the early 1900s, China has dozens of small but spirited car makers that grew out of the country's burgeoning sales growth last decade. These smallfry were welcomed as local engines of economic growth. Now, many are struggling amid a worsening slump. Their difficulties mean short-term pain on China's economy but consolidation could result in a more streamlined Chinese auto industry that is better positioned to take on bigger, foreign rivals.

A year ago, **Shuanghuan Automobile** Co. was a small but fast-growing car maker with plans to expand overseas. Now, after falling nearly 40% short of its unit-sales target for 2008, the Chinese company is cutting workers and worried that it might not survive. "If we could survive, that would be the best thing we could achieve this year," Cheng Bin, vice president of Shuanghuan, said, sipping hot tea at the company's head office here, with its heat turned off to save costs.

The weeding out of companies like Shuanghuan could in the short term benefit big foreign auto makers such as **Toyota Motor** Corp. and **Volkswagen** AG by reducing competition in the world's second-largest car market after the U.S. Upstart auto makers have put enormous downward pressure on retail prices for cars in China, hurting foreign players' profitability.

But a consolidation also could benefit China's bigger auto makers, such as **Chery Automobile** Co. and **BYD** Co., whose advancement has been hampered by cutthroat competition in the notoriously fragmented car market. China's central government has long said it wants to see consolidation in the auto industry, to create a handful of home-grown national champions. Consolidation is "good for the industry," said Citi Investment Research analyst Gerwin Ho in Hong Kong.

During the market's boom years, which ran for nearly a decade from the late 1990s, car makers mushroomed in China. City and provincial governments, seeing the chance to woo prestigious industries that employed large numbers, chipped in funds or policy support.

Today, more than 80 producers of all sizes vie for small slices of the market, many of them selling what foreign auto executives regard as knockoffs of their cars.

Associated Press

Shuanghuan Automobile's Hongxing Auto Small Noble at a car show. Last year, Shuanghuan was looking to expand overseas. Now it is struggling for survival.

Those small companies thrived because of the high rate of growth in passenger-car sales, sometimes above 20% a year in the past decade. But sales began sliding in August. Unit sales fell 11.6% in December from a year earlier. For all of 2008, unit growth was just 7.3%, and this year will likely fall further: Some analysts are predicting no growth or even a modest contraction.

Many smaller upstarts in China are low-cost producers, but their inexpensive cars lack the quality, performance and safety of those designed by established global auto makers. A subcompact car by **Great Wall Motor** Co., called the Florid, for instance, sells for as little as 53,900 yuan, or about $7,880. A comparably equipped Toyota Yaris costs more than 50% more, at 84,700 yuan, although Toyota dealers recently offered discounts to boost the car's sales.

Many smaller Chinese makers achieve low prices by skipping research and development. Their planners come up with product ideas but farm out most engineering jobs. They assemble cars as if they are Lego sets, with purchased engines, transmissions and parts.

Analysts warn the speed and scope of any consolidation may be limited because local governments that own some of these smaller companies might try to bail them out.

Still, signs of pain already are emerging. **Great Wall Motor** Co., in the city of Baoding near Beijing, increased car and light-truck sales 5% last year to 125,000 vehicles but fell far short of its goal of 200,000, despite aggressive price cuts. It has cut 10% of its 23,000 employees. **Jiangling Auto Group** Co. in the southeastern city of Nanchang, saw its sales plunge 36% last year to 10,500 vehicles.

Shuanghuan, based in Shijiazhuang, 300 kilometers southwest of Beijing, has laid off 8% of its work force of 2,000. Mr. Cheng, its No. 2 executive, said the company is trying to shore up its business by cultivating demand for its cars in markets that are less affected by the global economic crisis, such as Ghana and other West African countries.

China's central government, while wanting consolidation, is concerned about the damage that shrinking car sales could do to an already weakened economy. This month, it halved the sales-tax rate on smaller cars to 5% for the rest of 2009, and cut retail prices for gasoline and diesel.

*—Ellen Zhu in Shanghai and Sue Feng in Beijing contributed to this article.*

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# Japan auto makers post losses and dour outlooks

By Yoshio Takahashi

TOKYO—Three Japanese auto makers posted losses in the fiscal third quarter and issued grim forecasts, suggesting there is no end in sight to the industry's troubles.

The results from **Mazda Motor** Corp., **Mitsubishi Motors** Corp. and **Fuji Heavy Industries** Ltd. all suffered as a result of a strong yen and collapsing auto demand.

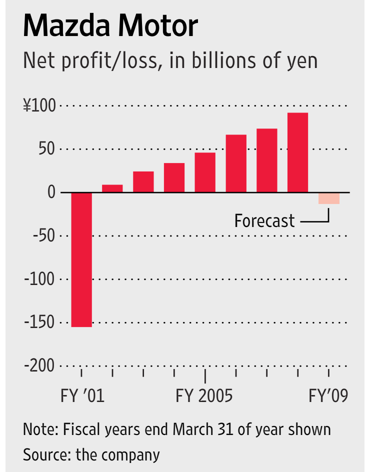
"We find the current situation way beyond our expectations," Mitsubishi Motors President Osamu Masuko said.

Auto makers have been left with little choice but to scale down production and shed jobs as sales in the U.S., Europe and Japan stumble to lows not seen in decades.

For Japanese car makers, the yen's strength is an additional headache as it squeezes overseas profits—which were already dropping from weak demand—when the funds are repatriated from weaker currencies such as the U.S. dollar and the euro back into yen.

Mazda, which is 13%-owned by **Ford Motor** Co., posted a net loss of 600 million yen ($6.7 million) in the quarter ended Dec. 31, compared with a profit of 15.9 billion yen a year earlier. Mazda's auto sales sagged in all regions except China.

The maker of such cars as the MX-5 Miata convertible now expects a net loss of 13 billion yen for the fiscal year through March, compared with its previous forecast for a profit of 50 billion yen. This would be the company's first net loss in eight years.




