News in Depth: Obama dials down Wall Street criticism

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What's News

South Korea and the EU neared a trade deal, but left ministers to resolve sticking points over major issues such as auto tariffs. A pact would send a strong anti-protectionism signal at a time when many nations are raising trade barriers. Page 3

■ **The euro-zone economy** continued to contract, while in the U.K., consumer prices rose unexpectedly. Pages 2, 32

■ **Obama plans to meet** with about a dozen of the U.S.'s top banking chiefs to discuss his plans to shore up the financial sector. WSJ.com

■ **The Czech government**, which holds the rotating EU presidency, lost a parliamentary confidence vote. Page 31

■ **Romania is near a deal** for an aid package valued at about $25.9 billion, joining the IMF's growing list of Eastern European clients. Page 9

■ **U.S. stocks gave back** a portion of Monday's rally, while European markets ended mixed. Page 20

■ **Europe should take** a central role in establishing a new global financial system, the U.K.'s Brown told the European Parliament. Page 11

■ **The IRS is working** harder to identify U.S. holders of foreign bank accounts to ensure that taxes are paid. Page 19

■ **Oil markets may not** be pricing in the extent of dwindling output in Russia, a factor that could buoy prices later this year, traders said. Page 19

■ **China raised** domestic gasoline and diesel prices as part of an attempt to catch up with recent crude-price gains.

■ **French car-parts maker** Valeo said its ex-CEO will receive a $4.4 million exit package, fueling criticism. Page 6

■ **The U.S. is asking** German officials for travel documents needed to deport an accused World War II Nazi guard.

■ **France offered** to compensate people who suffered health problems from nuclear tests in Algeria and the South Pacific decades ago.

■ **Credit Suisse's board gave** an upbeat view of business so far this year. Page 5

■ **Google said** China blocked YouTube, one of the most significant government disruptions of the service. Page 32

EDITORIAL&OPINION

Central bank limits

We need a world inflation police to prevent the next crisis. Page 14

Breaking news at europe.WSJ.com

Old tensions as new Israeli coalition takes shape

Associated Press

STANDOFF IN THE STREET: Police dispersed Arab-Israeli youths on Tuesday after right-wing Israelis marched through the village of Umm El-Fahm demanding residents show loyalty to the Jewish state.

Pensions are time bombs for Hungary

By Charles Forelle

BUDAPEST—To understand why Hungary's economic crisis is imperiling Eastern Europe and the rest of the Continent, consider the pension application of 40-year-old Tamás Szabó.

A year and a half ago, Mr. Szabó was riding his motorcycle to work when an oncoming car made a sudden turn and slammed into his bike. Now he says he has trouble moving his left ankle. He can't carry boxes, he says, limiting his career as a truck driver. He hasn't sought retraining, he says, and he isn't sure he can find other work.

Ferenc Gyurcsány

So on a recent morning, Mr. Szabó limped to the counter at a government building here and put in his paperwork for a state pension. The odds are good that he'll receive a monthly check for much of what he'd make if still working, for the rest of his life.

Hungary, a nation of 10 million, has three million pensioners. Besides writing checks for regular retirees, the government gives special benefits to accident victims, the disabled, military and police veterans, mayors, widows, farmers, miners and "excellent and recognized" artists. The average Hungarian retires at 58, and just 14% of Hungarians between 60 and 64 are working, compared with more than half of Americans.

The country's pension obligations are at the heart of an economic mess that is remaking Hungarian politics. On Tuesday, Former Hungarian central bank governor György Surányi emerged as a preferred candidate to succeed Prime Minister Ferenc Gyurcsány, who announced on Saturday that he would step down amid battles over spending cuts.

Budapest for years has run fiscal deficits to pay for social programs, with its annual tab for pensions now surpassing 10% of Hungary's gross domestic product. The government sold bonds to finance these outlays. In October, investors stopped buying them. The International Monetary Fund provided an emergency bailout so Hungary could pay its bills. But many international investors have pulled out of Hungary, sending the country's currency tumbling and darken-

Please turn to page 31

Geithner, Bernanke call for broader power

By Michael R. Crittenden And Maya Jackson Randall

Associated Press

Treasury Secretary Timothy Geithner, left, and Fed Chairman Ben Bernanke told U.S. lawmakers about the need to wind down nonbanks.

WASHINGTON—The U.S. government needs to be able to take over and wind down a range of economically important nonbank financial institutions, top economic officials told Congress on Tuesday, though who will get that authority was left as an open question.

Federal Reserve Chairman Ben Bernanke and Treasury Secretary Timothy Geithner told House lawmakers that the government's experience with American International Group Inc. highlights the need to deal with increasingly complex and systemically important institutions.

"If a federal agency had had such tools on Sept. 16, they could have been used to put AIG into conservatorship or receivership, unwind it slowly, protect policyholders, and impose haircuts on creditors and counterparties as appropriate," Mr. Bernanke told the House Financial Services Committee.

Both he and Mr. Geithner said such a program could be modeled on the way the Federal Deposit Insurance Corp. takes over and deals with the assets and liabilities of U.S. banks, and Mr. Bernanke suggested that the FDIC could be the logical agency to wield that authority.

That marks a split with Mr. Geithner, who said such authority should rest with the Treasury. Mr. Geithner said the Obama administration wants the government to be able to act as conservator for large financial firms on the brink of collapse, which would allow policy makers to renegotiate or cancel existing contracts and sell or transfer a firm's assets or liabilities.

"This proposed legislation would fill a significant void in the current financial services regulatory structure with respect to nonbank financial institutions," Mr. Geithner said.

In a question-and-answer

Please turn to back page

Inside

House of cards

Couple's immortality dreams are dying, thanks to Madoff
Marketplace, page 29

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	7660.37	-1.49
Nasdaq	1518.40	-2.40
DJ Stoxx 600	178.21	+0.27
FTSE 100	3911.46	-1.05
DAX	4187.36	+0.26
CAC 40	2874.39	+0.17
Euro	$1.3532	-0.28
Nymex crude	$53.98	+0.33

LEADING THE NEWS

Euro-zone economy continues to contract

March survey data paint glum picture; some hope emerges

By Paul Hannon

LONDON—The euro-zone economy continued to contract in the first quarter, with businesses cutting jobs at the fastest pace on record but also offering reasons for relief amid the gloom.

The March survey of purchasing managers at manufacturers and service providers across the 16-country euro zone offered early indications that the precipitous decline in output since the end of 2008 may be giving way to a more moderate one.

Economists see the preliminary estimate of the composite purchasing managers index as an early gauge of how the countries in the currency area are performing. According to Markit Economics, the index rose to 37.6 in March from 36.2 in February—a low for a series that began in 1998. A reading below 50—a point the euro zone crossed in June—indicates activity is contracting.

Another sign that the period of collapse in activity may be near an end came from France, where business sentiment steadied, albeit at the lowest level seen since the series began in 1976.

"The euro-zone recession may gradually ease in coming months after the catastrophic declines in activity seen in late 2008 and early 2009," said Holger Schmeiding, an economist at Bank of America. "Purchasing managers are no longer becoming more pessimistic. However, the indices are still at very low levels, especially for manufacturing."

Despite the rise in March, the PMI readings for the first quarter as a whole were the worst on record.

According to Markit, the data suggest the economy in the current quarter may contract by more than the 1.5% decline in the 2008 fourth quarter, which was by far the weakest outcome since records began in 1995.

Capital Economics said it expects the euro-zone economy to contract by 4% over the year, having previously forecast it would shrink by 3%.

European Central Bank Governing Council member Ivan Sramko said Tuesday that the central bank staff's recent forecasts, which call for an output contraction around 2.7% this year, might have to be revised down further.

Many economists expect the bank will cut its key rate by a half-percentage point to 1% at its April 2 meeting. Mr. Sramko suggested the ECB may soon take more radical steps to keep euro-zone banks flush with funds.

While the ECB is reluctant to follow the U.S. Federal Reserve and Bank of England by purchasing government debt, some policy makers have suggested recently it could bolster its support of banks by lengthening the term of the loans it makes to them. Loans that currently top out at six months, for instance, could be extended to a year.

Many economists expect a decision could come as soon as the bank's April 2 meeting—a timeline Mr. Sramko suggested could be accurate. "The first decision [on further nonstandard measures] should come within a month," he said.

Meanwhile, in the U.K. the consumer-price index unexpectedly rose on an annual basis in February, the Office for National Statistics said. Many economists had expected a marked decline.

February's 3.2% annual inflation forced Bank of England Governor Mervyn King to write a letter of explanation to the U.K. Treasury for inflation being more than one percentage point above the 2% target. In his letter, Mr. King said he expected inflation to resume its downward trend in coming months.

In testimony before Parliament, Mr. King cautioned the government against further significant economic stimulus, saying the country is facing very large fiscal deficits in coming years. Mr. King signaled that he believes sterling depreciation has gone far enough, and denied the suggestion that the central bank engineered the currency's decline.

Small gain

Euro-zone's composite Purchasing Managers Index

Source: Markit Economics

15 AIG executives to give back retention bonuses

By Liz Rappaport And Liam Pleven

New York Attorney General Andrew Cuomo said 15 of the top 20 recipients of $165 million in retention bonuses from **American International Group** Inc.'s Financial Products unit have agreed to give back their bonuses—amounting to more than $30 million.

Mr. Cuomo's office said Monday that, in all, AIGFP employees agreed to return about $50 million.

The Senate may still act to impose a hefty tax on bonuses paid to executives.

U.S. Senate Majority Leader Harry Reid (D., Nev.) said Tuesday that despite the return of some of the money, the Senate may still act to impose a hefty tax on bonuses paid to executives at AIG and other companies receiving federal bailout funds.

That legislation, however, appears to be on a slower track after President Barack Obama over the weekend questioned whether it was constitutional. The House last week passed a bill taxing bonuses. But an aide to Sen. Reid said Monday that the onus was now on the White House to spell out what it wanted to do to address the bonuses.

