Money & Investing: Business school students now have little to bank on

THE WALL STREET JOURNAL.

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■ Russia and China expressed concern over rising tensions on the Korean peninsula.

■ Pope Benedict wrote to bishops world-wide to explain the Vatican's actions regarding a Holocaust-denying bishop.

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The Alpine republic's banks are overexposed in Eastern Europe. Page 15

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Gunman kills at least 15 people in Germany

Reuters

GRIM AFTERMATH: Police escort survivors from the scene of a shooting that could revive the debate over gun control in Europe. Page 2.

Bleak outlook drills OPEC

Despite oil cartel's production cuts, crude prices have yet to rally strongly

By Spencer Swartz And Guy Chazan

LONDON—Members of OPEC hope to capitalize on their recent success in stabilizing oil prices, but falling demand and uncertainty about the cartel's ability to maintain output cuts over the long haul mean any sustained rise in prices could be a long way off.

As the dozen members of the Organization of Petroleum Exporting Countries gather in Vienna on Sunday, they face a much bleaker world economic outlook than at their last meeting three months ago. Since December, many industry analysts have cut forecasts for world oil demand. The U.S. Energy Information Administration compounded the pessimism this week, forecasting that demand will fall this year by about 1.6% or 1.4 million barrels a day—three million barrels a day less than it predicted in September.

The EIA also released data Wednesday showing that U.S. crude inventories rose by a higher-than-expected 700,000 barrels last week and are at the upper limit of the average range for this time of year, while demand for oil products over the past four weeks dropped 2.1% compared with the year-earlier period.

Data out this week from China, the world's second-largest oil consumer, showed crude imports falling 15% in February. Both OPEC and the International Energy Agency are expected to revise down their demand projections, set for release Friday.

The gloomy forecasts are complicating OPEC's efforts to balance world oil markets. "They are fighting a rearguard action, chasing ever-decreasing demand," says Goran Trapp, global head of oil trading at Morgan Stanley. "Even if they do cut again [in Vienna], it might not be enough."

Some members have indicated they want more production curbs. One senior OPEC delegate put the odds of another cut of one million barrels a day at 50-50. "Looking at the new demand figures

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Stimulus debate enmeshes Germany

By Marc Champion

BRUSSELS—Here's a message from Berlin to U.S. officials arguing that Europe's governments should pony up as much as Washington has to stimulate their economies: Germany's already doing it.

U.S. officials say they want to use the April 2 summit of the Group of 20 countries to persuade other economies to do more to boost flagging demand by passing bigger emergency government spending packages, similar in scale to the $787 billion that the U.S. administration recently pushed through Congress.

Europe's a prime target of the pressure campaign. It has pledged to spend €200 billion ($257 billion) on stimulus packages, less than half the U.S. amount for a similar size economy. Meanwhile, the International Monetary Fund and many economists believe that with growth forecasts still spiraling downwards around the globe, all the major global economies will need to do more, and the sooner the better.

But the trans-Atlantic debate over stimulus packages has touched a raw nerve in Germany, which believes many U.S. critics fail to take into account some big differences between the U.S. and European economies. One big one: Europe's generous welfare states mean that when recession strikes, governments

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Rising food prices hit Eastern Europe

By Aaron O. Patrick

The global financial crisis that has triggered bank losses and sent currencies tumbling across Eastern Europe now is taking a toll on the region's real economy and hitting consumers with higher food prices.

Food inflation in many of Europe's emerging economies accelerated this year, according to government statistics. In Hungary, monthly food inflation jumped to 2.7% in January from 0.2% in December, according to Eurostat, the statistical office of the European Commission.

Food prices edged up in Poland and the Ukraine and this week the Czech Republic's central bank said overall inflation in February was higher than expected because the country's plunging currency is driving up food prices.

Plunging currencies are at the root of the problem. Currencies have declined as investors have lost confidence and moved capital elsewhere. Falling currencies mean shoppers have less purchasing power—a handicap that hasn't been offset by falling commodity prices and cheap oil, which normally translate into benefits for consumers.

In recent months, the global financial crisis has hit hard in Eastern Europe, where the economies have declined more than their weakened Western European counterparts. Abrupt currency de-

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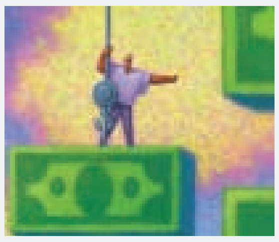

Under fire

The U.S. needs to plan for next blaze as this one rages
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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	6930.40	+0.06
Nasdaq	1371.64	+0.98
DJ Stoxx 600	166.24	+0.15
FTSE 100	3693.81	-0.58
DAX	3914.10	+0.70
CAC 40	2674.20	+0.39
Euro	$1.2801	+0.37
Nymex crude	$42.33	-7.39

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LEADING THE NEWS

German gunman kills 16

Violence in school will heighten debate on Europe's gun laws

BY DAVID CRAWFORD

BERLIN—Wednesday's shooting spree that began in a southern German school left 16 dead, including the gunman, and is likely to stoke fresh debate about gun control and public security in Europe.

The shooting began about 9:30 a.m., when 17-year-old Tim Kretschmer entered Albertville high school in Winnenden, a suburb of Stuttgart. Police say Mr. Kretschmer, a former student there, killed nine students and three staff before killing a passerby and fleeing in a hijacked car. After crashing into a roadblock, he ran, killing two passersby before killing himself during a police shootout.

Detective Bernd Carstensen, speaking on behalf of the Association of German Police Detectives, said the killing spree reveals weaknesses in German laws restricting access to personal weapons. "Weapons should be locked and out of reach; but the law is not enforced," Mr. Carstensen said.

A police spokesman said police are investigating whether weapons owned legally by the gunman's parents were stolen before the rampage.

Jürgen Roth, an adviser to the German parliament who helped prepare the country's strict gun-control legislation, says lawmakers across party lines believe German gun laws are adequate but need better enforcement. Germany strengthened its gun laws in 2003, a year after a 19-year-old student killed 16 other people and then himself at a high school in Erfurt. The law requires gun owners to register and securely lock their weapons.

Reuters

Police and paramedics at Albertville high school in Winnenden, Germany, where a former student began a shooting spree on Wednesday that left 16 dead.

Mr. Carstensen says local governments need to do more than register the ownership of sport weapons. Inspectors should visit homes to ensure guns are locked, he said.

Although gun-control laws in most European countries are relatively tighter than in the U.S., mass shootings aren't unheard-of in Europe.

The U.K. has had very strict gun controls since 1997, after a man walked into a primary school in Dunblane, Scotland, in 1996 and killed 16 children and their teacher, using four licensed handguns.

Controls in France have long been tight, but some called for even stricter rules in 2002 after a disturbed man shot eight city officials in the Paris suburb of Nanterre. He acquired the pistols used in the shooting legally, but the permits had expired. Subsequent debate has focused on how to adequately keep track of legal guns.

Germany's neighbor Switzerland has one of the world's highest per-capita rates of gun ownership. Most Swiss men of military age are assigned to a militia within the Swiss army as part-time soldiers, and militia members keep their standard-issue weapons at home for the duration of their service.

About 1,000 students attend the Albertville school. Mr. Kretschmer opened fire in two classrooms, as students leapt out of windows to escape the shooting.

Before police arrived at the school, Mr. Kretschmer hijacked a car, which he crashed about 40 kilometers away at a police roadblock. He then fled on foot, killing two additional passersby, as police closed in, according to police spokesman Fritz Mehl. In a final shootout, the gunman injured two policemen before killing himself, police said.

News of the killings shocked Germany. Chancellor Angela Merkel interrupted her morning schedule to follow reports from the crime scenes, her spokesman said. Ms. Merkel called the killings "incomprehensible." In schools throughout Germany, teachers and students halted regular classes to discuss the tragedy. In Bavaria, state education minister Ludwig Spaenle ordered a new security plan for public schools.

German factory orders plummeted in January

BY ANDREA THOMAS

BERLIN—German manufacturing orders fell for the fifth straight month in January as demand crumbled, especially in countries outside the euro zone, data released by the economics ministry showed.

Orders dropped a seasonally adjusted 8% from December, turning the slump, which began in September, into "the deepest five-month fall since Germany's reunification," a ministry spokeswoman said.

Compared with a year earlier, orders were down 37.9% in January, following a downwardly revised annual drop of 28.2% in December. "That was the biggest annual drop since 1991," the ministry spokeswoman said, referring to the January data. Germany started compiling joint data in 1991 following the reunification of the country.

The data bode ill for industrial production in coming months, with the ministry saying the outlook "remains very depressed."

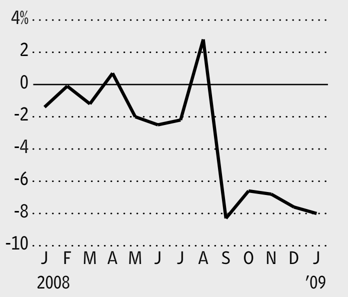
Analysts echoed the warning. "These data are truly terrible. They imply continued sharp falls in output," said Dominic Bryant, economist with BNP Paribas. "Even before today's release, output was likely to fall for the next two or three months. Now those falls will probably be sharper and extend further into 2009."

Alexander Koch, economist with UniCredit Research, called the short-term outlook for Europe biggest economy "absolutely ugly."

German manufacturing orders have been falling since December 2007, with the exception of a rise in August, according to the economic ministry. In December, orders fell a downwardly revised 7.6%, compared with a previously reported 6.9% decrease. January's manufacturing-order data would have been even worse if they hadn't been boosted by an unusually high level of big-ticket orders.

Declining demand

German manufacturing orders, month-to-month change, in seasonally adjusted terms



Source: Economics Ministry

Foreign orders in January dropped 11.4%, while domestic orders fell 4.3% from December, the ministry said. Orders from countries that share the euro currency fell just 1.2%, while demand from states outside the euro zone plummeted 18.2% on the month.

Orders for investment goods showed the strongest decline, down 9.1% from December as orders from countries outside the euro zone tumbled by 24.1% on the month, while demand from euro-zone countries was up 7.8%.

The German economy fell into recession in the fourth quarter, contracting 2.1% from the previous quarter. The economy will shrink at least 3% in 2009, the Bundesbank warned Tuesday.