Mitsubishi Motors posted a net loss of 17.54 billion yen in the quarter, a reversal from a profit of 27.3 billion yen a year earlier. The auto maker now expects a net loss of 60 billion yen for the fiscal year through March—its first annual net loss in three years—compared with a previous outlook of a net profit of 20 billion yen.

Fuji Heavy reported a net loss of 19.2 billion yen in the quarter, down from a net profit of 10 billion yen a year earlier.

The Subaru-brand car maker, in which **Toyota Motor** Corp. holds a 16.5% stake, is sticking to its forecast outlined last month. Fuji Heavy expects a net loss of 19 billion yen—its first net loss in 15 years.

Analysts expect Toyota and **Nissan Motor** Co. to show quarterly losses when they report Friday and Monday, respectively.

CORPORATE NEWS

# Swedish Match adds heft

## *Joint venture signals increased marketing for smokeless tobacco*

By Kevin Helliker

**Swedish Match** AB and **Philip Morris International** Inc. announced a joint venture to market smokeless tobacco world-wide.

The deal offers both companies an opportunity to benefit from sales of smokeless tobacco, which is seen as a growth product because it is less dangerous than cigarettes. It also signals the possibility of an intensified industry effort to lift government bans on sales of snuff—the largest smokeless category—in much of the European Union, Australia, New Zealand and other potentially lucrative markets. Swedish Match also said the venture may develop smokeless products such as chewing gum.

The venture combines a world-wide giant in smokeless, Swedish Match, with the world's second-largest purveyor of cigarettes, PMI, an **Altria** Inc. spinoff. PMI holds the rights to sell the Marlboro brand owned by Altria's giant cigarette unit, Philip Morris, outside the U.S.

The venture could help PMI enter the smokeless market and help Swedish Match develop a global presence. In a joint press release, the two companies said they would seek to expand globally outside Scandinavia and the U.S.The announcement Tuesday extends a trend of cigarette companies teaming with purveyors of smokeless tobacco. In the U.S., Philip Morris last month completed the $10.3 billion acquisition of UST Inc., the nation's largest smokeless purveyor. And the nation's No. 2 cigarette maker, Reynolds American, has entered the smokeless market via acquisition and new-product development. Sales of smokeless tobacco in the U.S. are growing at about 5% a year as sales of cigarettes decline.

Research has shown that Swedish-style smokeless tobacco, called snus, is substantially safer than cigarettes and potentially effective in helping smokers stop. In a joint press release Tuesday, Swedish Match and PMI said "there is a role for snus to play in tobacco harm reduction."

The combination could bring more pressure on governments to lift bans on snuff, which includes snus, in several countries. The bans, enacted amid the heat of battle between public health officials and cigarette companies reflected a desire to limit tobacco's reach.But a growing number of public health officials argue that the bans deprive cigarette addicts of a way to switch to a safer variety of tobacco. In Sweden, the rate of cigarette smoking among men has declined sharply as smokeless usage has climbed.

In the past, Swedish Match sought a repeal or amendment of the EU ban, only to be rejected as a tobacco company seeking to extend its reach. But while Swedish Match is predominantly a smokeless tobacco purveyor, PMI is a cigarette company, and that could make its leap into smokeless tobacco tricky for regulators.

"When you have a giant cigarette company saying we would like to market a product that bears a tiny fraction of the risk of what we're marketing now, how do you say no without giving that company a huge legal and public-relations victory?" asks David Sweanor, an academic lawyer and tobacco-control expert in Canada and Britain who has been a consultant to plaintiffs suing cigarette makers. Mr. Sweanor supports repealing smokeless bans.

Debate about the snus ban is also heated in Australia. In an October 2007 letter to the British medical journal Lancet, a group of public-health researchers from the University of Queensland noted that in Australia, "snus is completely banned from sale. Yet new tobacco products can be introduced to the market so long as they are smoked."

A Swedish Match spokesman in Stockholm said the venture isn't expected or designed to bring down the EU ban. In spite of the scientific evidence, spokesman Henrik Brehmer said, regulators "still say they believe it is a dangerous product."

Many public health officials in countries that ban smokeless tobacco argue that pitching it as a reduced-harm product could make it attractive to nonsmokers.

Moreover, the fact that smokers in large numbers have switched in only one country—Sweden—means that "advocates for liberalization of access...are almost certainly over-hyping the potential for widespread adoption" among smokers, Simon Chapman, a professor of public health at the University of Sydney, argued last year in the Medical Journal of Australia.

*—Gustav Sandstrom contributed to this article.*

Bloomberg News/Landov

Snus, a smokeless tobacco, is banned in the EU except in Sweden. Swedish Match's deal with Philip Morris International could mean a renewed effort to lift such bans.

# Kodak's go-slow strategy puts investors on edge

By William M. Bulkeley

**Eastman Kodak** Co. told investors it has the cash and products needed to survive the recession, which has stalled sales of digital cameras and derailed the company's turnaround effort.

But executives' presentations were greeted skeptically Wednesday at an investors conference. Some analysts questioned Kodak's viability and whether the photography icon can maintain its dividend, which costs $135 million a year.

Kodak laid out plans to sell or seek partners for once-promising technologies, including its Kodak Gallery online photo site, prompting investor Joan Lappen of Gramercy Capital to ask executives where the company's underlying value was.

Chief Executive Antonio Perez responded, "I didn't want to be in this situation but we are."

The company disclosed Wednesday it anticipates a loss from continuing operations of $400 million to $600 million this year, and plans to spend up to $275 million on additional restructurings as it continues to shrink its business.

Executives projected sales would fall at least 12% this year and said the company won't achieve last year's revenue level until 2012 at the earliest. Shannon Cross, an investment analyst who follows the imaging industry, said "2012 is a long time for investors to have to wait."