Sen. Max Baucus (D. Mont.), chairman of the Senate Finance Committee, said he is reviewing suggestions from the administration and other senators on how modify the plan. He said he still hoped the Senate would act on the legislation before Congress breaks for recess in two weeks.

Mr. Cuomo acknowledged that, for some of the AIG employees who returned their bonuses, the act was more a response to public outrage than atoning for a sin. He said many employees "had nothing to do with the meltdown" in the division.

Mr. Cuomo said he doesn't intend to reveal names of people who return bonuses, but maintained he hadn't decided whether to disclose those who keep them.

AIG said it is "deeply gratified that a vast majority of FP's senior leadership have expressed a willingness to forsake their recent retention payments," adding the company continues to "review the responses of our other FP employees."

It remains to be seen whether the givebacks will be enough to help Treasury Secretary Timothy Geithner put the matter behind him. Mr. Geithner told the House Financial Services Committee on Tuesday that he shares the public's frustration over AIG's compensation.

Some AIG employees have quit, and some—particularly among the rank-and-file overseas—were defiant. On a conference call with employees in offices in London and Paris on Monday morning, some compared the bonus controversy to fascist tactics seen in Europe in the 1940s, according to a person familiar with the matter.

Some people at the unit—fewer than 20—resigned, according to a person familiar with the matter.

Many waited until the last minute before signaling their decision.

INDEX TO PEOPLE

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

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

INDEX TO BUSINESSES

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

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LEADING THE NEWS

EU, Korea reach accord

Tentative trade pact still risks foundering amid economic fears

South Korea and the European Union neared completion of a trade agreement Tuesday, but left ministers to resolve sticking points over major issues such as auto tariffs.

By ***Evan Ramstad*** *in Seoul and* ***John W. Miller*** *in Brussels*

A deal could be reached on the sidelines of the Group of 20 financial summit in London next week, which trade ministers Kim Jong-hoon of South Korea and Catherine Ashton of the EU will attend.

That would send a strong anti-protectionism signal at a time when many countries are raising trade barriers in hopes of saving domestic jobs threatened by the global downturn. Even so, ratification could take months or years, as public fears over trade and potential job losses persist. South Korea and the U.S. struck a trade pact two years ago that lawmakers in both countries have yet to ratify.

In the South Korea-EU pact, significant differences remain on auto tariffs. South Korea wants to ease out its tariffs on small cars more gradually than those on larger cars. Its domestic auto makers produce small cars in big numbers. In the U.S. deal, South Korea's tariffs on all car imports end at the same time.

The EU wants tougher "rules of origin," to prevent products that are, for example, made in China and assembled in Korea, from benefiting under the free-trade deal. It also wants Korea to stop reimbursing domestic companies for customs fees, which gives Korean firms a competitive advantage.

At a news conference, lead negotiators said they reached a "provisional" agreement but added that their operating mode remains "nothing is agreed until everything is agreed."

Lee Hye-min, South Korea's chief negotiator, said that "during this round, Korea and the EU could not reach agreement on some items of a political nature."

If the ministers reach an accord, it would be the largest trade agreement—by value of potential exports between the two parties—for the EU and South Korea and the largest bilateral trade deal in the world. It would be slightly larger than South Korea's pact with the U.S.

That agreement served as a template for South Korea and the EU. It also pressured South Korea not to give up more than it did to the U.S., because doing so could reduce chances of the U.S. Congress approving the Korea-U.S. pact.

The EU is South Korea's second-largest trading partner after China, and businesses from European countries are the largest foreign investors in South Korea. Two-way trade amounted to $98.4 billion last year, and South Korea had an $18.4 billion surplus in the relationship, according to South Korea's trade ministry.

In addition to the unresolved matters, one official said the EU delegation must "go back and check our negotiating positions with EU countries that all have their issues." The EU represents 27 countries in the pact.

IMF revamps programs to ease the flow of credit

By Bob Davis And Sarah N. Lynch

The International Monetary Fund on Tuesday approved the creation of a new credit line aimed at big developing countries whose economies are tottering toward recession.

"These reforms represent a significant change in the way the fund can help its member countries—which is especially needed at this time of global crisis," said IMF Managing Director Dominique Strauss-Kahn.

The IMF's new "flexible credit line" is meant as backup credit for countries whose policies the IMF judges to be fundamentally sound, but which are being battered by the slowdown in international trade and private-sector lending. The IMF's plans for the new credit line were reported last week in The Wall Street Journal.

Among the countries the IMF is targeting for the loan are Brazil, Mexico, Korea, Peru and Singapore. Brazil's finance minister, Guido Mantega, applauded the new program.

"This way, the IMF can react quicker," he said.

Other countries were less enthusiastic. Even before the new loan was announced, South Korea and Singapore had said they weren't interested, prompting frustration within the IMF.

Many nations, especially in Latin America and Asia, have long resented the IMF because it required them to make unpopular changes in policy—opening markets, privatizing industries—in exchange for crisis loans.

While the new credit line doesn't require any policy changes, many nations worry that borrowing from the IMF will signal they are facing deeper trouble than anticipated.

The flexible credit replaces an earlier effort at providing condition-free loans, known informally at the IMF as E-Z loans. The new credit line at least doubles the amount a nation could borrow and extends the repayment period.

—Alastair Stewart in São Paulo contributed to this article.

CORPORATE NEWS

Telecoms outsource network operations

In cost-cutting effort, operators cut deals with equipment firms Alcatel-Lucent, Ericsson, Nokia Siemens

Telecommunications operators are increasingly outsourcing the management of their networks to the companies that supply telecom equipment in an attempt to cut costs, and participants expect them to step up the measures as the economic slump bites into revenue.

*By **Jethro Mullen** in Paris and **Gustav Sandstrom** in Stockholm*

In the past week, Europe's three telecommunications-equipment giants have each announced new outsourcing deals with operators. **Alcatel-Lucent** SA said Monday it has been contracted to roll out and operate the network of **KPN** NV's Belgian mobile operator, BASE. Last week, **Telefon AB L.M. Ericsson** agreed to provide maintenance and operations for **Vodafone Group** PLC's U.K. mobile network for seven years; and Nokia Siemens Networks, a joint venture of **Nokia** Corp. and **Siemens** AG, said it will manage fixed and mobile networks in Spain and the U.K. for **France Télécom** SA. Financial terms weren't disclosed for the deals.

Such deals, which involve the transfer of a broad range of tasks, can help operators such as France Télécom and **Deutsche Telekom** AG prop up profit margins while providing a boost to equipment makers, such as Alcatel and Ericsson, which face weaker demand in their traditional business of selling the equipment used to build networks.

Telecom operators say that as recession bites, consumers are becoming more careful in their use of telecommunications services, such as calling less when abroad to avoid hefty roaming charges. France Télécom says its revenue growth is generally 0.5% to 1.5% above gross domestic product growth in the markets in which it operates. If GDP starts to contract, it hurts revenue, giving operators an incentive to generate savings wherever they can.

"We believe it will bring an acceleration" in measures by operators to hand over management of networks to equipment vendors, said Andreas Herzog, the head of Alcatel-Lucent's managed-services unit.

Under such agreements, equipment makers take over responsibility and staff for duties traditionally carried out by operators. That can include monitoring network performance; managing the flow of calls across the network; ensuring the honeycomb of mobile towers and base-stations is adequately maintained; and dealing with other suppliers.

In December, **Telecom Italia** SpA said it planned to "reduce noncore infrastructure costs through co-operation with other players" and "exploit [the] potential of outsourcing opportunities."

The market for managed services, or outsourcing of network operations, was valued at about $15 billion to $20 billion in 2008, up from around $5 billion five years earlier, said Pierre Ferragu, a London-based analyst at Bernstein Research. He sees significant scope for further market growth, especially in the mobile sector, where only 10% of the world's four billion subscribers are currently using an outsourced network.

Nokia Siemens Networks' head of services, Rajeev Suri, said telecom operators are becoming more interested in outsourcing deals. "We are clearly seeing an increase in customer activity," he said.

Outsourcing deals

The market for managed telecom services, or outsourcing of network operations, was worth some $15 billion to $20 billion in 2008, up from around $5 billion five years earlier.

- Alcatel-Lucent to roll out and operate the network of KPN's Belgian mobile operator, BASE.
- Ericsson to provide maintenance for Vodafone U.K.'s mobile network.
- Nokia Siemens Networks to manage France Télécom networks in Spain and the U.K.
- Deutsche Telekom's T-Mobile and Hutchison Whampoa's and Investor AB's 3 outsourced the consolidation of their shared network in the U.K. to Ericsson.
- Vodafone and Telefónica Monday agreed to share network infrastructure in Germany, Spain, Ireland and the U.K.

Source: the companies. Photo: Associated Press

Josephine Edwall, head of communications at Ericsson Global Services, agreed that network outsourcing is on the rise, especially among larger operators. "A few years ago, none of the big players were interested in managed services," she said.

Mr. Suri says equipment vendors can typically handle the daily running of networks more cost-effectively than telecom operators because of economies of scale.

Equipment vendors "can do most of the functions that a telco does but cheaper, faster and better," said Camille Mendler, a telecommunications specialist at research and consulting firm Yankee Group.

Mr. Ferragu of Bernstein Research estimates that outsourcing a network could cut 10% to 15% off related operational expenses. He says network expenses, such as maintenance and transmission costs, typically make up 15% to 20% of operators' total operating expenses in mature markets.

That could translate into a one-to-three percentage-point improvement in the earnings before interest, tax, depreciation and amortization, or Ebitda for operators, he said.

Outsourcing can also help to facilitate network sharing between competing operators, another increasingly popular cost-saving measure, by minimizing the risk of conflicts. Once two or more operators have decided to share their networks, outsourcing the running of the network to an independent third party avoids tension between the staff and management of the two pooled networks on issues such as network management and development.

In February, Deutsche Telekom's T-Mobile and **Hutchison Whampoa** Ltd.'s and **Investor** AB's operator, 3, outsourced the consolidation of their shared network in the U.K. to Ericsson.

More recently, Vodafone and **Telefónica** SA on Monday announced a pan-European agreement to share network infrastructure in Germany, Spain, Ireland and the U.K. The two companies didn't exclude the option of outsourcing network operations from the shared assets.