CORRECTIONS & AMPLIFICATIONS

European Aeronautic Defence & Space Co. reported annual net income of €1.6 billion for 2008. A chart that ran Wednesday in the Corporate News section didn't correctly indicate that the values given were in billions of euros.

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

UBS paints a gloomier picture of 2009

As $1 billion is added to ’08 loss, outlook is ‘extremely cautious’

By Katharina Bart
And Hans Schoemaker

ZURICH—UBS AG painted a bleaker picture of its 2009 prospects than it had only a few weeks ago, adding more than a billion Swiss francs to its previously stated 2008 loss, and saying its earnings remain at risk.

It was the bank’s first official outlook since Oswald Grübel was hired two weeks ago as the new chief executive. “Our near-term outlook remains extremely cautious,” UBS said in its annual report released Wednesday, which analysts took as a warning that more quarterly losses were in the pipeline.

The 2008 net loss, which was already the largest in Swiss corporate history, was increased by 1.19 billion Swiss francs ($1.02 billion) to 20.89 billion francs.

Most of the additional loss is from $780 million needed to settle a tax-fraud probe with U.S. authorities. It also includes what analysts estimated to be almost 300 million francs in extra write-downs on nearly $40 billion of illiquid assets that will be transferred to a fund managed by the Swiss National Bank.

UBS also didn’t explicitly repeat an existing target of returning to a full-year profit in 2009, which is likely to represent a more realistic tone with investors than last month, when it termed year-to-date business “encouraging,” several analysts said. The highly volatile nature of securities markets has investors parsing such changes in the wording of corporate outlook statements as carefully as they might do those of central banks.

For 2009, the bank will continue to chop away at risky positions, reduce its balance sheet and cut costs with an eye to returning to sustainable profitability “as soon as possible.”

UBS also detailed inflows and outflows of funds more precisely than last month, when it said January had seen net positive funds in its money-management arm, after several quarters of bleeding assets heavily last year.

Oswald Grübel

The bank said net outflows in its flagship private bank partially offset inflows in the Americas, and that its asset-management arm continues to see outflows, which is a more subtle and specific disclosure than that given for January.

For that month, UBS is likely to have benefited from hiring over 100 U.S. brokers from rivals late in the year, Zürcher Kantonalbank analyst Andreas Venditti said. Because a much higher percentage of clients tend to be follow brokers — as much as 80%, compared with what industry experts say averages 20% elsewhere in the world — the hirings probably bolstered fresh funds substantially in January, Mr. Venditti said. He rates UBS at “marketweight.”

By contrast, analysts said the Swiss and international business, which includes newer branches in Singapore and Dubai, appears to still be struggling to restore client trust and reverse outflows.

Senior Celent analyst Nicolas Michellod, in an email, said, “2008’s wider-than-expected reported loss announced this morning by UBS demonstrates that uncertainty with the Swiss bank giant remains high and two main issues still require particular prudence in terms of communication: the U.S. tax investigation and the securities write-downs.”

The annual report represents UBS’s first official communication since hiring Mr. Grübel, chief executive of rival Credit Suisse Group until 2007, as CEO two weeks ago.

U.S. targets both stimulus and regulatory reform at G-20

By Maya Jackson Randall
And Henry J. Pullizzi

WASHINGTON—Ahead of this weekend’s meeting of finance ministers from the Group of 20 nations, U.S. Treasury Secretary Timothy Geithner on Wednesday proposed that members enact substantial stimulus efforts and dramatically boost the International Monetary Fund’s emergency resources as part of an effort to address the worst economic crisis in decades.

The Treasury secretary spoke to reporters after President Barack Obama earlier in the day called for coordinated action to resuscitate global economic growth and craft a new framework for financial regulation. Mr. Obama said his administration has two goals for the G-20 meeting: ensuring there is a concerted global effort to jump-start the economy, and moving forward on regulatory reform to avert a similar financial crisis in the future.

Mr. Geithner will meet his counterparts from the G-20 outside London this weekend, a gathering that will set the stage for a summit of G-20 leaders next month.

Timothy Geithner

U.K. Chancellor of the Exchequer Alistair Darling, who will host the weekend meeting, on Wednesday reiterated the calls for coordinated global action. While he said the meetings will focus on fixing the banking system, he also said that G-20 governments must ensure that they carry through with previously announced fiscal-stimulus packages and that the European Union “should be prepared to act” in response to Eastern Europe’s deepening economic and financial crisis.

Mr. Darling dismissed talk that the U.K. had found it difficult to work with its U.S. colleagues on G-20 issues since the Obama administration took over. Mr. Geithner also said Wednesday that he has been meeting continuously with British officials and that he believes there is “a lot of common ground” between the two governments.

Mr. Geithner, calling on G-20 nations “to commit substantial and sustained actions” to address the crisis, noted that the International Monetary Fund has called for countries to put in place fiscal stimulus of 2% of aggregate gross domestic product each year for 2009 and 2010. He described that benchmark as reasonable and said that the G-20 should ask the IMF to report quarterly on countries’ stimulus efforts.

Mr. Geithner also said the G-20 should support boosting the IMF’s emergency resources.

At the same time, Mr. Geithner said the U.S. is prepared to take the lead on an overhaul of international financial regulations. He said the Obama administration plans to lay out critical elements of its program before the G-20 leaders’ summit.

It has been unclear if the White House’s approach to regulation will be as sweeping as some European leaders hope. But Mr. Obama on Wednesday appeared to address European concerns, suggesting the overhaul will be international in scope. “We ought to make sure that we’re coordinating with the other G-20 countries,” Mr. Obama said.

Mr. Geithner said that as part of that effort, the G-20 should agree on a broad framework to raise standards globally. Officials must ensure that all systemically significant financial institutions are subject to strong supervision. The U.S. Treasury secretary also said governments need to exercise effective oversight of markets such as derivatives and put in place a stronger framework of capital requirements that can better protect the global financial system from future crises.

Mr. Geithner also said that compensation practices within the financial industry may need to be reformed. Compensation practices have become “divorced from any meaningful appreciation of risk,” he said.

In addition to stimulus and regulation, U.S. and U.K. officials are working on a plan to provide several hundred billion dollars in trade financing to boost global trade. Under the plan, countries would boost funding for their trade-finance agencies and expand funding for the World Bank and International Monetary Fund to finance exports from poor nations.

—Laurence Norman in London contributed to this article.

U.S. Congress aims to police violence on border with Mexico

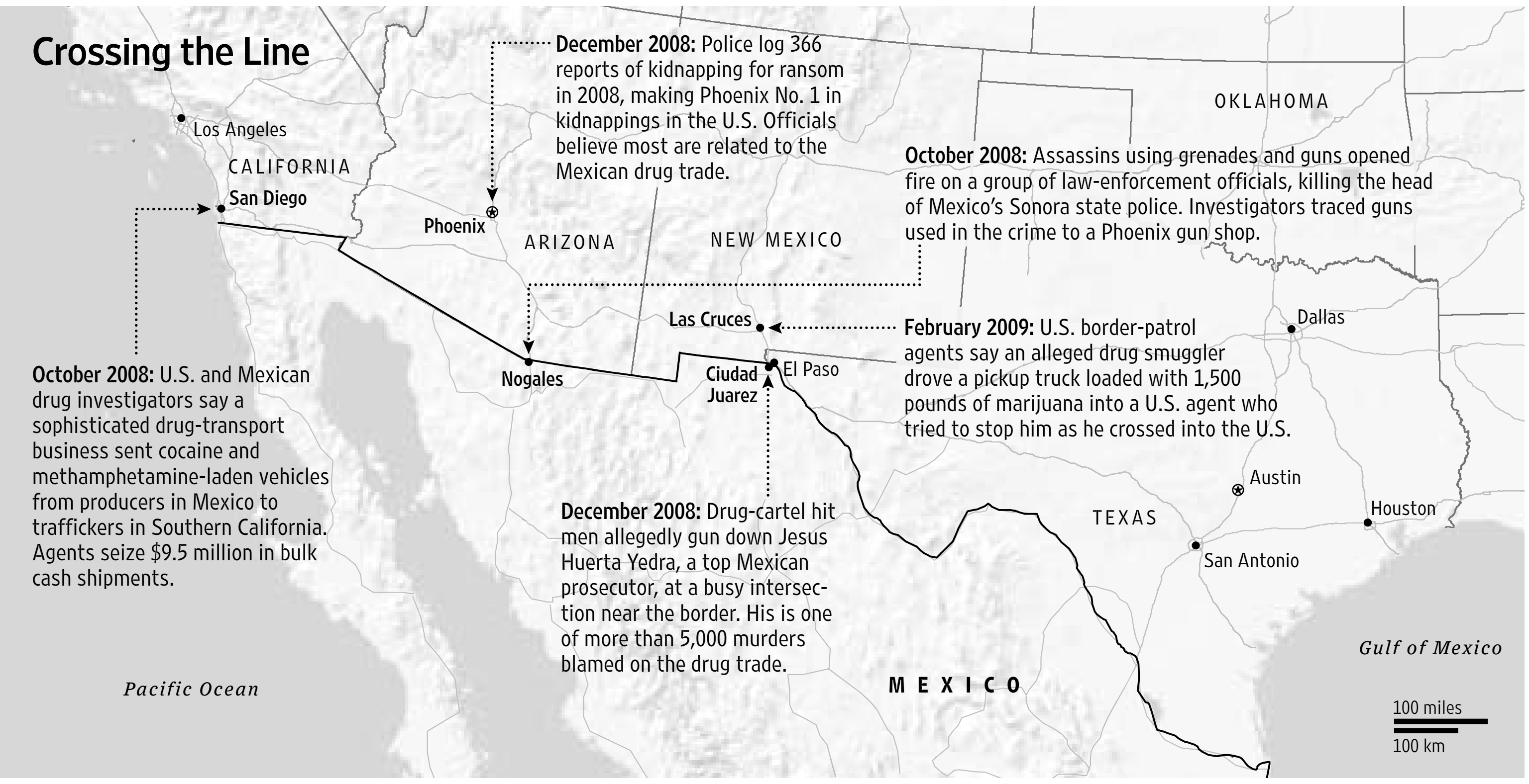
By Cam Simpson
And Evan Perez

WASHINGTON—The number of federal agents trying to keep drugs and illegal immigrants out of the U.S. has more than doubled in five years. Congress now wants those sentinels to keep watch in both directions—to stop the smuggling of U.S. guns and cash to Mexico.