Kodak has undergone a rocky transformation over the past five years as its highly profitable film franchise withered and it built a digital-photo and printing business, closed many operations and laid off tens of thousands of workers.

Mr. Perez said through the first nine months of last year he was "very happy with the performance of digital." But the economic downturn in the fourth quarter crushed consumer sales and forced Kodak to revamp its strategic plan. Last week, Kodak reported a net loss and said it will have to lay off up to 4,500 more people this year.

Frank Sklarsky, chief financial officer, said despite the big cash outlays this year, Kodak is "very comfortable" with its debt and cash position. It has $2.1 billion in cash from the sale of its medical-imaging business two years ago, and anticipates having $1.76 billion at year end, well above the $1 billion it needs for operations.

# Sandvik, Alfa Laval report falling profits and demand

By Ola Kinnander

STOCKHOLM—Two of Sweden's biggest industrial companies Wednesday reported weaker earnings and warned of sagging demand, further dimming the picture for the country's export-focused engineering sector.

**Sandvik** AB, a producer of metal-cutting tools, posted a 45% drop in fourth-quarter net profit, while **Alfa Laval** AB, which makes heat exchangers, said net profit fell 18% in the quarter. The companies warned that demand is drying up for several of their industrial segments.

Sweden's other two major industrial companies—**SKF** AB, a manufacturer of industrial bearings, and **Atlas Copco** AB, which makes air compressors—days earlier also warned they are struggling amid the economic downturn.

All four companies have announced layoffs, totaling at least 11,300 workers globally.

Sweden's unemployment rate ticked up to 6.4% in December from 6.2% in November; many economists now say the jobless rate may hit double digits by 2010.

Sandvik said global demand for its products "deteriorated sharply" in the quarter, especially for its automotive, construction, exploration and consumer-related segments.

The company said net profit fell to 1.09 billion Swedish kronor ($132.5 million) in the three months ended Dec. 31 from 1.98 billion kronor in the year-earlier period. Sales rose 6.4% to 24.17 billion kronor.

Sandvik Chief Financial Officer Per Nordberg said in an interview that the company, which late last year laid off about 3,450 workers in Sweden and Finland, likely must further reduce its 50,000-strong work force unless demand picks up again.

If Sandvik's order intake in February and March continues to fall about 20% or more, "then likely we will have to take more measures," Mr. Nordberg said. Order intake during the three months ended Dec. 31 fell 18% to 20.72 billion kronor.

Alfa Laval reported net profit declined to 862 million kronor from 1.05 billion kronor. The bottom line was weighed down by a 270-million-kronor restructuring charge related to layoffs. Sales increased 12% to 8.1 billion kronor.

# Ford selects batteries for hybrid

By Matthew Dolan

WASHINGTON—**Ford Motor** Co. selected a supplier to manufacture its lithium-ion battery for future plug-in hybrid vehicles, as the auto maker attempts to show Congress and the White House that it is serious about an electric-vehicle strategy.

The partnership with Johnson Controls-Saft announced at the Washington Auto Show Tuesday comes as Ford is racing against **General Motors** Corp., which plans to bring its Chevy Volt plug-in sedan to market late next year. Johnson Controls-Saft is a joint venture between **Johnson Controls** Inc. of Milwaukee and battery producer **Saft Groupe** SA of France.

Chevy said Tuesday that it is working with selected cities including San Francisco and Washington to help prepare local governments, utilities and universities for fleets of plug-in vehicles. Ford is expanding the number of regional utilities testing its Ford Escape plug-in vehicles, which aren't available for sale yet.

"Strategic partnerships are a critical part of our approach," said Sue Cischke, Ford group vice president for sustainability, environment and safety engineering.

The auto maker that enters the market first and in substantial volume could have a significant advantage with first-generation buyers. Toyota Motor Corp., for example, eclipsed its U.S. competition in the gas-electric hybrid market with its Prius sedan. Other major auto makers—such as Chrysler LLC and Honda Motor Co.—also are pursuing electrification strategies as they bet gasoline prices will rise again and consumers will choose more fuel-efficient cars and trucks.

Ford said that it will introduce a battery-only commercial van in 2010, followed by a passenger car built on the same technology in 2011. They would be followed by a plug-in vehicle by 2012.

The Dearborn, Mich., auto maker is expected to unveil at the Chicago Auto Show this month a battery-only version of its new Transit Connect van, said a person familiar with the matter. The gasoline-engine version of the van from Turkey is to go on sale in the U.S. this summer.

Batteries have been one of the biggest hurdles for electric- and hybrid-vehicle manufacturers based in the U.S. Batteries are made in volume in Japan, South Korea and elsewhere in Asia, but production in the U.S. pales by comparison.

According to Ford's plans, the batteries will be produced in France with Saft and the system will be assembled in the U.S. Ford didn't say when or if the battery cells will be manufactured in the U.S. in the near future. GM said last month that its Chevy Volt lithium-ion battery packs will be produced at a retooled factory in Michigan, though the cells will come from Asia.

Questions remain about how auto makers will be able to market—and earn money from—plug-in vehicles and other electric vehicles while gas prices remain low.

# Inventory reductions hurt Kraft

By Anjali Cordeiro

**Kraft Foods** Inc. said it is being hurt by inventory reductions among retailers and expects some of that pressure to continue this quarter.

Posting sharply lower fourth-quarter results, the food giant also lowered its outlook for this year, citing increased pension costs and the stronger dollar.

The inventory cutbacks hit shipments in the fourth quarter, but the worst of the reductions are coming to an end in North America, according to the company, which produces Kraft cheese and Planters nuts.

But there might be some pressure from inventory reductions in international markets this quarter, Chief Executive Irene Rosenfeld said on a conference call. Fourth-quarter net income sank 72% as a write-down, restructuring costs and hedging losses compounded a decrease in sales volume. Revenue increased 6.2% to $10.77 billion on higher prices.