The rising number of outsourcing deals can give equipment vendors new revenue, as telecom operators put the brakes on spending on network hardware. "We have seen for a long time that managed services is one of the fastest-growing areas in the telecom industry," says Ms. Edwall of Ericsson. In 2008, the company's managed service sales increased 17% from a year earlier to 14.3 billion Swedish kronor ($1.8 billion), or 7% of total sales.

—Erica Herrero-Martinez in London contributed to this article.

U.S. stimulus money is likely to spur e-health records

BY JACOB GOLDSTEIN

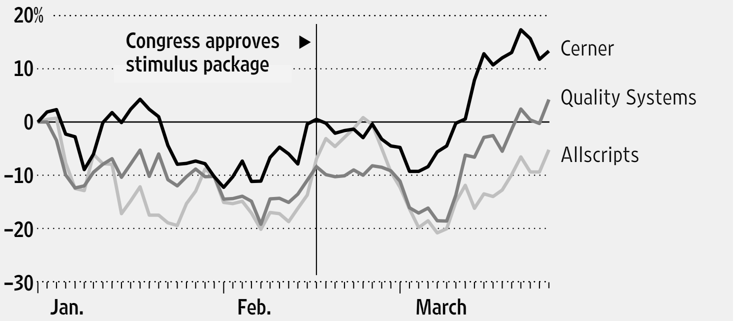
Big companies including **General Electric** Co. will likely profit from the billions of U.S. government stimulus dollars going to doctors who buy and use electronic health records. But little-known niche players could be among the biggest winners.

One such company is **eClinicalWorks**, a closely held firm in Westborough, Mass. The company, founded a decade ago by computer-programmer Girish Kumar Navani, his cousin and his physician brother-in-law, now has about 750 employees and expects $100 million in revenue this year. In the next few years, the company plans to hire 500 more people, up from 150 before the stimulus bill was approved.

"As of Dec. 31, we had put together a game plan saying, 'This economy looks like it's really getting bad. Why don't we be a little bit prudent?' " Mr. Navani says. "It changed in four weeks to, 'You will hire for growth; forget hiring for need.' "

The $787 billion stimulus package the U.S. Congress approved in February promises more than $20 billion in outlays for health-information technology, coming mostly between 2011 and 2015, according to an estimate from the Congressional Budget Office. Physicians using electronic records will be eligible for more than $40,000 each in Medicare incentive payments over several years starting in 2011. Hospitals can also qualify for millions of dollars in incentive payments. Doctors and hospitals not going electronic by 2015 will be subject to penalties.

On the rise | Year-to-date share performance



Source: WSJ Market Data Group

"We never anticipated the kind of dollars we're talking about today—never in our wildest dreams," says Steven Plochocki, chief executive of **Quality Systems** Inc., a publicly traded company that sells electronic records under the brand NextGen.

An electronic health record, sometimes called an electronic medical record, replaces a patient's paper file. EHR systems can incorporate safety features such as automatically alerting a doctor if a patient has prescriptions for drugs with dangerous interactions. Proponents believe EHRs can also reduce wasteful spending from unnecessary testing, help doctors spot trends in their practices and enable agencies such as Medicare to pool anonymous medical data to track public-health issues.

Skeptics say that sharing information electronically will require the creation of complex data networks. Worries about patient privacy also persist. And many physicians say the systems can be expensive and difficult to use. The cost often runs to tens of thousands of dollars per doctor in the first year—and several thousand dollars a year after that—raising the question of whether the big incentives in the stimulus will be large enough to win over some doctors.

A government-funded survey published last year found that only 13% of practicing doctors in the U.S. used a basic EHR system, and only 4% used what the authors called a "fully functional" system.

Key details of how the money will be distributed remain undecided. To receive incentive payments, doctors must demonstrate "meaningful use" of a "certified" EHR, but the legislation leaves those terms to be defined by federal officials.

GE has been in the health-equipment business for decades, but it didn't start selling EHR systems to doctors until 2002, when it bought a system from another vendor. The business is already growing at a rate of 15% to 20% a year, says Jim Corrigan of GE Healthcare IT.

But the labor-intensive aspects of adopting and maintaining electronic systems in doctors' offices can give smaller technology companies an opening to compete against big corporations, says Eric Brown, an analyst at Forrester Research Inc.Shares of publicly traded U.S. specialists such as Quality Systems, **Allscripts-Misys Healthcare Solutions** Inc. and **Cerner** Corp., have outperformed the broader market this year. Earlier this month, eClinicalWorks gained a national distribution channel when **Wal-Mart Stores** Inc. said it will begin selling eClinicalWorks EHR packages to medical offices through its Sam's Club stores.

The installation of **Dell** Inc. computers and training by eClinicalWorks staff will cost a physician $25,000 for the first year, with the option of adding additional doctors in the practice for $10,000 each. After the first year, the price will fall to about $5,000 a doctor annually.

Mr. Plochocki of Quality Systems says consolidation among vendors is likely, and he says that his company is considering a few acquisitions this year. Quality Systems has also been beefing up its sales force, he says.

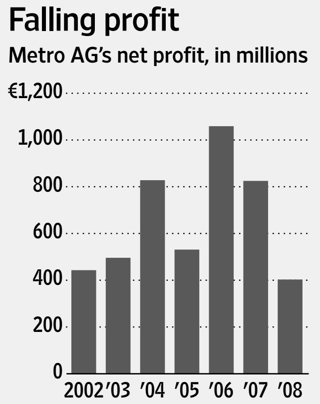
Allscripts is using its business selling billing software to doctors as a jumping-off point, selling EHR systems to its existing customers. Glen Tullman, the company's CEO, says a physician customer recently explained why he would rather buy both billing software and an EHR system from a single vendor: "If something goes wrong, I want one throat to choke," the doctor said.

CORPORATE NEWS

Metro profit drops 51%

German retailer expects sales growth to miss 2009 target

By Allison Connolly



Source: the company
Photo: Associated Press
◄ Eckhard Cordes, CEO of Metro AG

FRANKFURT—**Metro** AG posted a 51% decline in 2008 net profit and warned that it expects sales growth this year to fall short of its targets, weighing on earnings.

The German retailer said Tuesday that net profit came to €403 million ($550 million) from €825 million in 2007, hit by charges related to the disposal of its Adler chain. Earnings before interest and taxes, excluding items, rose 7.1% to €2.23 billion.

Sales rose 5.8% to €67.96 billion from €64.21 billion.

The company said sales growth this year is likely to fall short of its goal of more than 6%. Metro declined to give a specific outlook for the year, citing the "high level of uncertainty" amid the global economic downturn.

While last year's results were mostly in line with preliminary figures released in January, analysts were disappointed with the net-profit figure and the lack of a forecast. Metro shares declined 83 European cents to close at €24.45 on Tuesday in Germany.

MainFirst analyst Stephan Seip said Metro's failure to provide an earnings forecast wasn't surprising. Last month, German retailer **Arcandor** AG, whose Karstadt department stores compete with Metro's Galeria Kaufhof stores, didn't reiterate its 2009 forecast.

Metro, which proposed a stable dividend of €1.18 a share, lowered targets in January, saying sales of both food and nonfood items had declined because of customer spending moving toward less-expensive products, particularly in Spain and Italy. The company also blamed a stronger euro, as operations in Eastern Europe, the U.K., Asia and Africa produced lower sales revenue when translated into euros.

For the fourth quarter, sales rose 2.9% to €20.1 billion from €19.5 billion. Ebit rose 4.8% to €1.37 billion from €1.31 billion. Metro didn't break out fourth-quarter net profit.

Chief Executive Eckhard Cordes said first-quarter sales are developing on par with a year earlier, after translating for currency effects and adjusting for calendar effects. He said this year's Easter sales will be reported in the second quarter but were in the first quarter last year, and that the first quarter of 2008 benefited from an extra day of trading because of the leap year.

Metro confirmed its medium-term targets, with sales rising more than 6% a year over the next few years and Ebit before special items rising more than 8%.

Mr. Cordes said the company's restructuring program is on track and should contribute to earnings beginning this year and improve earnings overall by €1.5 billion by 2012.

Separately, Metro also announced a joint venture in China between its electronics chain Media Markt and Foxconn Technology Group. The first Media Markt store in China is expected to open in Shanghai next year.

—Natali Schwab contributed to this article.

Credit Suisse remains upbeat on '09 prospects

By Katharina Bart And Vivek Ahuja

ZURICH—**Credit Suisse Group**'s board on Tuesday gave an upbeat view of business so far this year and said it will ask shareholders for permission to issue new shares should the need for a capital increase arise.

The bank said that while uncertainty in financial markets makes predictions for this year difficult, it "had a strong start to 2009," in a letter to shareholders contained in its annual report.

"Overall, we have positioned our businesses to be less susceptible to negative market trends if they persist in the coming months and to prosper when markets recover," Credit Suisse said in the letter. In 2008, the bank reported a loss of 8.22 billion Swiss francs ($7.29 billion).

The bank's board plans to ask shareholders at its April 24 general meeting of shareholders to approve the potential issuance of new shares, should the need for a capital increase arise.

In a first step, the board is asking shareholders to approve the creation of new conditional capital. This would allow Credit Suisse to issue as many as 100 million shares, which at current prices would translate into a capital increase of around 3.6 billion Swiss francs. Credit Suisse's board also is asking for an increase in authorized capital over the same amount. New shares would be issued if suitable takeover opportunities came along, the bank said.

Analysts said the move would give Credit Suisse the flexibility to raise more cash if it needed to, mirroring similar moves by other Swiss financial-services companies, such as rival **UBS** AG or **Zurich Financial Services.**

The bank also is proposing Hans-Urig Dörig for re-election to the board, saying he will become chairman if elected and take over from Walter Kielholz who remains on the board but relinquishes the top role. Mr. Kielholz will become chairman at Swiss Reinsurance Co.

Credit Suisse also disclosed that its chairman and chief executive took steep pay cuts. Chairman Walter Kielholz earned 2 million Swiss francs in cash, compared with 14.6 million Swiss francs in total for 2007.