Both Democratic and Republican lawmakers this week urged officials from the Department of Homeland Security to halt the flow of weapons and drug profits that has fueled the violence by Mexico’s drug gangs.

At a hearing, some lawmakers expressed disappointment at the lack of a specific plan from Homeland Security officials to attack the problem. The ranking Republican on the House Appropriations Committee, California Rep. Jerry Lewis, compared the task to the challenge facing the U.S. in Iraq and Afghanistan.

Homeland Security Secretary Janet Napolitano has said tackling the issue is a top priority. But officials who lead the two biggest Homeland Security agencies involved—Customs and Border Protection, and Immigrations and Customs Enforcement—said in interviews they don’t have funding currently designated for so-called outbound enforcement.



The Mexican government is fighting a war with its drug cartels and their armed enforcers. The gangs are battling for access routes to the lucrative U.S. market and much of the violence straddles the border.

The fighting is being waged with thousands of American-purchased or stolen weapons flowing south illegally each year, U.S. officials say.

The State Department recently estimated U.S.-originated guns were used in 95% of Mexico’s drug-related killings. The number of such murders more than doubled to almost 6,000 last year.

CORPORATE NEWS

Cathay Pacific illustrates hedging risk

Airline's loss of $1.1 billion for year suggests industry's pain will continue as bets on high fuel prices boomerang

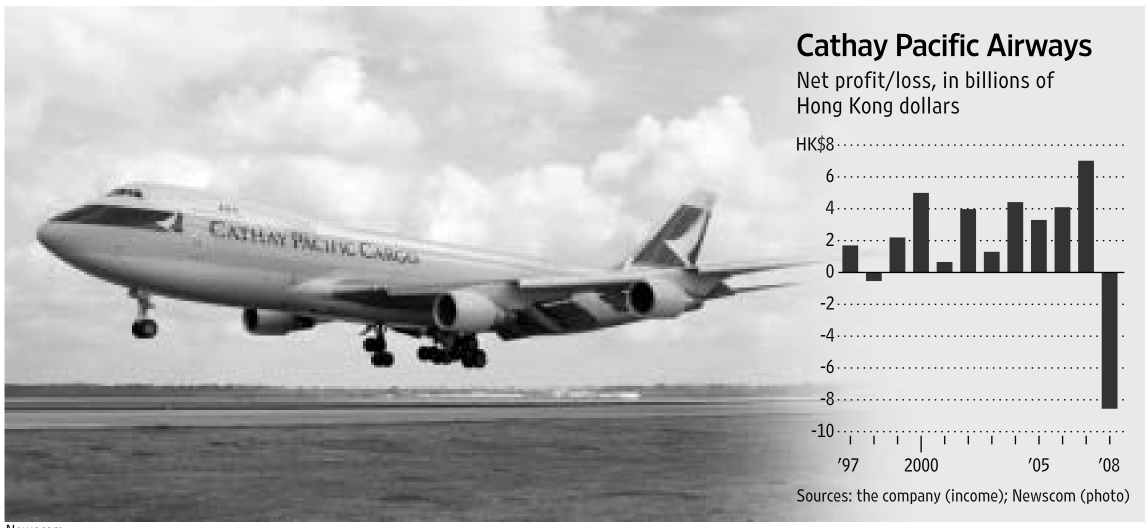
A US$1.1 billion annual loss reported Wednesday by **Cathay Pacific Airways** Ltd. illustrates the airline industry's lingering and costly problem of fuel hedging.

*By **Daniel Michaels** in Brussels and **Jeffrey Ng** in Hong Kong*

The carrier, based in Hong Kong, said its year-end fuel-hedging losses totaled 7.6 billion Hong Kong dollars (US$979.9 million), widening from HK$2.8 billion at the end of October after a sharp drop in oil prices. The total included unrealized losses from contracts set to expire over the next several years.

Carriers including U.S. budget leader **Southwest Airlines** Co. and European giant **Air France-KLM** SA have tallied billions of dollars in losses on fuel hedges over recent months after the price of crude oil plunged from record highs last spring to multiyear lows. Common hedging methods lock in fuel prices, protecting airlines when prices rise. But when prices fall, financial accounts often list the price differences as losses, though the losses are usually noncash ones.

Hedges this year aren't expected to take as severe a toll as they did last year, as many airlines have already realized the losses or unwound the contracts, leaving them better able to benefit from lower fuel prices.



Sources: the company (income); Newscom (photo)

Newscom

Still, "there will be some more mark-to-market losses coming up" as carriers reconcile their hedges against current market prices, said Brian Pearce, chief economist for the International Air Transport Association, an industry trade group. He said slowing traffic from the global recession could offset any benefit from lower fuel prices.

Delta Air Lines Inc., which has been paying above-market rates for fuel because of hedges it negotiated last year before the price of oil began to fall, this week said it won't be free of those contracts until the end of the second quarter.

The world's biggest airline in terms of passenger traffic, Delta said it spent $200 million earlier this year to close out some of those contracts. Coupled with falling passenger demand, "a tremendous amount of fuel-hedging losses" will contribute to an expected loss during the first quarter, said Delta President Ed Bastian. The hedges "are fairly dramatic in terms of the impact they're having," he added.

In better times, airlines might seize on low fuel prices to strike new hedge positions. But the burden of past hedges is hampering many airlines' ability to benefit from the recent drop in oil prices.

Colin Cooper, director of energy and utilities for management consulting firm Protiviti in London, said oil companies and financial institutions arranging hedges are demanding more collateral as security. Most airlines already carry significant debt secured by planes or other assets, which limits their ability to back new hedging contracts.

Carriers have been so whipsawed by fuel-price swings that even some financially strong airlines are refraining from hedging. Southwest Airlines profited handsomely from its hedges over recent years as fuel prices rose, but in the fourth quarter of last year it posted a net loss of $56 million due to the contracts. It has unwound almost all its hedges, executives said recently.

Mr. Cooper said carriers that continue hedging may change their approach and spend more to limit potential losses.

Australia's **Qantas Airways** Ltd., for example, used relatively expensive hedges involving options that allowed it to walk away from unprofitable contracts. For these hedges it paid fees of roughly US$12 a barrel, compared with around US$3 a barrel for less-flexible hedges, Chief Executive Alan Joyce said recently. Mr. Joyce said that as a result, 85% of Qantas's fuel needs now benefit from falling prices.

Cathay said it will continue to hedge, even as it estimated its hedging loss this year would be HK$1.9 billion if the contracts were marked to market at the end of last month. The airline said it will meet falling demand by cutting capacity, deferring new aircraft deliveries and returning more leased aircraft. It said it has no current plans to tap capital markets.

Cathay Pacific reported a 2008 net loss of HK$8.56 billion compared with a net profit of HK$7.02 billion the previous year. It was the airline's first annual loss since 1998. Revenue rose 15% to HK$86.58 billion, lifted by an increase in capacity and high demand in the first half.

—Paulo Prada and Carlos Tejada contributed to this article.

Lufthansa, Aer Lingus feel pinch

By Jan Hromadko and Quentin Fottrell

European carriers **Deutsche Lufthansa** AG and **Aer Lingus Group** PLC on Wednesday reported lackluster 2008 earnings and warned of further deterioration to their business in 2009, as the global economic slowdown continues to bite.

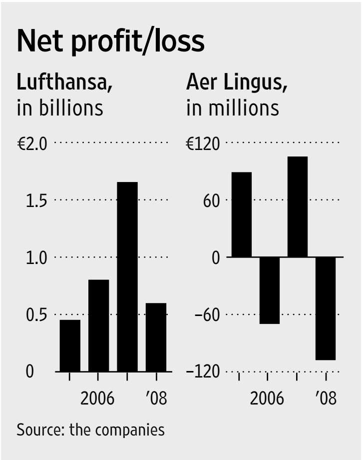
The results show that even airlines in relatively strong financial shape such as German flag carrier Lufthansa are feeling the pinch as business-travel budgets are hit and consumers delay nonessential trips.

Lufthansa on Wednesday posted a 64% drop in 2008 net profit and said operating profit is expected to fall considerably this year. The carrier said it expects operating profit in 2009 will come in "clearly below the previous year's level," though it will remain positive.

"In such a scenario I would describe it as almost irresponsible today if I were to give you a detailed estimate of the precise operating development of Lufthansa," Chief Financial Officer Stephan Gemkow said.

However, operating profit could rise in 2010 if economic conditions improve from the end of the third quarter of 2009, Lufthansa said. "If the recession lasts longer, however, we will continue to focus our efforts on stabilizing results," the carrier said.

Lufthansa's net profit fell to €599 million ($759.2 million) in 2008 from €1.66 billion in 2007, when its results were inflated by gains of more than €500 million tied to asset sales. The latest earnings were also hit by a weaker contribution from U.K. unit BMI and a write-down on the company's stake in U.S. carrier **JetBlue Airways** Corp.



Source: the companies

Sales rose 11% to €24.87 billion, boosted by the consolidation of Swiss International.

Chief Executive Wolfgang Mayrhuber said in a statement that the company would continue to further improve efficiency to weather the downturn. The company has grounded 20 aircraft in the passenger business, while a further four cargo planes are out of service at the moment to reflect the fall in demand, he said.

Mr. Gemkow added that Lufthansa plans to "intensify and extend" cost-cutting measures in 2009. The company launched a €250 million cost-cutting program last year.

The airline said sales are expected to rise this year thanks to acquisitions. The company plans to take over **Austrian Airlines** AG and increase its holding in BMI. It also plans to acquire a stake in **SN Holding** SA, the parent company of SN Brussels Airlines.

Lufthansa doesn't currently plan to undertake more acquisitions, Mr. Mayrhuber said.

Irish flag carrier Aer Lingus posted a net loss of €107.8 million for 2008, compared with a net profit of €105.3 million in 2007, hurt by deteriorating consumer sentiment, currency fluctuations, restructuring costs and higher fuel prices. Revenue rose 5.6% to €1.36 billion.