## CORPORATE NEWS

Associated Press

Electronic Arts, publisher of FIFA '09 soccer game, will delay the release of several videogames and is planning to focus on a smaller number of products.

# Electronic Arts says loss widened to $641 million

### *Videogame publisher slashes its forecast as it delays releases*

By Yukari Iwatani Kane

**Electronic Arts** Inc. reported a much wider loss for its fiscal third quarter because of poor holiday sales, and slashed its full-year forecast as it delayed the release of some key videogames.

The publisher of the Madden NFL, FIFA soccer and other game software said it would reduce costs by $500 million in the fiscal year beginning April 1. The company plans to cut 11% of its work force, or 1,100 jobs—about 100 more than previously discussed—and close 12 facilities. Those actions will trigger charges of $65 million to $75 million over the next year, EA said.

"We've hit the reset button," said Chief Executive John Riccitiello, in a conference call with analysts. "We have not lowered our ambitions; we have mapped our cost structure to a more conservative revenue projection."

Electronic Arts shares were up 11% in midday trading Wednesday to $17.24 because the poor results were expected and investors focused on the strong recovery the Redwood City, Calif., company projected next fiscal year.

The company said it expects per-share earnings for that period between a five-cent loss and a profit of 40 cents, compared with its prediction Tuesday of a per-share loss of $3.29 to $3.56 for the current fiscal year.

"It's not crazy. I think it's quite doable," said Michael Pachter, an analyst with Wedbush Morgan, of the forecast.

EA has been struggling with issues that include high product-development costs and a broad line of products—many of which have failed to resonate among consumers. Retailers have also become more selective about the number of game titles they stock.

Chief Financial Officer Eric Brown said EA planned to shift its strategy to focus on fewer products and spend more time marketing them. As part of that effort, EA is postponing the launch of big titles such as "The Sims 3" and "Godfather 2."

The company's net loss for its quarter ended Dec. 31 was $641 million, or $2 a share, compared with a loss of $33 million, or 10 cents a share, a year earlier, as it recorded a $368 million pretax charge related to its wireless business and a $244 million charge related to deferred tax assets. Revenue rose to $1.65 billion from $1.5 billion.

# Philip Morris International takes hit from strong dollar

By Tess Stynes And Kevin Kingsbury

**Philip Morris International** Inc. posted a 7.8% drop in fourth-quarter net income, citing the stronger dollar.

"The global economic crisis obviously results in uncertainty, particularly on the currency front, and at current exchange rates we face a steep hurdle," Louis Camilleri, chairman and chief executive of the tobacco company, said Wednesday in a prepared statement.

Mr. Camilleri had said in November that PMI wasn't seeing any "undue shift in consumer behavior" tied to the global economic slowdown and that he expected less of a hit to emerging markets than in past slowdowns. Last year PMI was split off from **Altria Group** Inc., separating Altria's international cigarette business from its U.S. operations.

PMI reported net income of $1.45 billion, or 71 cents a share, down from $1.57 billion, or 74 cents a share, a year earlier. Excluding a gain in the year-earlier period and currency fluctuations, the company said per-share earnings would have risen 13%. Revenue excluding excise taxes climbed 3.6% to $6.12 billion.

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## GLOBAL BUSINESS BRIEFS

### Electrolux AB

#### Layoffs and weak demand lead to fourth-quarter loss

Swedish appliance maker **Electrolux** AB said Wednesday it swung to a net loss in the fourth quarter as the global financial turmoil drove up costs and forced it to impose temporary production shutdowns. The company, which in December said it would lay off 3,000 employees world-wide, refrained from giving a forecast for 2009 and said it will freeze wages this year because of uncertainty in the market. Weighed down by costs of nearly 1.1 billion Swedish kronor ($133.8 million) because of the recent layoffs, Electrolux posted a net loss of 474 million kronor, compared with a net profit of 1.13 billion a year earlier. However, sales received a boost from favorable exchange rates and rose 3.7%.

### British Sky Broadcasting Group

**British Sky Broadcasting Group** PLC won four out of the six packages to broadcast live English Premier League soccer between 2010 and 2013, England's highest soccer league said late Tuesday. The four packages allow the subscription-television company to broadcast live coverage of 92 of the 138 matches. The two remaining rights packages will be auctioned in due course, said the Premier League. In 2008, BSkyB paid about £1.3 billion, or $1.9 billion, for the rights. The broadcaster declined to comment until the bidding process is completed. Under European Union rules, BSkyB has the right to bid for one of the two remaining packages. **News Corp.**, which holds about 39% of BSkyB, owns Dow Jones & Co., publisher of The Wall Street Journal.

### ITV PLC

The U.K. competition regulator Wednesday blocked a proposed video-on-demand joint venture, known as Project Kangaroo, between British Broadcasting Corp., **ITV** PLC and Channel Four Television Corp. "We have decided that this joint venture would be too much of a threat to competition in this developing market," said Peter Freeman, chairman of the Competition Commission. None of the remedies proposed could "remove the threat to competition" in the video-on-demand market, the Competition Commission said, adding that consumers would be better off if the three companies competed with each other. BBC's BBC Worldwide Ltd., ITV and Channel 4 called it a "disproportionate remedy and a missed opportunity in the ... development of British broadcasting."

### Märklin Holding GmbH

German model-railway maker Märklin Holding GmbH filed for protection from creditors after failing to secure new credit from banks. The company made the bankruptcy filing Wednesday in Göppingen, where it is based. Chief Executive Dietmar Mundil said in a written statement the company intends "to restructure our traditional company with its cult status, with the instruments of German insolvency law, and establish it permanently in the market." Märklin was founded 150 years ago making tin toys and has evolved into an icon of the model-railway market. Since 2006, it has been owned by British investor **Kingsbridge Capital Advisors** Ltd. and investment bank **Goldman Sachs Group** Inc. The company generated sales of €128 million ($167 million) last year.