It also said that senior staff at its investment bank, as part of their annual bonuses, received a notional 686 million francs in units tied to toxic assets, a consequence of an innovative bonus plan first announced in December.

The toxic assets used to calculate the bonus payouts were originated by Credit Suisse's investment banking division. The partner-asset-facility awards have an eight-year contractual term, with holders receiving semiannual interest payments based on the awards' notional value, as well as an annual cash payment of 20% of the awards' notional value from the fifth year onwards.

The underlying toxic assets will "remain static throughout the contractual term or until liquidated," Credit Suisse said.

Deutsche Bank says a profit is possible

By Ulrike Dauer

FRANKFURT—**Deutsche Bank** AG doesn't need fresh capital and could return to profitability this year, Chief Executive Josef Ackermann said in a letter to shareholders Tuesday.

"At this stage, we do not see any requirement for raising new capital from whatever source," Mr. Ackermann wrote in the letter published alongside the bank's annual report.

Deutsche Bank, Germany's largest bank by market capitalization, increased its Tier 1 capital by nearly €3 billion ($4.1 billion) in 2008, he said. That, the CEO added, brought its Tier 1 ratio, a key measure of a bank's capital strength, to 10.1% at the end of the year, above its level before the financial crisis.

Deutsche Bank "made a good start to 2009," Mr. Ackermann said. The bank predicted it would be profitable again this year, if "the global economy, financial markets, legal and regulatory environment, and competitive environment develop as foreseen."

In 2008, Deutsche Bank took significant steps to cut costs in certain business areas, to maintain a substantial funding base and to strengthen capital ratios by reducing its exposure to leveraged finance and commercial real estate. This will likely contribute to its financial strength in 2009, Deutsche Bank said.

Josef Ackermann

However, the lender warned that adverse market conditions may also affect revenue at its core businesses and could create the need for additional cost-saving measures, including job cuts, in the near term.

The banking industry will continue to face "significant challenges" this year, said Deutsche Bank, but will likely benefit from "some degree of recovery" in 2010.

Despite these challenges, the lender said it is confident that Deutsche Bank itself is "correctly positioned to weather these difficult conditions." Management remains "firmly convinced" that Deutsche Bank's business mix of global investment banking and retail-banking operations will help it emerge stronger from this crisis, Mr. Ackermann said.

Swiss Life reports profit drop, Talanx partnership

By Goran Mijuk

ZURICH—**Swiss Life Holding** AG on Tuesday reported a 74% drop in 2008 net profit, hit by asset write-downs, and unveiled a strategic partnership with German insurer Talanx AG.

The deal with Talanx, in which the closely held German insurer will buy a 9.9% stake in the company, effectively ends Swiss Life's failed attempt to take over German financial adviser **MLP** AG. It should also help lift premiums and profit, the Zurich-based life insurer said.

Net profit at Swiss Life fell to 350 million Swiss francs ($311.4 million) from 1.35 billion francs in 2007, as asset write-downs in stocks and bonds of about 2.8 billion francs pummeled the bottom line.

At the same time, sagging demand for life insurance and pension products in key markets such as France and Germany prompted a 13% decline in gross premiums to 18.52 billion francs from 21.21 billion francs.

MLP last year halted its distribution agreement with Swiss Life after the insurer tried to acquire the German financial adviser, which sells insurance and bank products from various financial firms.

As part of the strategic partnership with Talanx, which includes distribution agreements in Germany and elsewhere through Swiss Life's financial-adviser unit AWD AG, the German company will own an 8.4% stake in MLP and buy 9.9% of Swiss Life for an undisclosed sum. The share-swap agreement will reduce Swiss Life's near-25% stake in MLP. Swiss Life said that after the deal with Talanx, its MLP stake will drop to 15.9%, with an aim to reduce it to below 10%.

Corporate directors urge boards to boost oversight

By Joann S. Lublin

The leading U.S. organization of directors says its members must do a better job governing corporate America, or risk further alienation of wary shareholders.

In a report released Tuesday, the National Association of Corporate Directors urged boards to bolster their handling of risk oversight, corporate strategy, executive compensation and investor communications. Among other things, the report suggests directors consider creating so-called bonus banks for executives, which would pay out over time if executives reach key goals.

"The only folks who can fix corporate America are the directors," NACD President Kenneth Daly said in an interview. "Boards are really trying to do a good job. But they aren't all doing a great job in all areas."

The governance drive comes amid intensified scrutiny of corporate boards for poor oversight of management leading up to the credit crisis and recession. A new federal law requires 400 companies receiving bailout money to give stockholders an advisory vote on executive-compensation practices. Congress likely will extend the requirement to all listed companies. At many companies, individual directors are now subject to possible dismissal if they don't win a majority of votes cast during annual meetings.

No report alone, regardless of its source, will restore investor confidence, some governance specialists say. "The public wants to see good results, not just good principles," said Lucian Bebchuk, a Harvard Law School professor and head of its corporate-governance program.

The report suggests boards might avoid the "exorbitant" compensation often paid chief executives by evaluating incumbents partly on their grooming of possible successors. Studies show CEOs hired from the outside are paid more than those promoted from within. But only 36% of public companies have a plan for developing internal CEO candidates, an NACD survey last year of 703 directors concluded.

Bonnie Hill, who sits on four corporate boards, says one of her prior boards several years ago slashed the annual bonus of a CEO she declines to identify because he resisted identifying potential successors. That "got his attention," she recalled. "The following year, we had someone in the pipeline"—along with two external recruits.

Several boards already embrace certain steps proposed by the Washington, D.C.-based NACD. For example, the report recommends that boards relieve overworked audit committees by assigning some risk oversight to other committees and tapping outside experts for risk advice. Every board committee at **Aetna** Inc. handles risk oversight to some extent and the audit panel coordinates those efforts, according to Barbara H. Franklin, an Aetna director who also is on **Dow Chemical** Co.'s board.

CORPORATE NEWS

Airlines expect big losses

Industry is forecast to lose $4.7 billion amid Asia weakness

A WSJ News Roundup

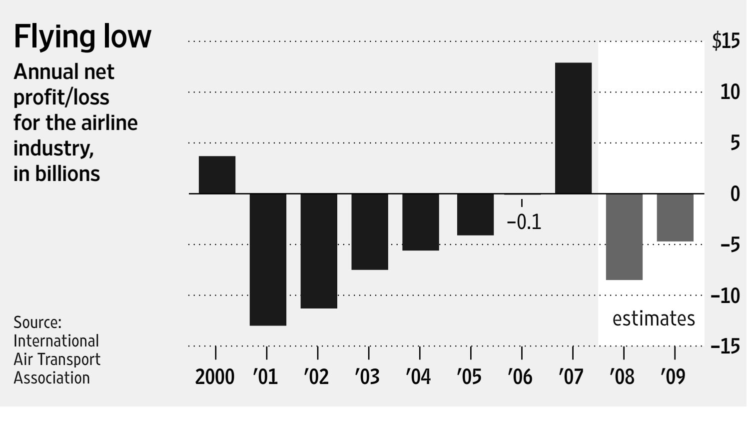
The global airline industry is projected to lose $4.7 billion this year, far greater than previously forecast, reflecting an especially heavy slump in the Asian-Pacific region.

"Demand has deteriorated much more rapidly with the economic slowdown than could have been anticipated even a few months ago," Giovanni Bisignani, director general of the International Air Transport Association, said Tuesday. The trade group in December forecast a $2.5 billion loss for this year.

"Fuel is the only good news," Mr. Bisignani said. "But the relief of lower fuel prices is overshadowed by falling demand and plummeting revenues. The industry is in intensive care." IATA represents about 230 airlines, accounting for 93% of scheduled international air traffic.

Airlines have been reporting steep drops in demand as more business and leisure travelers trim their budgets amid the global recession. Global business has slowed significantly, and the World Trade Organization predicts that trade between countries will decline 9% this year.

IATA projected that passenger traffic will decline 5.7% and cargo traffic will drop 13% percent this year.



Airline traffic in the Asian-Pacific region is expected to be hit hardest, with carriers projected to post a combined loss of $1.7 billion. IATA earlier forecast a loss of $1.1 billion for the region. Demand for travel to and from China is expected to contract between 5% and 10%.

European carriers are expected to post a $1 billion loss for the year. **Deutsche Lufthansa** AG, **Aer Lingus Group** PLC and **Air France-KLM** SA have warned of a tough year.

Despite projected economic growth in Latin America, a collapse in the demand for commodities will likely lead to a 7.8% decline in air traffic in the region.

North America is expected to deliver the best performance, with profit pegged at $100 million this year. IATA earlier forecast a $300 million profit. The industry is offsetting a steep drop in demand with cuts to capacity, IATA said. **Delta Air Lines** Inc. and United Airlines parent **UAL** Corp. have announced sharp reductions in their international capacity. **Continental Airlines** Inc. and American Airlines' parent, **AMR** Corp., are making smaller cuts.

Overall industry revenue is now expected to fall 12% to $467 billion this year, magnified by even greater weakness in premium traffic than previously forecast. That would be the sharpest decline in revenue since the 7% drop recorded in 2001, in part due to the terrorist attacks on Sept. 11 in the U.S.

Mr. Bisignani called on governments to stop increasing airline taxes, much of which he said are being used to fund the banking industry rather than the environmental projects for which they were earmarked.

Sanyo reduces earnings outlook

By Daisuke Wakabayashi

TOKYO—**Sanyo Electric** Co. cut its earnings forecast for the second time in two months, forecasting a full-year net loss of 90 billion yen ($927 million) on widening losses at its semiconductor business and additional restructuring charges ahead of a planned acquisition by **Panasonic** Corp.

Sanyo, one of the world's largest producers of rechargeable batteries, had previously expected to break even for the fiscal year ending March 31, but conditions deteriorated more than the company had expected at its last earnings forecast revision on Jan. 15.