In order to maintain volumes, Aer Lingus predicted 2009 revenue will fall, average fares will drop by at least 10% and cargo revenue is expected to decline as much as 30% from a year earlier.

Chief Financial Officer Sean Coyle said in an interview that the trans-Atlantic market is "the weakest part of our business" and was under review, but said he wasn't yet sure if the airline would cut flights or reduce fares. He said Aer Lingus's strategy now was to roll out short-haul bases in the U.K. and Continental Europe.

Separately, Franco-Dutch airline **Air France-KLM** SA said Wednesday that it cut capacity by 3.4% for the summer season from a year earlier to adjust to falling demand. The airline had initially planned a 2% cut in summer capacity.

—Geraldine Amiel in Paris contributed to this article.

Boeing, Northrop could split U.S. aerial-tanker contract

By August Cole

WASHINGTON—House lawmakers are working to split a politically charged, $40 billion effort to replace the U.S. Air Force's fleet of flying gas stations between **Boeing** Co. and **Northrop Grumman** Corp.

Rep. Neil Abercrombie (D., Hawaii), who chairs the House Armed Services Subcommittee on Air and Land Forces, said Wednesday he will insist that the Pentagon replace its nearly 50-year-old jets by turning to both companies.

The effort to replace the Air Force tanker fleet was a political albatross throughout the Bush administration and risks becoming the same during the Obama administration. A team comprising Northrop and **European Aeronautic Defence & Space** Co. won the contract in February 2008 to provide 179 new planes, which were based on an Airbus A330. Boeing offered a smaller 767 design, which lost, but the company successfully protested the defeat with the Government Accountability Office.

The Pentagon had planned to hold a new competition, but a move to split the work would likely remove the threat of another delay as the result of future protests.

Mr. Abercrombie, speaking at a conference in Washington, said that if "we do that sensibly and take into account the strategic interests involved...I think we can come to a reasoned conclusion on getting both bids accepted."

Mr. Abercrombie said that he is allied with Rep. John Murtha (D., Pa.), chairman of the House Appropriations Defense Subcommittee, and other lawmakers, on the need for such an approach. Mr. Murtha himself recently advocated buying from both companies, as well.

While such a move has the potential to defuse a standoff between Boeing and Northrop supporters in Congress at a time when the White House doesn't need another fight over weapons spending, those seeking to split the work will still have to win over Defense Secretary Robert Gates and those in the Senate, such as Arizona Sen. John McCain.

Mr. Gates decided before the November election to let the next White House weigh in on the program's fate. The Pentagon's decision to call off the competition was based in part on an assessment that new aerial tankers weren't as urgent as the Air Force had said they were.

A Pentagon spokesman said Wednesday no decisions have been made about the tanker program and that it, like other major weapons efforts, is under review.

A White House spokesman declined to comment.

Opponents point to the high cost of bringing in two new kinds of planes into the tanker fleet, which means spending more on maintenance, operations and training than with just one new design.

A Boeing spokesman said the company isn't taking a position on the issue.

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CORPORATE NEWS

Smart phones lose luster

Sales growth slows; Nokia keeps its place as segment leader

By Gustav Sandstrom

STOCKHOLM—World-wide sales growth of smart phones slowed in the fourth quarter of last year as the economic downturn curbed consumer demand, research firm Gartner Inc. said Wednesday.

A total of 38.1 million smart phones, which combine the traditional mobile phone with Internet capability and other features such as music players, were sold in the three months ended Dec. 31. That was up 3.7% from a year earlier, though the growth rate is a slowdown from previous quarters. In the third quarter of 2008, sales of smart phones rose 12% from a year earlier, while in the second quarter they were up 16%.

Gartner research director Roberta Cozza said growth slowed as consumers had fewer compelling new products to choose from, in addition to sales being hit by the deteriorating economic climate.

Smart-phone market

Global sales of smart-phones rose 3.7% in the fourth quarter of 2008.

Label	Label	Label	
Nokia	15.6	40.8%	-16.8%
Research In Motion	7.4	19.5	84.9
Apple	4.1	10.7	111.6
HTC	1.6	4.3	19.9
Samsung	1.6	4.2	138.0
Others	7.8	20.5	-22.3
Total	**38.1**	**100.0**	**3.7**

Source: Gartner

As a proportion of all mobile-device sales, smart phones remained relatively stable at 12% in the fourth quarter, compared with 11% a year earlier.

Nokia Corp., the world's biggest mobile-phone maker, maintained its market-leading position in the smart-phone segment in the quarter. However, its market share fell to 40.8% from 50.9% in the year-earlier period, as its smart-phone sales declined 17% to 15.6 million units.

"Nokia's entry-level smart-phone range will continue to offer good value for the money, but Nokia remains more exposed to pressure from competition in the higher end of the consumer smart-phone market as the Nseries loses its appeal," Gartner said.

Research In Motion Ltd., the maker of Blackberry smart phones, increased its market share to 19.5% from 10.9% a year earlier, as its sales grew 85% to 7.4 million phones.

Apple Inc.'s market share increased to 10.7% from 5.2%, as its sales more than doubled to 4.1 million phones from 1.9 million, boosted by the popular iPhone.

Hannover Re's net falls, hurt by investment losses

By Ulrike Dauer

HANOVER, Germany—**Hannover Re** AG, one of the world's biggest reinsurers, reported an 89% decline in fourth-quarter net profit, hurt by losses on shares it sold to slash the stock portion of its portfolio, as well as by higher taxes.

Hannover Re reported net profit of €15.8 million ($20 million) for the three months ended Dec. 31, down from €144.4 million a year earlier.

Still, the small net-profit figure beat market expectations of a slight loss, mainly because of lower-than-forecast costs for large disaster claims.

"The fact that 2008 was a lost year for our company can be attributed entirely to the problems on the investment side," said Chief Executive Wilhelm Zeller. "The development of our underwriting business, on the other hand, was satisfactory."

The company confirmed its forecast for 2009. Reinsurers have been weathering the financial crisis better than banks. They are benefiting from weaker balance sheets among their primary-insurer customers; the reinsurers are able to command higher rates as reinsurance contracts come up for renewal.

Hannover Re shares rose 9.5% to €24.12 in Frankfurt trading, which DZ Bank analyst Thorsten Wenzel attributed to the "better-than-forecast results and the upbeat outlook." He said Mr. Zeller's comment that the global recession has "little or no impact at all on reinsurers" was also positive.

Hannover Re confirmed its 2009 targets, saying it expects an after-tax return on equity of above 15%, a dividend payout of 35% to 40% of net profit, and earnings per share of €4.75 to €5.25.

The company, one of the five largest reinsurers world-wide by premium income, said in October that it recorded losses of €200 million as it cut the stock portion of its portfolio to about 1% to 2% from 8%.

As a result, it swung to a quarterly loss on net investments of €92 million, compared with net investment income of €266.3 million a year earlier.

The lower-than-expected quarterly costs for large disaster claims such as hurricanes improved the reinsurer's combined ratio, which measures the cost of claims against revenue. The combined ratio fell to 73.6% from 95.9% in the year-earlier quarter. A figure below 100% means the underwriting business was profitable.

Mr. Wenzel noted that the fourth-quarter results also benefited from the release of reserve provisions that were no longer needed, lowering the combined ratio by about 6.2 percentage points. However, such a move won't likely be repeated, he said.

Opel dealers to invest in GM Europe

By Christoph Rauwald

In the first sign that dealers are prepared to help bail out **General Motors** Corp.'s European units, a dealer association agreed in principle to acquire a minority stake in an entity separated from the U.S. parent.

Euroda, an association of Opel and Vauxhall dealers, said Wednesday it planned to raise at least €400 million, or about $500 million, from a levy on car sales to fund the potential investment. Dealers would contribute €150 from the sale of each vehicle for three years. The Euroda association represents 4,000 dealers.

GM Europe is nearly out of cash. GM Chief Operating Officer Frederick Henderson said last week the company was willing to sell a majority stake in its Opel and Vauxhall subsidiaries as part of an effort to win €3.3 billion in aid from Germany and other European governments.

The dealers said the new entity would have to be separate from GM but that the Detroit-based auto maker should retain a minority stake "for practical reasons, for example with regard to economy of scale in purchasing and engineering."

Euroda said it expects to hold a final vote on setting up the fund at its next general meeting in Vienna, on May 15.

German Chancellor Angela Merkel said Wednesday that before a decision on Opel can be made, the government will need to know the outcome of important decisions regarding parent GM. The government needs to know what form of independence GM can give Opel and what will happen to Opel's patents, Ms. Merkel told the German daily Bild.

German car makers also are hurting. **Daimler** AG said Wednesday that it is introducing shorter working hours at its Mercedes-Benz truck plants in Germany in response to declining orders. The shortened work week—a program designed to avoid job cuts, under which the German government compensates employees for hours they don't work—will affect about 18,000 employees, Daimler said.

The car maker had already introduced a range of austerity measures in an effort to deal with reduced orders. At its passenger-car plants, around 50,000 employees are working shorter hours. Daimler said it doesn't expect vehicle sales to improve until next year2010.

Other car makers also are cutting production in response to deteriorating demand. Japan-based **Toyota Motor** Corp. said Wednesday it plans to cut pay and working hours by 10% at its U.K. plants for a year starting April 1, in a move to cut costs while avoiding layoffs.

The cuts came as U.K. officials met representatives from the auto industry to provide further details on a £2.3 billion ($3.2 billion) loan-guarantee package unveiled in January as part of efforts to boost the sector. The program will facilitate loans and loan guarantees for auto makers and their suppliers with annual revenue of more than £25 million.

In addition, the government announced that it will support **Tata Motors** Ltd.'s Jaguar Land Rover with up to £27 million for the production of a new environmentally friendly model. Jaguar Land Rover is looking to invest about £400 million in the Land Rover LRX Concept. The project would "help safeguard jobs and lead to the production of a new greener model," the government said.

Meanwhile, in a boost for the struggling car sector in Sweden, three of the country's auto makers are expected to get approval from the European Investment Bank for €1 billion in loans, a senior bank official said.