### Anheuser-Busch InBev NV

**Anheuser-Busch InBev** NV, the world's largest beer maker by sales, has invited bids of $2 billion to $3 billion for its wholly owned South Korean brewer, Oriental Brewery Co., people familiar with the situation said. The Belgium-based company is seeking to sell off noncore assets to pay down part of the $45 billion in debt it took on to finance its $52 billion acquisition of U.S. brewer Anheuser-Busch Cos. last year. Anheuser sent invitations to bid for OB to several private-equity firms last week, including Bain Capital LLC, Carlyle Group LP, MBK Partners LP, Affinity Equity Partners and Unitas Capital, one of the people said. Among strategic buyers targeted were South Korea's **Lotte Group**, **SABMiller** PLC and Japan's **Asahi Breweries** Ltd., which recently bought 19.9% of China's **Tsingtao Brewery Group** from Anheuser for $667 million.

### BASF SE

German chemical company **BASF** SE said Wednesday it is considering selling off its leathers and textiles chemicals business, which has seen low market growth and high competitive pressure. Ludwigshafen-based BASF said it had implemented restructuring programs over the years, but that those measures hadn't been sufficient to ensure the long-term profitability of the business. BASF said it was introducing a further cost-reduction program that should generate savings of €25 million ($32.6 million) by 2011. It added it was also considering the formation of a joint venture or a complete sale of the business. BASF operates production plants for leather and textile chemicals in Germany, Spain, Turkey, Brazil, India and China. The business had sales of about €400 million in 2007.

### Ryanair Holdings PLC

Airports complained Wednesday that **Ryanair Holdings** PLC's rule limiting passengers to one carry-on bag will discourage airport shopping and hurt their revenues. The Airports Council International, which represents about 440 members world-wide, said airlines "need to appreciate" that airports make at least half of their income from retail sales and this allows them charge below-cost landing fees. Ryanair, Europe's biggest low-fare airline by passengers carried, said passengers were free to shop at the airport as long as their purchases fit into one 10-kilogram (22-pound) carry-on bag. Ryanair says it will charge passengers €30 ($39.12) if they try to bring more than one handbag, briefcase or laptop bag onboard.

### Areva SA

French state-controlled nuclear-power company **Areva** SA signed an initial pact with **Nuclear Power Corp. of India** Ltd. to study the possibility of building as many as six nuclear reactors in India estimated at more than 600 billion rupees, or about $12.5 billion. The new-generation European Pressurized Reactors of 1,650 megawatts each will be set up in Jaitapur in the western state of Maharashtra, executives of the companies said. The deal marks the end of a more than three-decade embargo on nuclear technology and fuel for India and allows Areva to get a foothold in the growing market for nuclear energy. India, which signed a civilian nuclear deal with the U.S. last year, plans to quickly increase nuclear-based power-generation capacity.

### Qantas Airways Ltd.

**Qantas Airways** Ltd., Australia's largest airline, posted a 66% drop in profit for the fiscal first half and unveiled plans to raise 500 million Australian dollars. Despite speculation that Qantas will seek an alliance with an Asian airline, Chief Executive Alan Joyce said the capital raising—which is the equivalent of US$322 million—coupled with the airline's A$2.8 billion in cash, was "not us bulking up for acquisitions." The carrier said Wednesday that net profit for the first half ended Dec. 31 fell to A$210 million from A$617.6 million a year earlier. Group revenue rose 1.7% to A$7.92 billion from A$7.79 billion. Australia's largest airline by revenue and number of passengers controls about two thirds of the domestic aviation market, and about 30% of international passenger movements in Australia through its discount Jetstar and regional airline operations.

### Harley-Davidson

**Harley-Davidson** Inc. issued $600 million in senior unsecured notes on Tuesday, getting more financing for its struggling lending arm from, among others, billionaire Warren Buffett. Shares of the iconic motorcycle company at mid-day Wednesday in New York were off 6% to $12.86 after rising 16% Tuesday on the news. The shares had lost nearly three-quarters of their value from their 52-week high in April. **Davis Selected Advisers** LP, the company's largest shareholder, and Mr. Buffett's **Berkshire Hathaway** Inc. each bought $300 million of the notes. The notes will be due in 2014 and will carry a 15% interest rate per year. The company said the high interest rate was because of the difficult credit markets.

### Casio Computer Co.

**Casio Computer** Co. reported an 87% fall in net profit for the April-December period and cut its full-year profit outlook, blaming price weakness in digital cameras and a stronger yen. The Tokyo-based company, known for products such as the G-Shock brand of watches, said Wednesday its group net profit fell to 1.38 billion yen ($15.5 million) from 10.88 billion yen a year earlier. Its sales fell 14% to 386.96 billion yen from 449.4 billion yen, while operating profit dropped 55% to 10.75 billion yen. For the full fiscal year ending March 31, the company cut its group net-profit outlook to 1.5 billion yen from 13.5 billion yen.

### Yum Brands Inc.

**Yum Brands** Inc.'s fourth-quarter net income slipped 12% as foreign-currency translations and charges for restructuring and refranchising restaurants offset strong international sales. Revenue for the operator of KFC, Pizza Hut and Taco Bell rose 4% to $3.38 billion. Yum said it was optimistic new menus would draw consumers and lead to a strong year, but it warned that commodity costs and continued weakness at its KFC unit would hamper earnings in the current quarter. The company didn't give a specific forecast for the first quarter but said earnings per share would decline. Analysts had been predicting 2% growth. Net income for the fourth quarter fell to $204 million, or 43 cents a share, from $231 million, or 44 cents a share, a year earlier. U.S. same-store sales climbed 2%.