Sagging demand for personal computers and mobile phones hurt orders of rechargeable batteries, semiconductors and other electronic devices. Sanyo now forecasts revenue of 1.76 trillion yen for the current fiscal year from a January estimate of 1.9 trillion yen.

Osaka-based Sanyo agreed to a $9 billion takeover in December, but the two sides are waiting for regulatory approval before finalizing the deal. The two companies are planning to announce the timing of Panasonic's tender-offer bid in late April.

At a news conference, Sanyo Executive Director Koichi Maeda said Panasonic is aware of the company's situation and understands how difficult conditions are in the electronics industry. Last month, Panasonic said it now expects to post a 380 billion yen loss for the current fiscal year ending March 31 and announced the closure of 27 factories.

Among Japan's major electronics makers, Sanyo is the first to cut forecasts again after a round of downward revisions in the industry in January.

In addition to the global recession hurting demand, Japan's electronics industry is suffering as competition and capacity glut drive down prices, and a stronger yen makes Japanese manufacturers less cost competitive.

Sanyo said it will incur an additional 53 billion yen in restructuring charges, mostly from its semiconductor business, where losses widened to an estimated 25 billion yen from an initial loss forecast of 20 billion yen.

On an operating basis, Sanyo expects to break even, down from an earlier estimate of a 30 billion yen profit. Mr. Maeda said Sanyo may now have to reconsider its midterm business plan, which calls for an operating profit of 70 billion yen and revenue of 2.15 trillion yen in the coming fiscal year.

EMI digital-music chief steps down

By Ethan Smith

EMI Group Ltd. said Monday that Douglas Merrill, president of digital business at EMI Music, has stepped down, nearly a year after he was hired away from **Google** Inc. amid great fanfare.

Luring a top officer from Google was viewed as a coup for EMI, which has struggled to find ways to earn money in the digital age, as CD sales fall and online piracy grows. Mr. Merrill served as Google's chief information officer and vice president of engineering from 2003 until 2008.

The executive was outspoken about the need for EMI and the industry to find new approaches to digital business. His plans for doing so, such as relaunching EMI's Web site as a service to sell music to consumers, occasionally generated controversy.

The major labels mostly had abandoned direct-to-consumer online efforts several years ago, after they experienced flops with digital-music services. Since then, most in the music business decided to cede that role to middlemen such as **Apple** Inc.'s iTunes Store.

EMI Music's chief executive, Elio Leoni-Sceti, said, "I would like to thank Douglas for his contribution to the company." Mr. Merrill couldn't be reached. EMI is owned by London-based private-equity group **Terra Firma Capital Partners** Ltd.

Some of Mr. Merrill's duties are to be handled by Cory Ondrejka, who has been named executive vice president for digital marketing.

Ex-chief's exit package at Valeo fuels criticism

By David Pearson

PARIS—French car-parts maker **Valeo** SA said Tuesday that Thierry Morin, who this week resigned from his post as chairman and chief executive over strategic differences with the board, will receive compensation totaling €3.2 million ($4.4 million), equivalent to two years' base salary.

The news of Mr. Morin's exit package sparked an outcry in France amid controversy over large bonuses and stock-option awards to executives at companies and banks such as Société Générale SA that are receiving state aid or are slashing jobs. The government is under pressure to introduce legislation to curb what is viewed as excessive executive remuneration.

Valeo's new acting chairman, Pascal Colombani, said that in determining Mr. Morin's severance package, the board decided not to take into account exceptional restructuring measures decided on in the fourth quarter of 2008.

Provisions related to those measures caused Valeo to post a net loss of €313 million for the fourth quarter and a loss of €207 million for the full year. The company has been battered by the collapse in revenue from its car-making customers around the world.

Under the terms of his contract, Mr. Morin was to receive 100% of his performance bonus if he achieved at least four out of five performance targets, one of which was that the company's bottom line should be in the black, a spokeswoman for the company said. If he had hit only three targets he would have received 70% of the bonus.

Mr. Morin would have hit only three of his objectives had the board not decided to disregard the exceptional restructuring costs.

Budget Minister Eric Woerth, commenting on press reports of Mr. Morin's remuneration, said in a radio interview Tuesday: "It's not normal; it's even provocative."

Laurence Parisot, head of Medef, the influential business leaders' association, called on Mr. Morin to give up his compensation, saying it contradicted the group's recommendations on executive remuneration. She accused Morin of being contemptuous of Valeo's employees and suppliers.

Mr. Morin couldn't be reached for comment.

Friction between Mr. Morin and Valeo's board has been building up in recent months over divergent views on the company's strategy. Valeo's biggest single shareholder, U.S. investment company **Pardus Capital Management**, which holds a nearly 20% stake, had been pressuring Mr. Morin to refocus the company on its core businesses, in which the company benefits from strong margins and solid market shares.

A person close to Pardus said the U.S. fund manager had gradually been able to win over other board members to its view that the company needed to manage its assets more dynamically.

Mr. Colombani said that "contrary to what has been said, Valeo hasn't received any aid from the French state."

The French government's strategic-investment fund last month said it bought a 2.35% stake in Valeo for €19 million by buying up shares on the market and that the move had been made at Mr. Morin's urging. It was the first investment by the fund set up to help companies hit by impact of the credit crisis. Together with the fund's parent company, **Caisse de Depots et de Consignations**, state enterprises now control 8.33% of Valeo's capital.

The fund Tuesday said it was seeking a seat on Valeo's board. Industry Minister Luc Chatel said the government would oppose Mr. Morin's golden parachute at the company's annual shareholder meeting at the end of April.

Energy giants' grip on grids loosened by EU parliament

By Alessandro Torello

BRUSSELS—European Union decision makers late Monday night reached an agreement over new rules to limit energy giants' grip on electricity grids and gas pipelines.

"We have an agreement on the text," said Radek Honzak, spokesman for the Czech Republic, which negotiated on behalf of the 27 EU countries. "We believe this compromise will be accepted by everybody because it's a balanced deal," he said, noting the accord still has to be backed by the European Parliament and a large majority of EU governments.

According to Monday's agreement, energy companies will still be allowed to own their networks, but their management of the grids will be monitored by an independent regulator to avoid discriminatory behavior, the parliament explained Tuesday.

In September 2007, the European Commission, the EU's executive branch, had proposed to force energy companies to sell off their networks to promote competition and lower prices by allowing new entrants into the sector.

Eight countries, led by Germany and France, fiercely opposed the plan and last June won a concession allowing national giants to retain ownership of their networks, although management of the networks would be separate and under strict independent regulatory supervision.

As a result of Monday's negotiation, lawmakers gave in on forced full ownership separation, but obtained stronger rights for consumers, such as the possibility to change gas or electricity supplier within three weeks, free of charge. European countries will still be able to enforce a full ownership separation if they wish, or require energy companies to hand over network operations to a fully independent body.

RWE AG, which operates Germany's longest power-transmission grid, welcomed Monday's agreement, saying ownership unbundling wouldn't be necessary to improve competition. A spokesman for **E.On** AG, Germany's largest gas-grid operator, said the agreement was "generally positive," but cautioned that the compromise still required final approval.

Toyota's output declines

February production decreased by half; Japan's bleak outlook

By Yoshio Takahashi

TOKYO—**Toyota Motor** Corp. said it halved global production in February amid a Japanese outlook calling for vehicle sales next fiscal year to fall to the lowest level in 32 years. The news highlights how Japanese auto makers continue to be battered by the world-wide slowdown.

Toyota rivals **Honda Motor** Co. and **Nissan Motor** Co. also cut global production by similar amounts during February, adjusting to the slower sales rate.

Japanese auto makers are seeking to lower inventory levels as cars pile up on dealer lots and in ports around the globe. Meantime, the Japan Automobile Manufacturers Association said it will shorten this autumn's Tokyo auto show as major U.S. and European auto makers have opted not to attend.

"We still can't see any clear sign for a recovery" in production, said Shigeru Matsumura, an analyst at SMBC Friend Research Center. With sales dropping precipitously, auto makers haven't been able to cut production fast enough to prevent inventory increases. Toyota last month rented a ship to store up to 2,500 vehicles due to limited space at Sweden's Malmo vehicle port.

In the U.S., the monthly decline in vehicle sales accelerated for the last three months, falling 41% in February from a year ago. Research firm IHS Global Insight expects global production of vehicles this year to fall 18% to 56 million from a year ago.

Vehicle sales in Japan are expected to drop 8% to 4.3 million in the fiscal year ending March 2010, the JAMA said. It would be the lowest sales since the fiscal year ended March 1978, and would mark the fourth consecutive year of decline. For the fiscal year ending this month, the industry group estimates auto sales in Japan will total 4.7 million, down 12%.

Reflecting the industry's troubles, JAMA said it will shorten the Tokyo Motor Show's duration to 13 days from 17 days as as **General Motors** Corp., **Ford Motor** Co., **Chrysler** LLC and four Japanese truck makers pulled out of the show this year.

"It's regrettable," said JAMA Chairman Satoshi Aoki. "But we are facing a once-in-a-century, unprecedented crisis."

For the January-March quarter, Toyota, the world's biggest car maker by volume, plans to scale back production in Japan by 54%. Honda seeks to bring down domestic output by 38% in the same quarter and Nissan plans a 59% cut.

Honda cut its North American vehicle production 46% for the first two months of the year, while Toyota said its production outside of Japan for the same period fell 43%.

—Kate Linebaugh in Detroit contributed to this article.

Associated Press

Toyota, the world's biggest car maker by volume, plans to scale back production in Japan by 54% for the January-March quarter.

Volvo truck sales in February set a dismal pace

By Ola Kinnander

STOCKHOLM—Sales of heavy trucks in Europe are likely to drop about 40% in 2009, but demand for trucks globally probably will start recovering before the end of the year, the head of **Volvo** AB said Tuesday.

Volvo Chief Executive Leif Johansson said in an interview that he thinks between 180,000 and 200,000 trucks will be sold in Europe this year, down from 318,700 units in 2008. His comments came the same day that Volvo reported that its truck deliveries in February fell 51% globally and 63% in Europe from a year earlier.

"It's an incredibly weak start to the year," he said. The credit crisis is the big culprit hurting demand, he said.