Volvo Cars, the Swedish unit of **Ford Motor** Co., is likely to get backing for €200 million in loans, bank adviser Mats Gunnarsson said Tuesday. Truck makers **Volvo** AB and **Scania** AB are likely to get the go-ahead for €400 million each, the maximum amount the bank can lend any single company in a year, he said.

Continental to lay off 1,900 as it closes two tire factories

By Christoph Rauwald

FRANKFURT—Faced with slumping demand for tires, **Continental** AG said Wednesday it will close a French plant and a German plant, laying off 1,900 employees, to reduce overcapacity.

"We have studied various options and concluded that the competitiveness of the tire divisions can be maintained only by closing the two plants with the highest costs, and these are the passenger tire plant in Clairoix and the commercial vehicle tire plant in Hanover," Continental executive board member Hans-Joachim Nikolin said in a statement.

The German tire maker and auto-parts supplier said a restructuring of its European operations had become necessary due to "overcapacities of about 15 million passenger and 1.7 million commercial vehicle tires due to the huge slump in original equipment sales and sluggish replacement business."

Continental added that it assumed the market wouldn't recover in the short- to medium-term, and that it was taking steps to bring production at its European tire plants in line with demand.

In a move that will affect 1,120 employees and reduce production capacity by eight million units, Continental will gradually decrease and eventually cease production at its French tire plant in Clairoix by March 31, 2010. Continental said the Clairoix plant has the highest production costs of any passenger-car tire factory in Europe.

Commercial-vehicle tire production at the Hanover plant, which has a capacity of 1.4 million tires, will be halted on Dec. 31. Some 780 employees will be affected there. In addition, production at the company's plant in Puchov, Slovakia, will be cut by 20%.

Continental's tire operations are part of its rubber division, which also includes the rubber and plastics technology operations ContiTech. Continental plans to carve out the rubber division as part of a wider strategic shift.

The restructuring comes at a time when eroding demand for cars and trucks is battering auto makers and their suppliers. Continental and its dominant shareholder, closely held **Schaeffler Group**, are also being squeezed by combined debts of around €21 billion ($26.6 billion) following Schaeffler's takeover of Continental and Continental's prior acquisition of **Siemens** AG's automotive-electronics unit, VDO.

Continental said that demand for tires for new commercial vehicles, such as trucks and buses, declined by 20% in Europe in the fourth quarter.

"This trend has accelerated dramatically in the first two months of the current year," Continental said. "The European commercial-vehicle tire-replacement market likewise plummeted by over 15% in the last quarter of 2008."

Severstal chops jobs as strength of '08 fades

By Alexander Kolyandr

Russian steelmaker OAO **Severstal** on Wednesday posted a 9.9% rise in net profit for 2008, but said it will cut thousands of jobs and reduce its capital expenditure by two thirds, citing a "very challenging outlook."

In the 12 months ended Dec. 31, net profit at the company, which has assets in Russia, the U.S. and the European Union, rose to $2.03 billion from $1.85 billion in 2007, despite a $1.21 billion net loss in the fourth quarter. Revenue for the full year was up 44% at $22.39 billion from $15.5 billion. Severstal blamed the fourth-quarter loss on deteriorating economic conditions, inventory adjustments of $411 million, as well as a $1.54 billion impairment of noncurrent assets.

Between 9,000 and 9,500 jobs will be cut at Cherepovets Iron & Steel Works, the flagship plant in Russia, said Alexei Mordashov, chief executive and major shareholder. Severstal cut its capital expenditure budget to $1 billion from $3 billion.

Severstal bought several assets in 2008, including the Sparrows Point steel plant, in Baltimore, Md.; a mill in Warren, Ohio; and steel producer Esmark.

CORPORATE NEWS

Alcoa keeps options open

CEO won't rule out selling stake in effort to preserve cash

BY ROBERT GUY MATTHEWS AND ANJALI CORDEIRO

Alcoa Inc. Chief Executive Klaus Kleinfeld said he wouldn't rule out any means of raising cash—including selling a stake to another company—as the aluminum giant positions itself to weather the current downturn.

Mr. Kleinfeld didn't say the Pittsburgh-based company had imminent plans to sell a stake and declined to name prospective partners. But Alcoa has made it a priority to maintain enough of a cash cushion to survive even if the economy takes a much sharper turn for the worse. The chief executive made clear the company would look at all options.

"It would be absolutely wise to look at all cash-generating opportunities," Mr. Kleinfeld said in a interview Tuesday. "It would be foolish to leave any of these things out."

Alcoa for years enjoyed the benefits of a boom in commodity prices, but it has been laid low more recently by a sharp drop in the price of aluminum. To cope, the company recently announced asset sales, salary freezes, a 15% cut in its work force and a 50% reduction in capital spending. Mr. Kleinfeld said the steps have helped preserve cash and leave the company "well protected" against an extended downturn.

Investors, however, remain wary. Alcoa shares have fallen about 80% in the past six months and were trading at $5.83, down 29 cents, in late-afternoon trading Wednesday. In further testament to Alcoa's troubles, Moody's Investors Service, Standard & Poor's Investors Services and Fitch Ratings last month downgraded the company's credit rating to the lowest rung of investment grade. Mr. Kleinfeld attributed the downgrades in part to overall weakness in the aluminum industry as weakness in the transportation, aerospace and construction industries have pushed prices and demand down.

Klaus Kleinfeld

Mr. Kleinfeld said the company would try to balance its responsibility to shareholders with its need to conserve cash. "I would neither buy back debt nor shares at this time," Mr. Kleinfeld said. Some companies, including General Electric Co., have repurchased debt in order to shore up their balance sheets and reduce interest payments.

He said the company wouldn't rule out cutting its dividend if necessary to preserve an adequate cushion of cash.

Even as the company hunkers down, Mr. Kleinfeld was upbeat about the long-term demand for aluminum and pointed to India, Brazil and China, where a stimulus package is under way, as bright spots in the current environment. Chinese aluminum producers were quick to cut back capacity and run down inventories, he said. Government spending, meanwhile, is encouraging consumption, he said. "Demand is starting to kick in as the stimulus starts to take off," he said.

Mr. Kleinfeld said Alcoa doesn't have a deal in the works with its former partner, Chinese aluminum-maker **Aluminum Corp. of China.** Chinalco, as the company is known, is in the midst of paying Alcoa $1.02 billion for Alcoa's stake in their joint investment in mining giant **Rio Tinto**. The aluminum industry has been one of the hardest hit in the commodity sector. But many mining companies have amassed cash from strong prices over the last year and are looking for opportunities. Rio Tinto has had trouble selling off some of its assets because of tight credit markets and uncertainty in the market.

Mr. Kleinfeld said that despite Alcoa's efforts to conserve cash, the company was planning to spend $500 million on new, lower-cost operations in Brazil. He said that, in the long-term, those operations would lower the company's costs.

Enel likely to back capital boost

BY LIAM MOLONEY

ROME—Italian utility **Enel** SpA will likely approve a capital increase of as much as €8 billion ($10.14 billion) this year and slice more than 20% off dividends from 2009 as part of its efforts to slash its debt pile, a person familiar with the matter said Wednesday.

Enel's board was scheduled to meet late Wednesday to approve its 2008 results and 2009-2013 strategy plan, as well as decide on the rights issue, this person said.

Investors have begun to question whether Enel has a clear plan to manage its debt load as banks tighten their lending conditions world-wide in response to the financial crisis. Credit-rating agencies have recently warned they could cut Enel's debt rating after it agreed last month to increase its stake in **Endesa** SA to 92% at a cost of €11.1 billion. While the move gave Enel sole control of the Spanish utility, it will weigh heavily on the company's already-big debt load.

At the end of February, Enel issued a statement saying the utility was exploring a capital increase, but declined to give further details.

Enel has said that it will pay a dividend per share of 49 European cents on 2008 profit and that it expects to pay the same figure in the next couple of years. However, in the event of a capital increase of €8 billion based on an unchanged overall dividend figure of €3 billion, the dividend per share would drop to about 35 cents.

Analysts estimate Enel will reach earnings before interest, taxes, depreciation and amortization, or Ebitda, of around €18 billion in 2013. This would allow the utility to have a net debt-to-Ebitda ratio of less than 3.5—a level analysts say should keep credit agencies from downgrading Enel's debt rating. In February, Enel said its preliminary 2008 Ebitda jumped 45% to more than €14.2 billion on consolidation of its Endesa stake. Preliminary revenue climbed to €61 billion from €43.7 billion in 2007.

Enel's overall asset disposals could double to €10 billion in the next years as part of the 2009-2013 plan in order to help cut debt, most analysts predict. Last month, Enel said its net debt was about €50 billion at the end of December. However, the figure is estimated to have jumped to almost €62 billion after it agreed to buy a further 25% stake in Endesa from **Acciona** SA.

Apple's new iPod Shuffle delivers more

BY YUKARI IWATANI KANE

Apple Inc. introduced a new iPod Shuffle that is about half the size of its previous model but with the capacity to play twice as many songs, as the company tries to re-energize its iPod business.

The new $79 four-gigabyte device will play as many as 1,000 songs, the same as the first iPod, which sold for $399 in 2001. The new model will allow users to switch between multiple playlists, which wasn't possible with previous models. It also includes a new voice feature that announces songs and playlists in 14 different languages. One of the key differences from the previous Shuffle is that all of the controls are now on the earphone cord rather than on the device.

"When we looked at how we can get it even smaller and keep it fun and easy to use, we realized we could take the controller right out of the Shuffle," Philip Schiller, Apple's marketing chief, said Wednesday.

The latest model comes as the Cupertino, Calif., company faces declining revenue from its maturing iPod business. The devices still dominate the market for digital music players, and Apple sold a record number of iPods in the quarter ended Dec. 27. Yet iPod revenue fell 16% to $3.4 billion as the devices have gotten less expensive over time.

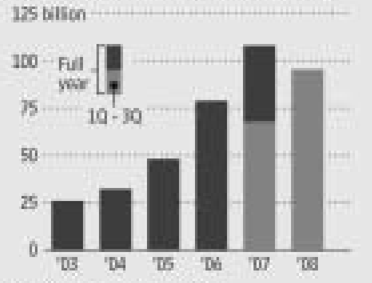
Analysts expect iPod growth to be limited as the overall market reaches saturation. According to the Consumer Electronics Association, digital music players are now in 46% of U.S. households, up from 20% in 2006.

