

## RBS posts quarterly loss on \$5.5b provisions

Royal Bank of Scotland Group Plc, Britain's biggest government-controlled bank, had a third-quarter loss after 3.3 billion pounds (\$5.5 billion) of provisions for bad loans and credit-market write-downs.

The net loss was 1.8 billion pounds, compared with a profit of 871 million pounds in the year-earlier period, the Edinburgh-based bank said today in a statement.

"I am a little bit surprised by the numbers, I didn't expect it to be this bad," said Ralph Silva, research director at Tower Group Plc. "The difference between the haves and the have-nots in UK banking seems to be increasing month over month, which is frightening because if it increases anymore the value of RBS will be zero."

RBS is getting a total of 45.5 billion pounds in capital from the British taxpayer, making it the world's most expensive bank bailout. This week, the 70 percent government-owned lender said it would sell its insurance assets, more than 300 UK branches, an investment banking division and a credit card payment unit to win EU approval for taxpayer aid.

"Non-core losses remain likely to drive a continuing overall loss next year," according to the statement. The "next two years will bring a number of further pressures."

The bank plans to insure 282 billion pounds of risky assets with the government after posting the biggest loss in UK corporate history last year.

In August, Hester said results will be poor for another two years because of the recession and related bad loans and funding costs. The bank plans to reduce a balance sheet that climbed to more than 2.2 trillion pounds, about 1 1/2 times Britain's annual economic production, under Chief Executive Officer Stephen Hester predecessor Fred Goodwin. It posted a loss of about 24 billion pounds last year.

The bank has cut almost 20,000 jobs since Hester became CEO a year ago. In February, RBS said it would transfer 540 billion pounds of toxic assets, including derivatives and commercial and residential property loans into a new unit to be wound down or sold over three to five years.

(Source: Bloomberg)

## British Airways posts loss, plans 3,000 more job cuts

LONDON — British Airways PLC Friday posted its worst first-half results in history due to falling passenger numbers and yields and plans to cut a further 3,000 jobs by the end of the fiscal year.

The UK flag carrier's net loss for the six months ended Sept. 30 was £217 million (\$359.9 million), compared with a net loss of £49 million in the year-earlier period.

First-half pretax loss was £292 million compared with a pretax profit of £52 in the same period a year ago. Its operating loss for the period fell to £111 million from an operating profit of £140 million a year ago. The results are worse than the £45 million first-half pretax profit it posted for the same period in 2001.

First-half revenue fell 14% to £4.1 billion from £4.75 billion as a result of selling cheaper tickets and the absence of favorable fuel surcharges in effect last year. On a constant currency basis, revenue fell 20%. Average passenger revenue per filled seat for each kilometer flown, or yield, fell 12% in the six months to 5.99 pence compared with 6.82 pence a year earlier.

(Source: The WSJ)

# Buffett's 'wake-up Call' to managers may signal more cost cuts

Berkshire Hathaway Inc.'s managers may deliver more cost cuts to Chief Executive Officer Warren Buffett after the billionaire replaced Richard Santulli as the head of a money-losing plane-leasing unit.

Berkshire executives have eliminated jobs and closed plants as the sale of bricks, jewelry and luxury flights suffered in the recession. The company, which reports third-quarter results, may need further reductions, even as the U.S. recovers, said Jeff Matthews, founder of the hedge fund Ram Partners LP.

"I don't think Berkshire hit the reset button as hard as other companies" when it came to cutting costs, said Matthews, the author of "Pilgrimage to Warren Buffett's Omaha." Naming David Sokol, chairman of Berkshire's energy business, to lead the aviation operation that Santulli founded may have been received as "a wake-up call to other managers." Sokol said yesterday that NetJets was laying off as many as 495 pilots.

The CEOs of Berkshire's operating companies oversee more than 200,000 workers selling Fruit of the Loom T-shirts, Geico car insurance and Dairy Queen ice cream, while Buffett vets investments with a staff of fewer than 20 at the firm's Omaha, Nebraska headquarters. Berkshire said Nov. 3 it agreed to pay \$26 billion to buy Burlington Northern Santa Fe Corp., adding a railroad with about 40,000 employees.

Berkshire has gained 5.5 percent this year through yesterday on the New York Stock Exchange, compared with the 18 percent gain



in the Standard and Poor's 500 Index.

Third-quarter profit may more than double to \$2.89 billion, according to Meyer Shields, an analyst with Stifel Nicolaus & Co. The best back-to-back quarterly rally in the S&P in 34 years is helping Berkshire recover after its first loss since 2001 in the January-to-March period.

Berkshire's agreement to purchase the 77.4 percent of Burlington it didn't already own may mean Buffett is more confident in the company's finances after he scaled back on insuring catastrophes earlier this year to guard capital. The deal is Buffett's biggest.

"He's making such a large acquisition

at a time when he was so concerned about having enough liquidity," said Gerald Martin, a finance professor at American University's Kogod School of Business in Washington "It might signal that Berkshire is kind of turning the corner." Buffett didn't return a message left with his assistant, Carrie Kizer.