"It's still difficult for our customers, and their customers, to get financing for products," he said. "It's the frozen-up financial system that's hurting us so bad."

Mr. Johansson said he thinks the credit crisis will start easing in two or three quarters, after which a more normal recession will last for some time. Demand for trucks is likely to start picking up toward the end of 2009, he said. "We believe in a stronger second half of the year," he said.

Western Europe, the U.S. and Japan are hurting the most, he said, while parts of China and India are showing signs of recovery.

Eastern European demand is clearly suffering as well, following the recent unraveling of the region's previously fast-growing economies. In February, Volvo's truck deliveries in Eastern Europe plunged 92% to 240 trucks, down from 2,850 units.

Mr. Johansson also said he is aiming for Sweden-based Volvo, the world's second-biggest truck maker after Germany's **Daimler** AG, to emerge from the crisis "really strong, with small inventory, good cash flows and a [trimmed-down] cost level." He said he expects the truck maker to start gaining market share.

CORPORATE NEWS

Games service to shed hardware

OnLive will supply software over Web; console isn't needed

By Yukari Iwatani Kane

A start-up founded by veteran entrepreneur Steve Perlman is launching an on-demand service that it says will let users play fast-action games without having to buy game consoles or high-end PCs.

Mr. Perlman, best known as the founder of WebTV, said he has developed technology that allows advanced games to be run remotely on servers and played over the Internet.

The technology can quickly compress and decompress large amounts of data for transmission over standard home broadband networks, helping entry-level personal computers and specially equipped television sets play the sophisticated software.

The technology, which has been in development for seven years, will be rolled out in a videogame service that Mr. Perlman expects to launch later this year through a new company called OnLive Inc.

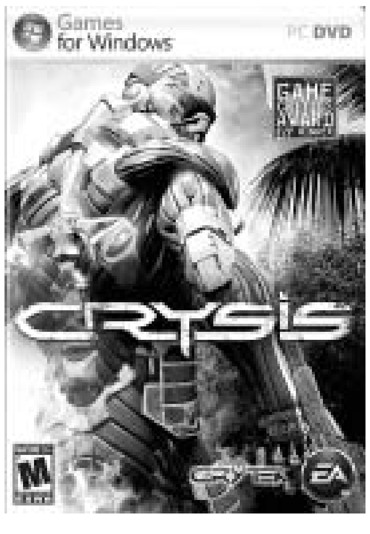
OnLive says it has signed up nine software publishers, including **Electronic Arts** Inc., **Take-Two Interactive Software** Inc. and **THQ** Inc., which have agreed to offer their newest game titles through the service. Mr. Perlman declined to comment on specifics about the service such as pricing.

Game software now runs on PCs and game consoles that have special graphics circuitry to create fast action and realistic settings. But games on OnLive will be run on high-end servers hosted by the company that can provide the instantaneous two-way response time that previously wasn't possible, Mr. Perlman said.

"For the first time, you can get any game, any time, anywhere," Mr. Perlman said in an interview in which he demonstrated the technology with the game Crysis, published by EA. "Getting the latest games won't mean getting the latest PC or console."

For consumers, the advantage would be that they could play advanced games without having to buy consoles such as **Sony** Corp.'s PlayStation 3, **Microsoft** Corp.'s Xbox 360 or a PC with a powerful graphics chip. Television sets are expected to be able to access the service by connecting to a small Internet-capable device dubbed the OnLive MicroConsole.

Publishers could benefit because they would be spared the cost of distributing physical software, and it could eliminate software piracy because users wouldn't own the games. It could also cut down on sales of used games for the same reason.



EA Games

OnLive's service will let users select games much like on-demand movies.

Michael Pachter, a videogame-industry analyst with Wedbush Morgan, said he was excited by the implications of the new technology, which he said could be used for other services requiring interactive video, such as multisite videoconferencing.

But he said OnLive's biggest challenge will be to make sure it keeps its first-mover advantage as other companies try to come up with similar technologies. "If [Mr. Perlman] can do it, so can Apple, so can Amazon," Mr. Pachter said. He added that the service's success will depend on its price.

Mr. Perlman started the set-top box company WebTV Networks Inc., which was acquired by Microsoft in the 1990s. OnLive was spun out of his San Francisco-based incubator **Rearden** LLC, which has a small team of engineers. Other OnLive investors include Warner Bros., **Maverick Capital** Ltd. and **Autodesk** Inc.

Two years ago, Rearden developed technology that can create digital reproductions of the human body that are as accurate as photographs. That technology was used in the movie "The Curious Case of Benjamin Button" about a man who ages in reverse.

Some of the planned features of the OnLive service include an ability for many people to remotely watch someone else play a game. Players can also hit a button to record the last 15 seconds of game play, so they can record memorable moments and share them with friends.

Pepsi to reduce plastic used for water bottles

By Valerie Bauerlein

PepsiCo Inc. is reducing the amount of plastic it uses to package its bottled water in the U.S., in the latest step by a beverage company to portray itself as environmentally conscious as sales of bottled water slip.

The new half-liter (16.9-oz.) bottle for Aquafina, the largest U.S. bottled-water brand, weighs about 20% less than the one it is replacing, making it one of the lightest among bottled-water brands in the U.S.

The Purchase, N.Y. company and its competitors have been besieged with criticism about environmental waste created by bottling a drink that people can get from the tap, particularly since only 24.6% of polyethylene terephthalate, or PET plastic bottles used for soda, water, and other products are recycled in the U.S., according to the National Association for PET Container Resources, an industry group.

Many consumers are also cutting down on bottled-water consumption and turning to the tap instead in the economic downturn to save money. U.S. bottled water sales slipped 0.4% in 2008 following years of double-digit growth, according to Beverage Digest, an industry publication. Beverage market researcher Canadean Ltd. predicts U.S. bottled-water growth of less than 1% a year for the next five years, due to the current economic turmoil and persistent environmental concerns.

To try to quell the public criticism, and to cut costs, beverage companies are competing with one another to shrink the weight of their PET plastic bottles. In 2007, **Nestlé** SA's U.S. water unit reduced the weight of its half-liter bottle for regional brands such as Poland Springs to 12.26 grams. A Nestlé spokeswoman couldn't be reached for further comment. **Coca-Cola** Co. has "lightweighted" its Dasani bottle by more than 30% since the brand was introduced; a new bottle making its way into stores now is about 12.8 grams, according to a spokeswoman.

Pepsi's new "Eco-Fina" bottle weighs 10.9 grams, a little less than two U.S. quarters. It replaces a 13.7 gram bottle currently on the market and contains less than half the plastic of a 24-gram Aquafina half liter bottle sold back in 2002.

Gigi Kellett, national director of a "Think Outside the Bottle Campaign" for Corporate Accountability International, an organization that urges consumers to drink tap water, said a lighter bottle is welcome. But she said she's concerned about "putting a green veneer on a plastic bottle."

"Bottled water is costly for the environment, our pocketbooks and our public water systems," Ms. Kellett said.

The price of a half-liter of Aquafina will stay about the same, despite the reduced amount of plastic, to help protect profit margins for the company and its bottlers at a time of declining volume, said Rick Gomez, vice president of hydration at Pepsi-Cola North America Beverages.

Taking plastic out of bottles is a challenge for bottled water makers. Rob Le Bras-Brown, PepsiCo's vice president of packaging innovation and development, said the company had to create a bottle with a thin "hydroskin" that was strong enough to hold up inside a gym bag and firm enough that water would not spill out when squeezed. Pepsi designers created a skeleton within the plastic, where thicker plastic strengthens the base and the labeled mid-section.

The new bottle features a rippled web pattern, with thicker plastic in the center where consumers wrap their fingers and thinner plastic on the neck and lower sides.

"It has to feel lighter and more flexible, but it can't feel squishy," Mr. Le Bras-Brown said. "It can't feel like you're holding a bag."

Pepsi said it is also shrink-wrapping its 24-pack of half-liter Aquafina bottles in pallets with no cardboard base pad, cutting 20 million pounds of corrugated cardboard by next year. Pepsi bottlers are also starting to blow and fill bottles at the same plant, to cut down on energy use and shipping costs.

Glaxo to donate some of its patents

By Jeanne Whalen

GlaxoSmithKline PLC will donate more than 800 of its patents to a pool that will be open to all researchers trying to develop medicines for neglected diseases, the company said Tuesday, elaborating on an earlier pledge to do more for the developing world.

The U.K. drug maker said it hopes other companies will also donate intellectual property to the pool, with the aim of speeding development of new drugs.

Glaxo released the details in its 2008 Corporate Responsibility Report. The company also pledged to publish a wider assortment of its drug studies than it has previously, in the aim of transparency. Drug companies including Glaxo have been accused in the past of suppressing negative results of some clinical trials.

Since 2004, Glaxo has posted on a Web site summaries of all clinical trials it has carried out on its marketed drugs. Now, Glaxo also will post to the site, which it set up specifically to relay drug-study information, all of the new meta-analyses it sponsors. Such studies analyze the results of multiple trials of the same drug to draw broader conclusions about safety and efficacy.

A spokesman said Glaxo in the past has posted some of its meta-analyses but not all.

Glaxo also made new promises about disclosing its payments to doctors, a practice that has caused controversy for drug makers.

For clinical trials starting in 2010 and beyond, Glaxo will publicly report the money it pays U.S. doctors and their institutions to carry out the studies, the company said. Glaxo said it will start publishing clinical-trial payments to doctors outside of the U.S. at a later date.

Glaxo also said it would start reporting the fees it pays European doctors for advice on developing new drugs. That follows a promise Glaxo made last year to publish payments to U.S. doctors for consulting and other services.

GLOBAL BUSINESS BRIEFS

Rio Tinto Ltd.