Apple declined comment on how the new product will affect revenue, but the new Shuffle is $10 more expensive than the older two-gigabyte Shuffle model, which the company plans to phase out. The company doesn't break out Shuffle sales, but brokerage firm Kaufman Brothers estimates that Apple could sell two million to 2.5 million Shuffles in the current quarter, which ends in March.

The new Shuffle comes just a week after the company updated its Macintosh desktop computers and amid wide speculation about what new products Apple might introduce this year.

Smooth sailing

China Ocean Shipping Vice President Zhang Fusheng (right) expects record earnings this year. Revenue for China Cosco, its main listed asset, in yuan



Sources: the company (revenue); Bloomberg News (photo)

Cosco, with ready cash, to bolster shipbuilder

BY IAN JOHNSON

BEIJING—As global shipping companies struggle amid slumping international trade, **China Ocean Shipping** Co. is flush with cash, and one of its top leaders says it stands poised to announce record revenue for 2008.

But Cosco Vice President Zhang Fusheng, in a recent interview, indicated that the state-owned company is under pressure from the government to bolster local industries, especially China's hard-hit shipbuilding industry. Mr. Zhang said, for example, that Cosco had recently agreed to construct a shipbuilding wharf in a city suffering badly from the economic downturn, after provincial leaders pressured it to help the local economy.

"We are in a good position thanks to our strong performance of the past few years," Mr. Zhang said. "But this year will be more challenging."

Cosco's situation illustrates the important relationship between China's government and its huge state-sector companies, which benefit from Beijing's policies—and are expected to contribute to its efforts to keep the economy growing.

With more than 800 ships and 53 million tons of total carrying capacity, Cosco is by many reckonings second in size in its industry only to **A.P. Moller-Maersk** AS, the Danish container-and-oil shipping giant. A former national monopoly, Cosco now has several domestic competitors and has listed more than half of its assets through various vehicles on overseas stock markets, Mr. Zhang said.

Mr. Zhang said the group's revenue grew to at least $26.9 billion last year from $22 billion in 2007. That was largely on the strength of the first nine months, before the recession began to slow trade and cripple many shipping companies. He declined to give an estimate for 2008 profit.

Mr. Zhang said this year's revenue will be lower, but that China's stimulus package will help cushion Cosco's business. The company has diversified into domestic logistics and shipbuilding, both of which stand to benefit from government spending.

Cosco also recently received an $11 billion line of credit from a state-owned bank.

Rambus, Hynix step closer to ending 9-year legal battle

BY DON CLARK

Rambus Inc. and **Hynix Semiconductor** Inc. tentatively agreed to a proposed judgment in their nine-year legal battle that would require Hynix to pay $397 million as well as additional royalties.

The pact doesn't necessarily mean that Hynix will pay that amount, since the South Korean company is expected to appeal the judgment after it is entered in a federal court in San Jose, Calif.

"It's not really a settlement in the normal sense of the word," said Thomas Lavelle, Rambus's general counsel. But he called the agreement "another big step closer" to ending the conflict.

Rambus, of Los Altos, Calif., specializes in technology that accelerates the performance of memory chips. The company has been locked in patent litigation with Hynix and other makers of those chips after an initial plan to license its technology failed to take off.

Defendants have raised accusations that Rambus misled an industry group about the company's plans to patent technology the group later chose as a standard. The Federal Trade Commission took up the latter issue, but an appeals court ruled against the FTC and the U.S. Supreme Court recently declined to review that ruling.

U.S. District Judge Ronald Whyte last week upheld a 2008 jury verdict concluding that Rambus did nothing wrong, in a case involving Hynix, **Samsung Electronics** Co., **Nanya Technology** Corp. and **Micron Technology** Inc.

—Kerry E. Grace contributed to this article.

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Wal-Mart to launch new PR effort

Retailer is aiming to retain growth from bargain hunters

By Ann Zimmerman

In a sign that **Wal-Mart Stores** Inc. plans to capitalize on its sales strength in the recession, the retailer is hiring five public-relations firms to better promote its products, according to documents reviewed by The Wall Street Journal.

The retailer, based in Bentonville, Ark., plans to put the firms on retainer and then have them bid on individual projects, an effort by the notoriously frugal retailer to contain costs. This strategy is becoming more common in the advertising industry as businesses attempt to rein in marketing budgets amid falling revenues.

The five agencies will carve up work previously handled almost entirely by **Edelman**, a large, closely held, public-relations agency with headquarters in New York and Chicago.

"Wal-Mart is currently talking to a number of public-relations agencies to support consumer communications for Wal-Mart U.S.," the retailer said. "Candidate agencies that may join the roster have already been identified and vetted."

Wal-Mart, which reported February same-store sales grew 5.1%, its best sales performance in nine months, is handily outpacing those of its competitors in the recession as consumers trade down to more-affordable products, particularly for necessities such as food. However, in recent years the company's sales in the U.S. have flagged, and Wal-Mart is stepping up promotional activities in an attempt to hold on to its enlarged customer base when the economy recovers, according to a person close to the process.

The agencies will promote Wal-Mart in five key categories: food, apparel, electronics, financial services and its Web site, Walmart.com. Wal-Mart has a multimillion-dollar budget for outside PR agencies for the current year, according to the documents reviewed by the Journal.

In the last year, Wal-Mart has tried to boost sales by stocking bigger brand-name electronics and overhauling its private-label food line, which makes its debut at the end of the month. The company also has overhauled its apparel and home-furnishings division, moved it to New York and introduced exclusive brands, including a recent line of casual apparel and career dresses by designer Norma Kamali and a higher-end bedding and accessories line by Better Homes and Gardens.

Associated Press

A shopper browsing at a Wal-Mart in Massachusetts last month. In the past year, Wal-Mart has started stocking bigger brand-name electronics and overhauling its private-label food line, but it has done little to promote these efforts.

But the company has done little to promote these efforts, a strategy it apparently wants to change. A document Wal-Mart sent to public-relations firms Jan. 26 inviting them to bid for the business outlined what the retailer expects from the agencies it hires: "Wal-Mart continues to step up its offense game, and the PR agencies approved for projects will be expected to contribute greatly to (1) increased reach; (2) continuing positive media tone, measurably improved over time, (3) improved customer favorability ratings."

Wal-Mart first contracted with Edelman's Washington office in 2005 to combat negative publicity orchestrated in part by several groups affiliated with labor unions. Edelman set up a "war room" at the company's headquarters to quickly respond to any perceived attacks on the retailer's reputation.

Edelman's Chicago office has handled the majority of publicity work for Wal-Mart's products and programs for the past three years, with several other agencies handling some projects as well. PR-industry insiders widely assumed Edelman would continue handling all of the retailer's outside publicity needs after Leslie Dach, vice chairman of Edelman public relations and architect of its stepped-up strategy for Wal-Mart to combat critics, became Wal-Mart's executive vice president of government relations and corporate affairs two years ago.

But Wal-Mart decided that one agency couldn't handle all of its needs, according to people who were briefed on the decision. Edelman Chief Executive Richard Edelman declined to comment.

Wal-Mart has overhauled its marketing efforts in the past two years, after an attempt to cater to higher-income shoppers failed. Two years ago, it hired Martin Agency, an Interpublic unit based in Richmond, Va., to create campaigns that once again emphasized the retailer's bargains. As part of the resonant "Save Money. Live Better" campaign, Wal-Mart's ads have highlighted how much shoppers save at Wal-Mart versus its competitors.

About 12 public-relations firms met in late February with members of Wal-Mart's in-house public-relations team for what the company called a "chemistry check and capabilities" assessment. The review committee whittled the roster down to a short list of candidates that will present a work assignment beginning next Tuesday.

Edelman didn't have to participate in the "chemistry check" and immediately advanced to the next round, according to a person familiar with the process. Wal-Mart said Edelman's Washington office will continue to work with the retailer on corporate and political issues.

Tiffany to close underperforming Iridesse chain

By Rachel Dodes

Tiffany & Co. is planning to shutter its underperforming Iridesse pearl jewelry retail chain.

Tiffany launched the 16-store U.S. chain in 2004 with a big advertising campaign and lured top designers to create special collections. But the deepening recession "ultimately proved too stressful for this young business," Tiffany's chief executive Michael Kowalski said in an internal memo reviewed by The Wall Street Journal.

He added that he was proud of the "many successes" Iridesse had achieved over the past four years, "most notably developing a beautifully designed pearl jewelry collection."

Mark Aaron, Tiffany's vice president of investor relations, confirmed that Iridesse was being discontinued because of the challenging economy. Investing in a new retail concept is "not a prudent use of resources in this environment," he said, adding that the company is still in the process of selling off Iridesse's inventory and reaching agreements with landlords. The chain will close after those agreements have been unwound.

Tiffany didn't disclose Iridesse's sales or the number of employees it has other than there are "several working in each store and a modest-sized headquarters staff," Mr. Aaron says.

Many retailers have developed new brands and concepts in recent years as a means to spur growth. But the sharp decline in consumer spending is causing them to rethink capital-intensive expansion strategies and focus on their core businesses. **Neiman Marcus Group** Inc., for example, said in December that it was halting further development of its new Cusp chain for younger consumers. And **Aeropostale** Inc. said last month that it would close all 11 of its Jimmy'Z brand stores, so that it could focus on its namesake brand.

"Successful retailers today have to make tough choices," says Arnold Aronson, managing director at retail consultancy Kurt Salmon Associates, and a former chairman of Saks Fifth Avenue. "Capital investment, time and energy are finite resources."

Tiffany, which reports fourth-quarter earnings on March 23, saw its holiday sales plummet 20% during the critical November-December holiday period, even as it lowered retail prices on diamond engagement rings in the U.S. by 10% to boost store traffic. The company in January offered voluntary retirement to about 800 U.S. employees, or 13% of its staff.