Buffett built Berkshire into a \$150 billion company over four decades by buying out-of-favor stocks and family businesses. After credit markets froze last year, Buffett added to holdings of bank stocks and agreed to finance Goldman Sachs Group Inc., investments that surged in this year's recovery.

Buffett purchases operating companies for

Berkshire with the promise to their owners never to sell them and says his ideal time horizon to hold a stock is "forever." He reversed course on credit-rating company Moody's Corp., reducing Berkshire's stockholding three times since July. In February, he said he made a mistake by buying ConocoPhillips stock, which cost Berkshire \$1.9 billion in the first quarter.

Buffett was a NetJets client before acquiring the firm in 1998 from Santulli, the inventor of fractional jet ownership. Santulli added about 648 jobs at Columbus, Ohio-based NetJets in 2008 before presiding over about \$350 million in losses in the first half. Sokol announced 300 job cuts in September and the additional layoffs.

Santulli said in an August statement he was resigning to spend more time with his family, and Buffett said he accepted the departure "with reluctance."

Buffett replaced Marvin Beasley in April as CEO of Helzberg Diamond Shops after saying in an interview that consumers "won't go in our jewelry stores" because of the recession. A year earlier, Beasley told the Kansas City Business Journal that Helzberg wasn't planning more job cuts after eliminating 21 positions, saying, "we think it's going to be OK."

Helzberg has 234 U.S. stores, according to its Web site, compared with the "nearly 270" tally given by the company in April when the transition was announced. Marti Greathouse, a spokeswoman for Helzberg, didn't return a call seeking comment.

Berkshire last year cut jobs at businesses including Clayton Homes Inc., which builds manufactured housing, and brickmaker Acme Building Brands. Buffett told shareholders at the firm's annual meeting in May that he expected more reductions. Shaw Industries, the world's largest carpet manufacturer, said in October 2008 it was closing a spun yarn plant in Trenton, Georgia, to cut production. (Source: Bloomberg)

## Retail sales suggest tepid holiday season

NEW YORK (Reuters) — More than half of U.S. retail chains posted October sales that fell short of Wall Street's heightened expectations, raising doubts about a widespread recovery for the holiday season.

Department store chains and teen retailers in particular disappointed investor expectations, while such disparate companies as apparel retailer Gap (GPS.N) and luxury store chain Saks Inc (SKS.N) performed better than hoped as consumers return to spending selectively.

"October results are not going to give investors the overall warm and fuzzy that we're on track for a strong Christmas," said Brean Murray, Carret & Co analyst Eric Beder, "It looks like we're on track for kind of a mediocre season right now based upon October."

Retail shares reflected the mixed results. Teen retailers Aeropostale (ARO.N) and American Eagle Outfitters (AEO.N) fell 13.6 percent and 12 percent, respectively. Mid-priced department store J.C. Penney (JCP.N) fell 6.5 percent, and Kohl's (KSS.N) shed 2.9 percent, while Saks gained 1.8 percent.

Industry forecasts for the holiday season range from a slight decline for retail sales to a slight increase, and many insiders say it is difficult to reach a firm prediction.

In the most bullish of forecasts to date, the International Council of Shopping Centers said on Thursday it expects retail same-store sales to rise 5 percent to 8 percent in November. It has forecast holiday same-store sales to rise 1 percent.

However America's Research Group founder Britt Beemer says total retail sales will most likely fall 2.9 percent during the season as a whole, according to a forecast issued on Thursday.

"I don't see anything out there that says October was an exciting month even with retailers advertising 60 percent off," he said.



Sales were expected to improve from last year, when consumers all but stopped spending in the face of a financial crisis. Analysts had steadily raised their estimates for the month, buoyed by bullish forecasts from retailers like J Crew Group (JCG.N) and Amazon.com (AMZN.O).

Total October same-store sales rose 1.8 percent, below an estimate for a 2 percent gain, according to Thomson Reuters data. Fifty-two percent of retailers came in below expectations while 44 percent beat forecasts.

But it marked the strongest showing since June 2008, when sales rose 1.9 percent. Last October, same-store sales plunged 4.1 percent.

"If you show a 2 percent increase over a bad performance, it's still a bad performance," said Brian Girouard, global leader of Caggemini's consumer products and retail practice. "There's good news, but remember the benchmark was horrible."

While sales may be disappointing, analysts said retailers have slashed inventory to help protect profits.

"The holiday season will be profitable for the retailers, but the sales might not be significantly different from last year," Girouard said.

For instance, TJX Cos (TJX.N) posted a 10 percent increase in same-store sales, narrowly missing analysts' expectations, but said it now expects per-share earnings for the third quarter to be at or slightly above its recently raised range of 77 cents to 79 cents.

Aeropostale now expects to earn 90 to 91 cents per share in the third quarter, up from its prior view of 84 cents to 85 cents per share.

J.C. Penney's same-store sales fell 4.5 percent, worse than analysts' forecasts for a 2.3 percent drop. But it raised its view for third-quarter earnings to 10 cents to 11 cents per share, from a prior view of 3 cents to 10 cents per share.