Australia extends review in proposed Chinalco deal

Rio Tinto Ltd. said Australia's Foreign Investment Review Board has extended its review into a planned corporate restructuring that accompanies a proposed \$19.5 billion investment in the global mining company by **Aluminum Corp. of China**, or Chinalco. Rio Tinto said the extension of this review by 90 days doesn't affect the review period for FIRB's inquiry into the broader strategic alliance between the two, which was extended by 90 days last week. FIRB is reviewing several other Chinese investments in Australia's mining sector, including a takeover offer of 2.6 billion Australian dollars (US\$1.83 billion) for **OZ Minerals** Ltd. by **China Minmetals Nonferrous Metals** Co. and a planned A\$1.2 billion investment by **Hunan Valin Iron & Steel** Ltd. in **Fortescue Metals Group** Ltd.

Bertelsmann AG

Bertelsmann AG, one of the world's biggest media companies, said Tuesday its net profit dropped 34% in 2008, hit by higher impairment and restructuring charges. Net profit fell to €142 million (\$194 million) from €216 million in 2007, as impairments and restructuring charges rose to €676 million from €409 million. The closely held German company booked goodwill impairments on **RTL Group** SA's U.K. operations of €337 million and on its Direct Group operations of €71 million. Bertelsmann has a 90% stake in RTL Group. Restructuring charges totaled €173 million. Revenue edged down to €16.12 billion from €16.19 billion.

Novolipetsk Iron & Steel Works

OAO **Novolipetsk Iron & Steel Works** posted a small increase in net profit for 2008, but warned that revenue for the first quarter of 2009 will drop about 50% as the steel market deteriorates. Net profit rose to \$2.28 billion in 2008 from \$2.25 billion in 2007, as write-downs and lower steel prices in the fourth quarter ate into profits earned earlier in the year. For the final quarter of 2008, Novolipetsk posted a net loss of \$480.6 million after writing off the value of its steel inventory. It also incurred a \$234 million fee for pulling out of an agreement to buy pipe maker John Maneely Co. Full-year revenue meanwhile rose 52% to \$11.7 billion from \$7.72 billion in 2007.

AngloGold Ashanti Ltd.

AngloGold Ashanti Ltd., Africa's largest producer of the precious metal, Tuesday said it has resumed operations at its Siguiri mine in the northeast of Guinea. Siguiri was suspended last week on orders Guinea's military-junta chief Capt. Moussa Dadis Camara. "We had a constructive meeting with the president yesterday and the mine has now been reopened," a spokeswoman for the Johannesburg-based company said Tuesday. Capt. Camara ordered AngloGold to shut down its operations in the West African country last Friday after a director from the company failed to attend a meeting of mining executives. The Guinean state holds a 15% stake in the the Siguiri mine.

—Compiled from staff and wire service reports.

Labor Party joins Netanyahu's coalition

Linking of Israeli left and right changes look of government and could reassure neighbors, but some members rebel

By Charles Levinson

JERUSALEM—After a stormy party meeting, Israel's Labor Party voted to join Prime Minister-designate Benjamin Netanyahu's government, adding a more moderate ally to a ruling coalition composed mostly of more hawkish religious and nationalist parties.

Labor won 13 seats in the Feb. 10 parliamentary vote, which appears to give Mr. Netanyahu 66 seats in the country's 120-member Knesset, well over the 61 seats needed to govern. But six Labor lawmakers opposed the deal on the grounds that joining a government dominated by conservative parties contradicted Labor's values.

It remains unclear how reliable their votes will be, which means Mr. Netanyahu will still need to recruit additional small parties to ensure his majority in parliament.

"We won't be an automatic majority," former Labor Party leader Amir Peretz told Israeli television after the party vote Tuesday night.

Associated Press

Israel's Labor Party leader Ehud Barak gestures during a meeting of the party's central committee in Tel Aviv on Tuesday.

The support of Labor, which has historically been the party most committed to peace with the Palestinians, softens the image of Mr. Netanyahu's government. It should help assuage concerns within the international community about the hard line makeup of Mr. Netanyahu's government. Labor Party leader Ehud Barak is widely credited with making Palestinians the most generous Israeli peace offer ever at the Camp David negotiations in 2000.

The agreement between Labor and Mr. Netanyahu's Likud Party includes a pledge to pursue a "regional peace agreement with all of Israel's neighbors" and to honor past peace accords, but does not explicitly mention the Palestinians.

Before Labor agreed to join, Mr. Netanyahu was expected to lead a narrow coalition of conservative parties who favor a hard line toward the Palestinians. Along with Likud, which won 27 seats, Mr. Netanyahu has concluded agreements with the nationalist Yisrael Beitenu, which won 15 seats, and the ultra-Orthodox Shas Party, which won 11 seats. The addition of Labor also gives him a more stable coalition that will be less vulnerable to the demands of smaller parties.

Mr. Netanyahu aggressively courted Kadima Party leader Tzipi Livni, who won the most seats in the elections, but she refused to join his government due to disagreements over the peace process.

Mr. Netanyahu then turned to Labor Party leader Ehud Barak, whose political future seemed in doubt after his once-dominant Labor Party won just 13 seats in parliament. Mr. Netanyahu offered Labor five cabinet seats and a series of social-welfare concessions prized by Labor's constituency, a generous offer that reflects the importance Mr. Netanyahu placed on broadening his government beyond the bloc of conservative parties.

The generous offer swayed a narrow majority of Labor party members to vote in favor of joining the government, but the party remains divided.

"Labor has no place in a right-wing government unless it wants to lose all of its values," said former Labor minister Moshe Shahal

Mr. Barak said joining the government was in the nation's interest. "We also have a responsibility to the state of Israel, to peace, to security. We don't have a backup country," Mr. Barak told Labor party members during the heated session before the vote. "We will be the counter force that will prevent the formation of a narrow right-wing government."

Romania nears deal with IMF on standby loan

By Christopher Emsden And Edith Balazs

Romania is near a deal for a financial-aid package valued at about €19 billion ($25.6 billion), joining the International Monetary Fund's growing list of Eastern European clients.

Romanian officials and the IMF, with counterparts from the European Commission, the World Bank and the European Investment Bank, have scheduled a press conference on Wednesday in Bucharest to outline the plan. Two-thirds of the sum will come from the IMF in the form of a standby loan.

Separately, in Hungary, former central-bank Governor György Surányi has emerged as the financial sector's preferred candidate for prime minister, succeeding Ferenc Gyurcsány, who said Saturday that he plans to step down amid growing pressure on the country's finances.

In Romania, the IMF funds will go to bolster the central bank's reserves and its ability to manage local liquidity; the other funds will be used to cover public financing and other needs, said Mircea Geoana, head of the Social Democrat Party, on Tuesday. His party is part of the coalition government and until recently was opposed to the financial rescue plan.

Data released Tuesday showed the need for such a facility. Romanian private-sector lending contracted in real terms in February from January, in a sharp reversal of years of 50% annual growth rates. The speed of that slowdown underscores the need to lock in external funding guarantees quickly.

The IMF is showing an apparent willingness to tolerate a fairly high budget deficit of 4.6% of gross domestic product, according to Romanian officials. The IMF is also assuming that Romania's GDP will shrink as much as 4% this year. Because the government's 2009 budget was built on a 2.5% growth forecast, the government would have to find a way to curb public spending, analysts say.

The government will also have to grapple with angry public-sector workers, who have demonstrated around the country this week amid rumors that they won't receive the bonuses and wage increases promised during last year's general election campaign.

Most of the aid money will be allotted to the central bank, which may allow for margin requirements to be lowered at commercial banks, easing lending conditions, as well as bolstering liquidity in the Romanian leu.

However, IMF deals in neighboring Latvia, Hungary, Serbia and Ukraine haven't provided any real cushion for local currencies. The same may hold true in Romania, especially as the leu hasn't fallen as much against the euro as other regional currencies. The Romanian currency is down about 9% against the euro from the start of the year; in Hungary, the forint has dropped 13% against the euro.

The leu is also likely to decline because the government is pursuing growth led by credit, a stance somewhat at odds with the large current-account deficit of 13% of GDP that made the IMF's presence necessary in the first place, said Nicolaie Alexandru, senior economist for ING in Bucharest.

He expects the leu to bounce back a bit on the IMF news, but then fall at least 10% over the summer, especially if the central bank cuts interest rates to stoke growth amid weak external demand.

In Hungary, financial professionals have said they hope political parties will choose an economics expert and not another politician as the next premier.

Mr. Surányi, a banker and economist, served two terms as central-bank governor in the 1990s and was part of the 1995 fiscal-reform process. Analysts say his appointment would be favorably received by the markets.

"Surányi is well-known [internationally]; his nomination would be greeted with cautious optimism. Markets would give him the benefit of the doubt," said Zoltan Torok, economist at Raiffeisen in Budapest.

Mr. Surányi now serves as the head of Central and East European operations for Italian bank Intesa Sanpaolo SpA and as chairman of the board of directors at Central European Investment Bank, or CIB.

Russia sparks fears of new spat over natural gas

Reuters News Service

MOSCOW—Russia broke off intergovernmental talks with Ukraine on Tuesday after Kiev angered the Kremlin by asking the European Union to modernize its pipeline network, which carries 80% of Russian natural-gas supplies to Europe.

European officials on Monday welcomed a Ukrainian plan to modernize its gas network but Russia, which is interested in co-managing the pipeline system, is dismayed that it wasn't included in the discussions.

Russian Prime Minister Vladimir Putin threatened to review ties with the European Union.The spat revived fears of a repeat of a January gas dispute between Russia and Ukraine, when major EU customers were left without gas for nearly two weeks in winter.

President Dmitry Medvedev said Russia was postponing talks with Ukraine's government and that Moscow had a number of questions about the EU-Ukraine gas discussions.

Kiev said the overhaul of the gas-transit system wasn't aimed against Russia and that talks on the issue also had been held with Moscow

But the force of the Russian reaction indicates how sensitive Moscow is to the question of who wields leverage over Ukraine's gas-pipeline network. Russia supplies a quarter of the EU's gas, and four-fifths of that is pumped across Ukraine.

Ukraine says the gas pipelines are a strategic asset. Some officials in Kiev say Russia's bid for a role in managing the network is an attempt to win effective control of it.