The company hasn't disclosed how many employees accepted the voluntary retirement offer, but Mr. Aaron says it was "a pretty meaningful percentage." In some divisions, "it exceeded what we expected," meaning that Tiffany may be able to fill some positions with employees from the Iridesse unit. Iridesse's president, Robert Cepek, will be staying with the company in a different role, Mr. Aaron said.

Analysts are expecting Tiffany to earn 80 cents a share in the fourth quarter of 2008, compared with $1.27 in the year-earlier period, according to Thomson Reuters.

Neiman loss marks tough days for luxury sellers

By Vanessa O'Connell
And Peter Lattman

Upscale retailer **Neiman Marcus Group** Inc. posted a quarterly loss Wednesday—its first holiday shopping period loss since the company started disclosing quarterly results in 1994—illustrating how high-end merchants now are among the worst hit segments of American retailing.

The Dallas-based retailer reported a net loss of $509.2 million for the second quarter ended Jan. 31, compared with net earnings of $44.3 million in the same period a year ago. Sales in its fiscal second-quarter dropped 21% to $1.08 billion from $1.37 billion in the prior year.

The majority of the latest loss stemmed from a $560.1 million noncash impairment charge on goodwill and lower values for its tradenames. It cited "recent significant declines in the U.S. and international financial markets" as well as "double digit decreases in comparable revenues" for Neiman Marcus as factors in its impairment charges.

The results reflect how luxury retailers are scrambling to adjust to dramatically leaner times. Burton Tansky, chief executive of Neiman Marcus, has long cultivated the cachet of the century-old retailer by focusing on pricey designer goods and limiting expansion to two stores a year. The retailer operates 40 Neiman Marcus stores, the Bergdorf Goodman store in New York, and six smaller Cusp boutiques.

The six-year boom in luxury goods came to a screeching halt last fall, as wealthy shoppers dramatically cut back on their purchases of designer clothing and other pricey items. Consultant Bain & Co. last month lowered its outlook for global luxury consumption, forecasting a falloff this year that could go as deep as 15% compared with 2008.

Neiman Marcus has cut inventories and laid off employees. Its credit rating was lowered in December.

Neiman Marcus was bought by Texas Pacific Group and Warburg Pincus LLC for $5.1 billion in 2005. The buyers paid about 8.5 times Ebitda, or earnings, taxes, interest, depreciation and amortization. From 2005 to 2007, the retailer grew its Ebitda by 40%, and there was speculation on Wall Street that its private equity owners might take Neiman Marcus public.

At the end of the third calendar quarter of 2008, the private-equity owners had valued their investment in Neiman Marcus at more than two times its original cost, according to people familiar with the change. At the end of December, they wrote down their investment by more than 50% and now carry it at cost.

In past years, Neiman Marcus had promoted itself as the chain where shoppers could find some of the most expensive designer merchandise around, including over-the-top fantasy holiday gifts such as jewel-encrusted bras. Now, it must adjust to market where a smaller group of customers are buying fewer expensive items. "There's a smaller customer base and the customer that traded up to Neiman Marcus is no longer there," says Matthew F. Katz, a managing partner at AlixPartners, a consulting firm. Mr. Katz does work for rival **Saks** Inc.

Neiman executives say they have tried to avoid the steep discounting that its rivals have implemented. But Karen W. Katz, Neiman Marcus chief executive of stores, said in an interview Monday that the chain has recently changed its marketing approach, to increase direct mailings to its customers, and to offer shoppers "different kinds of incentives to come into the store." Ms. Katz is unrelated to Mr. Katz.

Last week, for instance, it offered $500 gift card for those who donated "gently worn" suits to charity. It also sent some of its regular customers a $50 "perk" card to use toward alterations, and offered $200 off designer handbags priced at $750 or more, beginning March 20.

CORPORATE NEWS

Associated Press

The Massachusetts anesthesiologist allegedly faked data in 21 studies on the use of various painkillers, including Vioxx.

Pain scientist fabricated drug data, hospital says

Fakery is alleged in studies involving Celebrex and Vioxx

By Keith J. Winstein And David Armstrong

A prominent Massachusetts anesthesiologist allegedly fabricated 21 medical studies that claimed to show benefits from painkillers like Vioxx and Celebrex, according to the hospital where he worked.

Baystate Medical Center, Springfield, Mass., said that its former chief of acute pain, Scott S. Reuben, had faked data used in the studies, which were published in several anesthesiology journals between 1996 and 2008.

The hospital has asked the medical journals to retract the 21 studies, some of which reported favorable results from the use of painkillers like **Pfizer** Inc.'s Bextra and **Merck** & Co.'s Vioxx—both since withdrawn—as well as Pfizer's Celebrex and Lyrica. Dr. Reuben's research work also claimed positive findings for **Wyeth**'s antidepressant Effexor XR as a pain killer. And he wrote to the Food and Drug Administration, urging the agency not to restrict the use of many of the painkillers he studied, citing his own data on their safety and effectiveness.

"Dr. Reuben deeply regrets that this happened," said the doctor's attorney, Ingrid Martin. "Dr. Reuben cooperated fully with the peer review committee. There were extenuating circumstances that the committee fairly and justly considered." She declined to explain the extenuating circumstances. Dr. Reuben didn't respond to requests for comment sent through Ms. Martin and left at his former office.

The retractions, first reported in Anesthesiology News, have caused anesthesiologists to reconsider the use of certain practices adopted as a result of Dr. Reuben's research, doctors said. His work is considered important in encouraging doctors to combine the use of painkillers like Celebrex and Lyrica for patients undergoing common procedures such as knee and hip replacements.

Last month, the journal Anesthesia & Analgesia retracted 10 of Dr. Reuben's studies and posted a list of the 11 published in other journals on its Web site. The journal Anesthesiology said it has retracted three of Dr. Reuben's articles.

Dr. Reuben had been a paid speaker on behalf of Pfizer's medicines, and it paid for some of his research. "It is very disappointing to learn about Dr. Scott Reuben's alleged actions," Pfizer said in a statement. "When we decided to support Dr. Reuben's research, he worked for a credible academic medical center and appeared to be a reputable investigator."

Wyeth said it isn't aware of any financial relationship between the company and Dr. Reuben.

An FDA spokeswoman said late Tuesday she wasn't aware of the matter. Merck had no comment.

Cannabis drug helps in MS

By Jason Douglas

LONDON—**GW Pharmaceuticals** PLC said Wednesday that its lead drug Sativex, which is derived from cannabis, successfully passed a Phase III trial as a treatment for spasticity in multiple sclerosis patients.

Sativex, which patients spray into their mouths, was tested in 573 patients in the U.K., Spain, Italy, the Czech Republic and Poland. After first identifying 241 patients for whom Sativex worked, GW then compared these responders against a dummy version of the drug. The trial found that 74% of patients felt their symptoms improve by more than 30%, compared with only 51% of patients on the placebo.

Success in this phase III trial caps a long and difficult clinical journey for Sativex, which previously failed a similar pivotal study testing it as a treatment for neuropathic pain in multiple sclerosis patients in April last year. Shares in Salisbury-based GW were up 51% in midday trading on the news.

GW said it will submit Sativex for regulatory approval in the U.K. before the end of the second quarter. If approved, it will be sold in the U.K. by Germany's **Bayer** AG. The company will also seek to market Sativex in other European countries under an agreement with Spain's **Laboratorios Almirall** SA. Justin Gover, managing director at GW, said Almirall is likely to file for approval in Spain by the end of the second quarter.

GLOBAL BUSINESS BRIEFS

Philips Electronics NV

Remaining LG Display stake is sold for $798.5 million

Philips Electronics NV sold its remaining stake in South Korean flat-screen producer **LG Display** Co. for about €630 million ($798.5 million), as part of its move away from cyclical businesses and into steadier areas such as health care. Netherlands-based Philips said it sold its stake to investors in a capital-markets transaction and that it expects to book a nontaxable gain of about €70 million related to the sale in the first quarter. Philips said the transaction represents 13.2% of LG Display's issued share capital. The stock was sold at a 7.4% discount to LG Display's closing share price Tuesday. Last year, Philips booked an impairment charge of about €600 million tied to its remaining stake in LG display, mirroring the South Korean company's falling market value.

JCDecaux SA

French outdoor-advertising company JCDecaux SA reported a 51% drop in full-year net profit, scrapped its dividend and said it expects organic revenue to fall 10% in the first quarter of 2009. Shares in the company sank 19%. Net profit declined to €108 million ($136.9 million) in 2008, hit by a €70.9 million impairment charge due to the fall in value of JCDecaux's minority shareholdings and goodwill impairments on acquisitions. Profitability of JCDecaux's street furniture operations dropped in part due to higher costs in France. Margins in its billboard operations also deteriorated as revenue fell in the U.K. and Spain.

Electricité de France SA

European Union antitrust investigators made surprise inspections at state-owned utility Electricité de France SA, the European Commission and the company said Wednesday. The commission, the EU's executive arm, said it has "reason to believe" EDF may have violated European antitrust rules prohibiting the abuse of a dominant market position. "The suspected illegal conduct may include actions to raise prices on the French wholesale electricity market," the commission said. EDF produces the vast majority of France's electricity, and its fleet of 58 nuclear reactors alone generates about 80% of the country's power. The French state owns 84.8% of EDF. The company said it is cooperating with the EU investigations but declined to comment further.

OAO Mobile TeleSystems

OAO **Mobile TeleSystems**, Russia's biggest wireless operator by customers, posted a 68% drop in fourth-quarter net profit as the depreciation of the ruble cut into its dollar-denominated revenue and raised the cost of foreign debt. Net profit declined to $145.5 million from $460.3 million in the year-earlier quarter. MTS gets its revenue in rubles, but most of its debt is in dollars. About $494.6 million was wiped from MTS's profit as the ruble weakened against the dollar between September and December. Revenue rose 4% to $2.42 billion, driven by strong growth in Russia, where sales were up 19% in local currency terms. "The devaluation of the ruble has radically changed our business and decision making model," said Chief Executive Mikhail Shamolin. "It's so hard to predict the situation that it would be irresponsible to try."

American Express Co.