*—Compiled from staff and wire service reports.*

# ECONOMY & POLITICS

# Obama urges quick action on stimulus

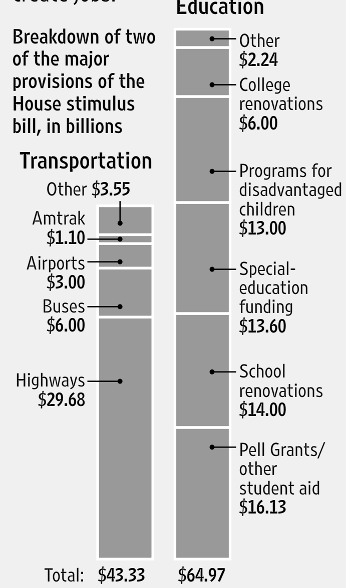
*President pushes Congress with warning of possible 'catastrophe'; price tag for package exceeds $900 billion*

BY GREG HITT

WASHINGTON—The cost of the U.S. economic-stimulus plan exceeds $900 billion after the Senate added money for medical research and tax breaks for auto purchases.

President Barack Obama said Wednesday that the recession would turn into "a catastrophe" if the stimulus isn't passed quickly, according to the Associated Press. He rejected several complaints about the plan, including arguments that tax cuts alone would solve the problem or that longer-term goals such as energy independence and a health-care overhaul should wait.

"No plan is perfect, and we should work to make it stronger," Mr. Obama told reporters at the White House, AP reported. "Let's not make the perfect the enemy of the essential. Let's show people all over our country who are looking for leadership in this difficult time that we are equal to the task."




The Senate voted Tuesday to provide tax breaks to spur new auto purchases, but it turned back a proposal that would have broadened the stimulus package to confer a one-time tax break on U.S. multinational corporations.

The $11.5 billion auto amendment, adopted 71-26, would give an income-tax deduction to car buyers for both sales taxes and interest payments on auto loans. The action applies to purchases of foreign and domestic autos, but it reflects a broad desire on Capitol Hill to shore up the shaky U.S. industry.

"Everyone wants to save auto manufacturers, but no matter how much government aid we give to the Big Three auto makers, they can't survive if consumers don't start buying cars," said Sen. Barbara Mikulski (D., Md.).

The action comes a little more than a month after the Bush administration committed $17 billion to keep **General Motors** Corp. and **Chrysler** LLC afloat, and amid expectations the Obama administration would be forced to take additional action this spring to prop up the industry.

Associated Press

President Barack Obama rejected complaints about the stimulus plan, to which the Senate added money for medical research and tax breaks for auto purchases.

Approval of the amendment dramatized the competing tensions roiling the Senate this week in debate on the package as some lawmakers pressed for wider action to aid the struggling economy and others looked for ways to scale back spending in the bill.

The overall amount could go higher Wednesday if a tax break for home buyers is made more generous, even as centrists in both parties promise to clear away spending items that won't jump-start the economy immediately.

Sen. Johnny Isakson (R., Ga.) is pressing for a tax credit of as much as $15,000 for everyone who buys a home this year, at a cost of $18.5 billion, according to the AP. The pending measure would award a $7,500 tax credit only to first-time home buyer.

At the same time, AP reported, centrist senators, including Ben Nelson (D., Neb.) and Susan Collins (R., Maine) are seeking to cut tens of billions of dollars from the legislation. They are operating with the blessing of Democratic leaders, who hope a successful effort could attract some Republican votes for Mr. Obama's plan.

Mr. Obama summoned Sen. Collins to a White House meeting Wednesday afternoon, her aide said.

On Tuesday, the chamber rejected a $28.6 billion proposal that would have substantially lowered the corporate tax on overseas income. The measure, pushed by a wide coalition that includes technology and pharmaceutical companies, would have allowed companies to bring profits back into the U.S. at a one-time 5.25% tax rate, avoiding the regular corporate tax rate of 35%.

Supporters said the measure would free up capital to create jobs, easing the credit crunch that is constricting business activity. But critics countered the measure was simply a windfall for corporations that move jobs abroad, and pointed out that a tax holiday in 2004 didn't result in significant new investments in the U.S.

The Senate also voted 52-45 to strip out of the broader recovery package a tax break benefiting Hollywood movie studios. The measure would have allowed the companies to write down 50% of their 2009 production-equipment costs. Republicans said the credit would have cost $246 million, and represented a waste of taxpayer dollars.

Amid the ebb and flow, a high-profile amendment that would have added $25 billion to the bill for highway, mass-transit and sewer construction stalled on the Senate floor. Supporters said the measure, pushed by Sen. Patty Murray (D., Wash.), would have created more than 600,000 jobs alone. But on a mostly party-line 58-39 vote, the measure fell two votes short of the 60 votes needed to overcome Republican objections. *—Corey Boles contributed to this article.*

# Mideast conflict impedes rebuilding effort in Gaza Strip

BY MARGARET COKER

ISRAEL-GAZA BORDER—As Israelis and Palestinians negotiate details of a cease-fire, a big stumbling block remains: how to rebuild the Gaza Strip and its shell-shocked economy.

Gaza's already tattered economy suffered $1.9 billion in damages in the 22-day Israeli offensive that ended last month, according to the Palestinian Central Bureau of Statistics, the agency the United Nations relies on for data from the territory. More than 4,100 homes, about 1,500 factories and workshops and 80% of agricultural crops were destroyed, and about 50,000 people are now homeless, the agency estimates. Crucial infrastructure was severely degraded, including sewage, water purification and electrical systems.

Younis Abu Samra, the Gaza manager of Palestinian cellphone carrier Jawwal, says he watched from his home computer as large chunks of Gaza's only wireless network went dark.

"I could see the lights disappear. Beit Hanoun, Beit Lahiya, Jabaliyah," he says, ticking off neighborhoods that lost coverage. About 60% coverage remains.