## Stocks rally on economic data, Cisco

NEW YORK (Reuters) — U.S. stocks jumped on Thursday, pushing the S&P 500 up for a fourth day, as economic data boosted confidence in the recovery and strong results from Cisco Systems (CSCO.O) suggested a rebound in technology spending. The market's advance was broad-based, and the Dow ended above 10,000 for the first time in two weeks.

Shares of Cisco, which makes computer network equipment, rose 2.8 percent to \$23.93 and helped lead the session's gains, a day after it posted a stronger-than-expected profit and said business was recovering.

Data showed U.S. non-farm productivity rose more than expected in the third quarter as companies squeezed more output from a smaller pool of labor. A separate report showed fewer U.S. workers filed new jobless insurance claims than forecast last week — hitting a 10-month low.

The claims report boosted investor sentiment, and created "some anticipation that maybe tomorrow's employment report may be better than expected," said Peter Jankovskis, co-chief investment officer at OakBrook Investments LLC in Lisle, Illinois.

The U.S. government is scheduled to release its key monthly jobs report Friday morning, with economists polled by Reuters

forecasting a loss of 175,000 jobs in October, sharply below the 263,000 jobs cut in the previous month. But the U.S. unemployment rate is forecast to rise to 9.9 percent in October from September's rate of 9.8 percent, which was a 26-year high.

The Dow Jones industrial average (DJIA) jumped 203.82 points, or 2.08 percent, to end at 10,005.96. The Standard & Poor's 500 Index (.SPX) gained 20.13 points, or 1.92 percent, to 1,066.63. The Nasdaq Composite Index (.IXIC) rose 49.80 points, or 2.42 percent, to close at 2,105.32.

After the bell, shares of coffee chain operator Starbucks Corp (SBUX.O) rose 1.5 percent to \$20 as it posted quarterly results.

During the regular session, tech stocks climbed across the board, with the NYSE Arca Network index (.NWX) up 2.1 percent, while the PHLX Semiconductor index (.SOXX) advanced 2.6 percent.

Shares of DuPont (DD.N) rose 3.7 percent to \$33.38 after its chief executive outlined plans for growth in 2010 and after. In deal news, IMS Health Inc (RX.N) agreed to be bought by TPG and CPP Investment board and helped lift the S&P Healthcare index (.GSPA) 1.6 percent. The deal was valued at \$5.2 billion, including the assumption of debt. IMS Health shares surged 23.3 percent to \$20.73.

## Fannie Mae seeks \$15b in U.S. aid after 3Q loss

WASHINGTON (AP) — Fannie Mae is asking for an additional \$15 billion in government aid after posting another big loss in the third quarter as the taxpayer bill from the housing market bust keeps rising.

The government-controlled company continued to see a dramatic surge of borrowers fall behind as the unemployment rate climbs. At the end of last month, about 4.7 percent of Fannie Mae's borrowers had missed at least three payments.

That's nearly triple last year's level. And the problem is worse in Florida and Nevada, where more than 11 percent of Fannie's loans are in serious trouble.

Seized by federal regulators 14 months ago, the problems at Fannie Mae and sibling company Freddie Mac have proven far worse than most experts had foreseen.

Fannie Mae's request Thursday will bring the tab for rescuing both companies to about \$111 billion. The government has promised up to \$400 billion in assistance.

"There is significant uncertainty regarding the future of our business, including whether we will continue to exist, and we expect this uncertainty to continue," Fannie Mae said.

Fannie Mae and Freddie Mac play a vital role in the mortgage market by purchasing loans from banks and selling them to investors.

Together, Fannie and Freddie own or guarantee almost 31 million home loans worth about \$5.5 trillion. That's about half of all mortgages.

The two companies lowered their standards for borrowers during the real estate boom and are reeling from the consequences.

High-risk loans, now defaulting at a record pace, have come back to haunt the companies. Worse still, the recession is causing formerly reliable homeowners with good credit to default.

Fannie Mae posted a quarterly loss of \$19.76 billion, or \$3.47 per share. The loss includes \$883 million in dividends paid to the Treasury Department and compares with a loss of \$29.41 billion, or \$13 per share, in the year-ago period. The results were driven by \$22 billion in credit losses as the company continued to build its reserves for sour mortgages.

Thursday's request for financial aid — Fannie Mae's fourth — brings the company's total to about \$60 billion.

To help reduce the number of homeowners evicted by foreclosure, Fannie Mae announced Thursday it would give some borrowers on the verge of foreclosure the option of renting their homes for a year.

The new "Deed for Lease" program will allow homeowners to transfer title to Fannie Mae and sign a one-year lease, with potential month-to-month extensions after that. It also helps save money because the lender does not need to complete the often lengthy and time-consuming foreclosure process.

The program helps "eliminate some of the uncertainty of foreclosure, keeps families and tenants in their homes during a transitional period, and helps to stabilize neighborhoods and communities," Jay Ryan, a Fannie Mae vice president, said in a statement.