American Express Co. said its chairman and chief executive, Kenneth I. Chenault, earned salary, perks and stock-based awards in 2008 valued at $36.6 million. According to a securities filing, Mr. Chenault's compensation included stock and options valued at $34.1 million at the time of the grants in early 2008. At the time, the credit-card firm's shares were trading at around $49. AmEx fell 2% in 4 p.m. New York Stock Exchange composite trading Wednesday after jumping 14% Tuesday. Separately, **Wells Fargo** & Co. said that John Stumpf, president and CEO of the San Francisco-based bank, got salary, perks and stock-based awards in 2008 worth about $9 million. The compensation included stocks and options valued at $7.9 million at the time of grants, which was in early 2008.

Johnston Press PLC

U.K. regional newspaper publisher **Johnston Press** PLC swung to a net loss in 2008 on impairment charges and warned that 2009 revenue will be "significantly below" last year's levels. The full-year net loss totaled £365.5 million ($502.5 million), compared with a net profit of £113.6 million for 2007. Goodwill impairment charges totaled £417.5 million in 2008. Revenue fell 12% to £531.9 million. "Advertising markets remain very depressed with advertising revenues to date in 2009 35.9% below those for 2008," said Chief Executive Officer John Fry. Chief Financial Officer Stuart Paterson said there will be a further reduction in headcount if advertising revenue continues to decline

Bombardier Inc.

Bombardier Inc. finally sealed an order for its new CSeries regional jet with **Deutsche Lufthansa** AG, the launch customer for the aircraft program. The deal, which is valued at $1.53 billion based on the list prices, comprises 30 CS100 single-aisle aircraft, with an option for an additional 30 planes. Lufthansa intends to put them into service at its Swiss International Air Lines unit. Montreal-based Bombardier had been expected to announce its first firm order for the CSeries from Lufthansa by the end of January. The CSeries, which is expected to enter service in 2013, is touted for its lower carbon emissions and its fuel savings.

—Compiled from staff and wire service reports.

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U.S. gets low grades in economist survey

Negative feelings toward Obama, Geithner contrast with White House's popularity and mark turnaround in opinion

By Phil Izzo

U.S. President Barack Obama and Treasury Secretary Timothy Geithner are failing in their efforts to revive the economy, according to participants in the latest Wall Street Journal forecasting survey.

Their assessment stands in contrast with Mr. Obama's popularity with the public, with a recent Wall Street Journal/NBC News poll giving him a 60% approval rating. But a majority of the 49 economists polled is dissatisfied with the administration's economic policies.

On average, they gave the president a mark of 59 out of 100, and although there was a broad range of marks, 42% of respondents graded Mr. Obama below 60. Mr. Geithner fared even worse, with an average grade of 51. Federal Reserve Chairman Ben Bernanke scored better, with an average 71.

"The Obama team has blown it," said David Resler of Nomura Securities.

Some economists were not impressed by the $787 billion stimulus package, with 43% saying the U.S. will need another stimulus package on the order of nearly $500 billion. Others were skeptical of the need for stimulus. "The package already passed was too much, too late," said Dana Johnson of Comerica Bank.

However, economists' main complaint centers on the lack of clarity in the administration's plan for the banking sector. "The most important issue in the short run is the financial rescue," said Stephen Stanley of RBS Greenwich Capital. "They overpromised and underdelivered. Secretary Geithner scheduled a big speech and came out with just a vague blueprint. The uncertainty is hanging over everyone's head."

Mr. Geithner unveiled the Obama administration's plans Feb. 10, but he offered few details, and stocks sank on the news. The Dow Jones Industrial Average is down almost 20% since the announcement. In the ensuing weeks, the Treasury secretary has appeared before Congress

Associated Press

U.S. President Barack Obama, foreground, and Treasury Secretary Timothy Geithner got low marks from economics for their handling of the economy.

and offered more specifics but has said specific action is still weeks away.

Treasury has begun stress-testing banks in an effort to determine which institutions will need additional capital from the government, but the results won't be known for a few weeks. Meanwhile, a key part of the plan—a public-private partnership to take toxic assets off bank balance sheets—remains in the planning stages.

Mr. Geithner spoke to reporters Wednesday and said "now is the time for action" on a deepening global recession. He called for more stimulus around the globe and "forceful financial-sector actions" but didn't get into specifics. He and other finance ministers from the Group of 20 leading nations will meet this weekend near London. (Please see article on page 3.)

The negative response from the economists marks a turnaround in opinion. In December, three-quarters of respondents said the incoming administration's economic team was better than the departing Bush team. However, Mr. Geithner's marks are lower than the average grade of 57 that former Treasury Secretary Henry Paulson received in January.

Mr. Geithner, who is relying on a skeleton crew of advisers in the Treasury Department as the administration struggles to make key appointments to his staff, is finding the same problems as his predecessor in dealing with the complexities of a bailout plan. Richard DeKaser of Woodley Park Research, who gave high marks to Messrs. Obama and Geithner, admits disappointment in the delay in action but appreciates the magnitude of the task. "I don't know what's holding it up," he said. "But I'm assuming it's not just because they're hitting the golf course."

Markets initially cheered the appointment of Mr. Geithner, who as president of the New York Fed had been on the front lines of the crisis since it erupted. However, in the ensuing weeks, Mr. Geithner has had to deal with tax troubles and criticism from those opposed to any bailouts as well as those who think the government needs to be doing more.

A worsening recession weighed on economists' minds, as they pushed off forecasts for a recovery yet again. On average, they expect the downturn to end in October. Last month, they said the bottom would arrive in August. They estimate that gross domestic product will continue to contract in the first half of this year, with slow growth returning in the third quarter. Meanwhile, the economists surveyed this month estimate that the economy will shed another 2.8 million jobs over the next 12 months as the unemployment rate climbs to 9.3% by December, up from the 8.1% rate recorded in February. Economists also put nearly a one-in-six chance that the U.S. will fall into a depression, defined as a decline in per-person GDP or consumption by 10% or more.

"We just keep moving the date [when the recession will end] out, hoping at some point in time we will be able to move the date back in," said Diane Swonk of Mesirow Financial.

The economists didn't single out the U.S. for criticism, though, as 70% of participants said the response of governments around the world to the global recession has been inadequate. "The Europeans or Japanese don't seem to be doing near enough to kick-start their economies," said Nariman Behravesh of IHS Global Insight. "It could be we've done all the right things, but the rest of the world goes down the tubes."

Despite the growing criticism elsewhere, the respondents were broadly supportive of the Fed. More than 85% of the economists agreed that the central bank's proliferating lending programs are well designed, well executed and helping the economy. And while grades for Mr. Bernanke remain off their 2007 highs, the average has stabilized after falling as low as 69 in the November survey.

Amid all the gloom, there is a bright spot: Four-fifths of the economists said now is a good time to buy equities, especially if the investor has a long-term view.

Planning for the next blaze even before this one is put out

By David Wessel

CAPITAL

When firefighters are still struggling to extinguish the blaze, talking about fire prevention seems premature. The worst financial crisis since the Depression isn't over, yet it's time to put the best brains to work at reconstructing the financial regulatory structure so we don't go through this again.

Trying to wait until the fire is out will yield one of two bad outcomes: a simple-minded, myopic rush to regulation that will make the financial system no safer and the world economy worse off, or talk about "reform" that fades into inaction. Beginning the renovation of regulation will help speed the end of this painful episode. As Barney Frank, chairman of the U.S. House Financial Services Committee, puts it: "People...aren't going to go back into the water until we tell them we've killed most of the sharks."

Preventing all future crises is not the goal. The goal is to prevent mishaps from burning down the world economy. Here are three of the threshold questions that need pondering:

Who shall be saved, and who shall be allowed to die?

The policy of the U.S. government is that no large, interconnected financial firm can be allowed to fail because such failures threaten the broader economy.

The government must draw a circle to identify which firms or kinds of firms will be saved. No more sleep-deprived government officials making case-by-case decisions on Sunday nights. What about big hedge funds? Private-equity houses? Huge pension funds? The circle can't be drawn in indelible ink. Institutions and markets keep evolving. And firms inside the circle must pay for taxpayer-provided protection in fees (akin to the premium for deposit insurance that banks pay) or through rules that force them to hold more capital, borrow less readily or keep more cash on hand for emergencies (which means lower profits). Otherwise, investors will make risky loans to these outfits, knowing the taxpayers will bail them out. But make the charge for being "systemically important" too onerous, and big bucks and smart people will move just to the outside of the circle.

How paternalistic should regulation be, and who should be the parent?

The problem wasn't only that the U.S. wasn't tough enough on Citigroup or that the U.K. mishandled mortgage lender Northern Rock. "The far bigger failure—shared by bankers, regulators, central banks, finance ministers and academics across the world—was the failure to identify that the whole system was fraught with market-wide risk," the head of Britain's Financial Services Authority, Adair Turner, said earlier this year. "We failed to put together the jigsaw puzzle." So there's an emerging consensus that every country needs an overarching guardian of financial stability.

But anointing a financial-stability guardian is like sending a lone chaperone on a camping trip with a busload of teenagers: Technically someone has supervision but likely won't prevent hanky-panky. The danger is that all we do is identify an agency to take the blame when the next crisis arrives. Hence the reluctance of some inside the Federal Reserve, the leading candidate for this role in the U.S., to take the job, a reluctance matched only by the Fed's conviction that only it can possibly do the job.

Nonetheless, we're going to get a guardian, and that's better than the status quo. The question is whether to give the guardian enough clout to, say, impose rules on borrowing when everyone is getting too giddy or to ban particularly risky strains of loans.

Can we install air bags in the financial system that deploy automatically?

Today's mess reflects the failure of every check on the system. But just as maddening are rules that encouraged and sometimes forced banks to do things that are hurting the rest of us now. That's dumb.

A bank that wanted to set aside extra reserves in good times, for instance, was blocked by accountants who deemed that to be improper "earnings smoothing." So it's time to choose between accounting rules that aspire to a Platonic ideal of truth and rules that foster stable markets and a better economy. The rules that govern the size of banks' capital cushions prompt them to raise capital at unpropitious moments like today after they've taken big losses instead of prodding them to build bigger cushions in good times. That shows the wisdom of proposals to create a new kind of bank debt that automatically converts to equity capital.

Getting all this right is crucial. As the reaction to the Depression proves, the changes will be far-reaching and long-lasting.