Russian finance minister calls upturn temporary

By Lidia Kelly

MOSCOW—Finance Minister Alexei Kudrin warned that the recent recovery in Russian stocks and the ruble's strength are likely to be temporary and that the country's financial markets could face another downturn.

"A certain growth on the world's stock markets and in oil prices should not leave us relaxed," the minister told a government meeting Tuesday. "This is a temporary improvement."

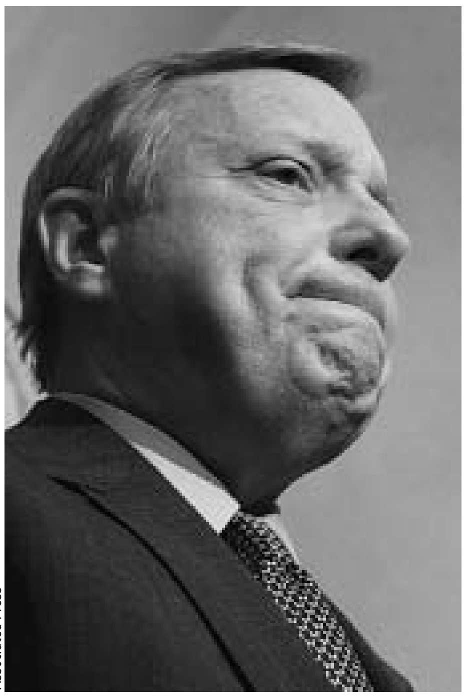
The fiscally conservative minister said trouble is looming from the nonpayment of loans by businesses outside the financial sector. Officials estimate that this year, nonperforming loans will reach as much as 10% of all outstanding loans.

Mr. Kudrin's budget, which cut previously approved spending by a fifth and then reallocated the funds to boost the battered economy, was approved by the government last week.

Recent demand, fueled by fiscal measures, is an "artificial transfusion, like putting a patient on a drip until his own strength revives," Mr. Kudrin said, according to the Interfax news agency. Sustainable demand that can lift the overall economy still needs to be reawakened, he added.

A recent rally in Russian equity markets has lifted most stocks more than 40% from their January lows. Global oil prices also have recovered some lost ground, remaining safely above $41 a barrel, the level on which Russia has based its new budget. This, in turn, has helped to stabilize the ruble after a gradual depreciation stripped the currency of more than a third of its value.

Russia has lost $200 billion, or about a third, of its gold and foreign-exchange reserves as the government propped up the ruble during the slump in oil prices in the second half of 2008.



U.S. Senator Dick Durbin may propose a bill limiting ways in which campaign money is contributed.

Fund-raising curbs sought

U.S. lawmaker seeks to limit corporate role in election campaigns

By Elizabeth Williamson

WASHINGTON—Democratic leaders, riding public sentiment against corporate influence in Washington, will attempt to rein in the role of corporations and lobbyists in fund raising for U.S. congressional elections.

Sen. Dick Durbin of Illinois, the Senate's second-ranking Democrat, is set to introduce a bipartisan bill this week that would give congressional candidates the option of financing their campaigns partly through a public fund, in exchange for limiting their funding from corporate political-action committees.

Under the bill, congressional campaigns of candidates opting into the program would be financed by small, home-state donors and a public fund, created by taxing recipients of government contracts over a certain size. The House version of the bill is sponsored by Democratic Caucus Chairman John Larson of Connecticut. Democratic aides are finalizing the language of the bill, and lining up Republican co-sponsors.

The proposal faces an uphill climb, not least from members of Congress, who tend to vote overwhelmingly for ethics and campaign-finance overhauls only after opposing them behind the scenes in the run-up to the vote.

A 2007 measure placing stricter limits on gifts that lawmakers can accept from lobbyists, for example, passed only after a fight in Congress lasting nearly a year, despite backing from House Speaker Nancy Pelosi.

The latest effort is expected to spark legal challenges from the business community. "This seems part of an overall effort to demonize lobbyists," said Kenneth Gross, an attorney who assists corporations in complying with campaign-finance and ethics laws. "But you can be in the influence business and not be a lobbyist. Even if this were to be implemented without a hitch, I'm not sure it would achieve the goal of eliminating special-interest money from campaigns."

Opponents have challenged similar, state-level campaign-finance proposals in court, but backers of the latest effort said they hope to circumvent any legal challenges by making participation voluntary.

The current bill is a retooled version of one Sen. Durbin had introduced last year, which died before reaching a floor vote. That bill was co-sponsored by then-Sen. Barack Obama, an ally of Sen. Durbin's on ethics issues during his time in the Senate.

Eight national government-watchdog groups plan a lobbying campaign to build support for the bill.

"For far too long elected officials' attentions have been divided between what their constituents need and the money they need to raise for re-election," said David Donnelly, national campaigns director for Public Campaign, a nonprofit group that advocates for campaign-finance overhaul.

The bill, called the Fair Elections Now Act, would provide participating candidates with grants, matching funds and vouchers from a national fund, with the aim of decreasing their reliance on money from private sources. Candidates would qualify for the money by raising a minimum number and amount of small-dollar contributions from home-state donors. In-state contributors would be limited to giving $100 per candidate per election; candidates wouldn't be limited in the number of $100 gifts that they receive.

Candidates would receive public funding for the primary and general elections based on the success of their fund raising among small donors and on their state's population.

Backers hope the bill will reach a vote in Congress by summer.

Obama's religion talks welcome nonbelievers

By Laura Meckler

WASHINGTON—In the early days of his administration, U.S. President Barack Obama has developed an unusual pattern as he talks about religion: He regularly puts nonbelievers on the same footing as religious Americans.

It is a rare gesture for a U.S. political leader. But what makes Mr. Obama's outreach especially remarkable is that it is accompanied by public displays of faith that sometimes go beyond even those of his religiously oriented predecessor in the White House.

The outreach toward both ends of the religious spectrum makes for a complicated balancing act, one that runs the risk of alienating one group, the other, or possibly both.

Mr. Obama speaks easily about his own faith. White House events, even those without a religious theme, often begin with a prayer. And the president said he would expand President George W. Bush's outreach to faith-based organizations.

At the same time, he has taken a series of policy steps that are troubling to religious conservatives, and pledged that decisions in his administration would be governed by science. He reversed Bush policies on funding for international family-planning groups and stem-cell research, and he has moved to rescind regulations that allow health-care workers to opt out of duties that offend their beliefs.

Mr. Obama wasn't raised religious and only became a Christian as an adult.

But even when taking these stands, which would be expected of a Democratic president, he often makes a point to say that he understands the other side.

That stance could win him respect from both sides, but it will be difficult to pull off. "Showing respect and being inclusive will only take the president so far," said John C. Green, senior fellow at the Pew Forum on Religion and Public Life.

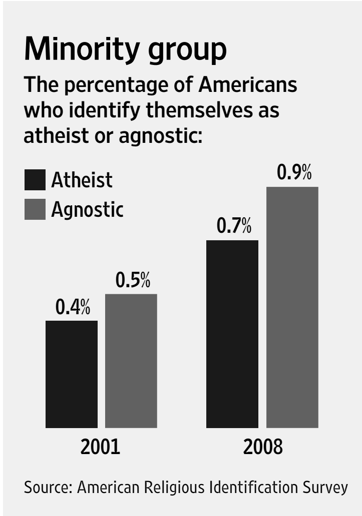
If Mr. Obama makes too many policy decisions that run counter to religious conservatives, Mr. Green predicted that they won't support him, no matter how much they appreciate the outreach.

At the same time, he said, nonreligious Americans could become irritated with outward expressions of religious faith.

Mr. Obama acknowledged nonbelievers on the campaign trail last year, and, notably, in his inaugural address, where he said: "We are a nation of Christians and Muslims, Jews and Hindus, and nonbelievers."

"This was...probably the first time a president in a formal inaugural address acknowledged the possibility that there could be Americans who don't believe in God," said Ed Buckner, president of American Atheists, a group with more than 3,000 members.

While nonbelievers welcomed Mr. Obama's recognition, the move could make some people uneasy. Americans are less comfortable with atheists than they are with many other minority groups, according to a 2006 University of Minnesota study.



Nearly half of those surveyed said they would disapprove if their child wanted to marry an atheist, versus a third who said the same of a Muslim. People were more accepting of homosexuals, conservative Christians, immigrants, Hispanics and Jews.

A 2008 American Religious Identification Survey, conducted by Trinity College in Hartford, Conn., found that 15% of Americans are unaffiliated with any religion, up from 8.2% in 1990. In 2008, only 0.7% identified themselves as atheists and 0.9% said they are agnostic.

Bishop E.W. Jackson Sr. of Exodus Faith Ministries in Chesapeake, Va., a nondenominational church, finds Mr. Obama's acceptance of nonbelievers offensive. "I believe every American should worship however they wish," he said, "however to deny that the country is fundamentally Christian in its culture and its heritage is just not true."

But other religious leaders see nothing wrong with Mr. Obama's overtures to nonbelievers.

"We are a very pluralistic nation," says Richard Land, president of the Southern Baptist Ethics and Religious Liberty Commission, which deals with policy issues. "I don't think there's anything negative about his doing it."

Mr. Obama isn't the first president to acknowledge nonbelievers. When running for re-election, Bill Clinton spoke of the U.S. having more religious freedom than any other country in the world, "including the freedom not to believe." At the 2006 National Prayer Breakfast, George W. Bush recognized those with "no faith at all" among Americans of varying religions.

David Axelrod, a senior adviser to the president, said that Mr. Obama personally inserted the nonbeliever references into his inaugural speech. "He is a person of deep faith and also a person who has a profound belief in the Constitution and the nature of this country," Mr. Axelrod said in an interview.

Part of the explanation for Mr. Obama's references also may lie with his own story. He wasn't raised religious and only became a Christian as an adult, when working with churches as an organizer in Chicago.

"I had a father who was born a Muslim but became an atheist; and grandparents who were nonpracticing Methodists and Baptists; and a mother who was skeptical of organized religion, even though she was the kindest, most spiritual person I've ever known," he said at National Prayer Breakfast in February. "She was the one who taught me as a child to love and to understand and to do unto others as I would want done."