Israel wants reconstruction aid for Gaza, including $1 billion pledged by Saudi Arabia, to be disbursed by the United Nations, nongovernmental organizations or the Palestinian Authority, which is controlled by Hamas's rival, the Fatah party of Palestinian President Mahmoud Abbas. On Wednesday, the Palestinian Authority said it will channel $600 million from Western donors to help Gaza residents rebuild their homes, the Associated Press reported. In an effort to bypass Hamas, Palestinian Prime Minister Salam Fayyad said, the money will be channeled through commercial banks directly to recipients, AP reported.

Hamas still holds the levers of power in Gaza, but Israel, the U.S. and the European Union consider the Islamic group a terrorist organization. Israel said it began its latest offensive to curtail Hamas and put an end to rocket attacks on Israel from the territory. Allowing Hamas to take control of reconstruction would give them greater influence and another way to win the people's support, and be an acknowledgement by Israel of the group's authority.

*Younis Abu Samra*

However, the U.N. already works with Hamas on humanitarian efforts, and U.N. officials have criticized the U.S. and Israeli policy of isolating the group. But in a sign of the difficulties ahead, the U.N. said Wednesday that security forces working for Hamas had stolen food parcels and blankets that were intended for Gaza civilians.

Since a cease-fire last month, Gaza militants have launched a handful of rockets into Israel, and Israel has responded with airstrikes. Israel has also largely kept its border with Gaza sealed, slowing imports of reconstruction material. Israel cites security concerns for its tight border restrictions.

Foreign Minister Tzipi Livni, who is contesting elections next week to become prime minister, has said Israel won't end its blockade until Hamas releases an Israeli soldier it has held captive since 2006.

Jawwal's struggles to do business in Gaza highlight how difficult it will be for the economy to get back on its feet. Jawwal hasn't received permission from Israel to import spare parts Mr. Abu Samra says are crucial for fixing phone service. Israel says it is allowing in all vital supplies to Gaza.

There is no apparent evidence Israel targeted Gaza's commercial cellphone infrastructure, and Jawwal doesn't claim that happened. Hamas has its own walkie-talkie network that its militant cells use. Attempts to get comment from the Israeli government on the damage to Jawwal's network weren't successful.

Jawwal, one of the few Palestinian businesses left in Gaza, has become a symbol of Palestinian nationalism, in part because the company has created a country code for Palestinians, even though they don't have a country.

The company, based in the West Bank, the other Palestinian territory, was founded in the late 1990s, amid a thaw in Israeli-Palestinian relations. At the time, businesses had started to thrive even in Gaza, long the poorer of the two territories. A Gaza agricultural cooperative sent tens of millions of dollars in strawberries and carnations to buyers in the European Union. Textile companies finished clothes sold by Israeli companies.

But by 2000, peace negotiations had withered. A wave of violence erupted that eventually killed thousands of Palestinians and hundreds of Israelis. Israel tightened control of the territories.

Israel withdrew from Gaza in 2005, but citing security concerns kept control over the territory's airspace as well as land and sea borders. In 2006, after Hamas won Palestinian elections, Israel tightened restrictions on goods going into and out of the territory and on Gazans seeking permits to leave.

The following year, Hamas routed security forces loyal to Fatah in Gaza, and Israel enforced a virtual blockade. Egypt, which shares a border with Gaza and has its own checkered history with Hamas, reinforced its border closure soon after.

By last year, 95% of Gaza's local industry and small businesses had shut down as a result of the blockade, the World Bank estimates. Smuggling flourished, and everything from guns to livestock and toilet paper entered Gaza through underground tunnels from Egypt.

Hamas cited the economic blockade when it intensified rocket attacks after an informal, six-month cease-fire ended in December.

"Israel has backed [Gazans] into a corner," says Mohammed al Taruri, a banking executive and treasurer of the Palestinian Businessmen's Association in the West Bank city of Ramallah. "If you do that ... sooner or later they will explode."

Jawwal had invested around $50 million in Gaza. It has two service centers and employs 200 people in Gaza, where its phone cards are sold at 2,000 shops.

In the first few days of fighting, Mr. Abu Samra says, Israel bombs and shells destroyed eight of Jawwal's 17 base stations and an additional 135 substations, melting the transmission equipment. Network coverage plummeted.

His warehouse is empty of spare parts, and Mr. Abu Samra was unable to fix his equipment. Amid the delicate cease-fire, he and his technical staff have cannibalized parts of the network to deliver coverage to some isolated neighborhoods.

Jawwal suffered $10 million in structural damage in the attacks, according to company estimates. At Jawwal headquarters in Ramallah, Chief Executive Ammar al Akar says he is ready to reinvest in infrastructure, if he's allowed to get equipment to the neighborhoods that need repairs.

# Obama sides with the EU

## *President criticizes his party for backing 'Buy American' bill*

By Neil King Jr. And John W. Miller

WASHINGTON—U.S. President Barack Obama risked a backlash within his own party by criticizing "Buy American" provisions in the economic-stimulus bill that would ensure that most of the big infrastructure money goes to U.S. suppliers.

The measures, highly popular among congressional Democrats and trade unions, have come under heavy criticism from U.S. trade partners, some of whom threatened this week to file legal actions against the U.S. if the measures become law.

Barack Obama

Asked his views on the furor, Mr. Obama said in separate television interviews Tuesday that he wanted to avoid any steps that would "signal protectionism" or risk fueling trade tensions.

"I think that would be a mistake right now," he told ABC News. "That is a potential source of trade wars that we can't afford at a time when trade is sinking all across the globe."

A White House spokesman couldn't be reached to explain Mr. Obama's remarks.

The "Buy American" uproar comes as an early challenge for the new administration as it tries to navigate between intense domestic and international pressures. By siding with its trade partners in Europe and Asia, the administration could antagonize key allies in Congress as it struggles to win passage of a nearly $900 billion economic-recovery package.

The fight over whether to impose supplier restrictions within the stimulus legislation began last week, after the House passed a bill that would require the use of U.S.-made iron and steel in all public-works projects. The Senate is now debating a potentially larger stimulus package that contains far more restrictive procurement language, saying that "all manufactured goods" used in public-works projects would have to come from U.S. suppliers.

Getting those provisions stripped or toned down in the final legislation would require Mr. Obama to twist arms within his own party at a time when he is also grappling with widespread Republican opposition to the overall package. Senate Majority Leader Harry Reid (D., Nev.) has come out strongly in support of the "Buy American" amendments.

Some prominent Republicans, on the other hand, are opposing the provisions for reasons similar to Mr. Obama's. Senate Minority Leader Mitch McConnell (R., Ky.) said Monday that the Senate should avoid any steps "targeted to set off trade wars when the entire world is experiencing a downturn in the economy." Iowa Sen. Charles Grassley, the ranking member on the Senate Finance Committee, also opposes the provisions.

Mr. Obama's statements Tuesday came a day after the European Union said in a letter to the White House that the U.S. would set a "very dangerous precedent" if it passed legislation containing a "Buy American" clause.

EU officials said this week that the trade bloc would likely file a complaint at the World Trade Organization if the U.S. stimulus plan contains language strongly favoring U.S. suppliers. The problem, these officials said, is that a clause forcing Washington to favor U.S. goods might violate agreements within the WTO that limit discrimination in government spending.

EU Trade Commissioner Catherine Ashton on Wednesday welcomed Mr. Obama's comments.

"I'm encouraged by the words of President Obama. He realizes—like we do in Europe—that we need to trade our way out of the current economic difficulties. Trade is part of the solution as it acts as a stimulus," she told Reuters.

Proponents argue that the purchasing restrictions are essential to ensure that the billions spent by the U.S. government to revive the economy and boost employment actually go to U.S. companies. But critics say that the restrictions would only delay crucial work and impose onerous layers of bureaucracy on what is already likely to be a cumbersome contracting process.

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# *Departures let Obama cut his losses before storm worsens*

When the political winds start to blow in Washington, it's hard to know exactly when they'll get strong enough to knock you down.

What's clear is that sometimes it's better to just fold up your tent and find cover.

That's exactly what happened Tuesday in Washington. Tents were folded, and it wasn't a pretty sight for the new Obama administration. But the White House is lucky. The scene would have been uglier, and the collateral damage more severe, if things had dragged on while the storm gathered force.

Former Sen. Tom Daschle, buffeted by disclosures regarding his multimillion-dollar post-Senate life, and his failure to pay taxes on one particularly luxurious part of it, pulled the plug on his own nomination to be both Health and Human Services secretary and White House maestro of health reform.

Just hours earlier, President Barack Obama's newly appointed "government performance czar," Nancy Killefer, did the same thing, backing out of her new job amid new controversy over her failure to pay taxes on household help.

The White House insists the two jumped of their own free will—as opposed to having been pushed out—and the evidence at hand certainly supports that.

If that's the case, Mr. Daschle and Ms. Killefer did the new president an enormous favor. Mr. Obama had two powerful reasons to want these distractions moved out of the way, and swiftly.

First, this is the time when perceptions of a new administration begin to harden, and those perceptions are awfully hard to break once they do so. The fight over tax compliance was in danger of coloring those perceptions in a lasting way.

Second, the new administration's priority list is short and simple right now. It needs to get an economic stimulus bill through Congress, and it needs to figure out a smart way to spend the $350 billion in remaining funds to rescue the financial markets. Anything that gets in the way of following through on those two priorities amounts to an unnecessary distraction that the Obama team needs to move aside.

Some will, of course, make a counterargument that the decision by the administration and its nominees to fold in the face of trouble is a sign of weakness that will only embolden the president's foes and invite further attacks.

And there certainly is something to that line of argument. But it's hard to see that anything noble or uplifting was going to come out of continuing the struggle that was taking shape.

The first problem, obviously, was that the embarrassment of Mr. Daschle's and Ms. Killefer's failure to pay all their taxes came after the same problem dogged Treasury Secretary Timothy Geithner. Mr. Geithner now appears lucky to have gotten himself confirmed by the Senate before the other storm clouds appeared.

Three examples make a trend, and trends produce story lines. The story line that was taking shape wasn't just embarrassing for the new administration, but distinctly at odds with its proclaimed mission to force change in the way Washington does business. The White House needed to alter the dynamic before the perception took hold that its change promise was hollow, and Mr. Daschle's departure makes that easier.

In that vein, the problem with Mr. Daschle's nomination wasn't simply that he didn't pay taxes on the value of a limousine and driver whose use he received free of charge from a firm for which he was a consultant. It was as much the appearance of his accepting the car and driver on top of $4 million or so in earnings he received from a law firm and a private equity-firm that were interested in him mostly because he was a former senator. There also were starting to be uncomfortable questions about work Mr. Daschle did for a company called EduCap that is under investigation by tax authorities.

Beyond that, the last thing an administration, particularly a new one, needs is for its problems to become the subject of political jokes, and that was about to happen. (Example: "Washington, the city where cheering for the Redskins is mandatory, but paying your taxes is optional.")

In political terms, it's pretty obvious that a nominee has serious trouble when the liberal editorial page of the New York Times and the conservative editorial page of this newspaper both call on him to step aside, which is what happened to Mr. Daschle this week.

The departures also should help the White House avoid a scenario in which extraneous issues serve to detract attention from its core economic agenda, or to sap the president's political power to pursue it.

Mr. Obama enjoys some powerful advantages right now, but they are perishable. His job-approval rating is in the 65% range; Congress's is in the 25% range. In the most recent Wall Street Journal/NBC News poll, eight in 10 Americans said they like the new president personally, whether they agree with his policies or not.

The weeks ahead will help determine whether the president can take advantage of such assets, and make them last. A prolonged argument over tax compliance didn't figure to help.