Wal-Mart Raises Worry With Cut In Estimate of September Sales

By Gary McWilliams

Wal-Mart Stores Inc., citing a miscalculation, lowered its preliminary estimate of September same-store-sales gains in a move that raised new worries about growth at the world's largest retailer.

Wal-Mart said sales at stores open at least 12 months were up 1.3%, near the bottom of its original forecast and below the estimated 1.8% increase it reported Saturday. A spokesman said it had miscategorized sales from 235 stores in arriving at the earlier figure.

The reduced estimate is heightening concerns about the outlook heading into the year's most important selling season. Analysts had expected Wal-Mart, Bentonville, Ark., to shake off earlier weakness it had blamed on higher energy and interest costs. Gasoline costs in the U.S. have declined more than 20% in the past two months, and Wal-Mart's sales aren't rebounding.

The latest revision leaves Wal-Mart trailing the estimated percentage gains of most retailers, including **Target** Corp. and **Federated Department Stores** Inc., which have raised their sales forecasts in recent weeks. **Kohl's** Corp. Tuesday reported September same-store sales jumped 16.3%, and the department-store chain increased its third-quarter profit forecast.

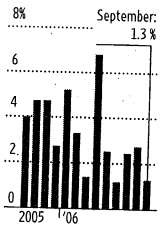
Better results elsewhere suggest Wal-Mart may be losing share to rivals, said Ed Yardeni, chief investment strategist at fund manager Oak Associates. "Consumers are doing so well they would rather shop in high-end department stores," he said.

Earlier this year, a Wal-Mart executive said the company expected a strong finish to meet its expectations for the year. Fiscal fourth-quarter earnings per share would have to rise by 12% to 15% from a year earlier to fulfill the company's forecast of $2.88 to $2.95 a share in profit for the year.

Last month, Target raised its September sales forecast to a 5% gain. Federated has raised its third-quarter outlook to a 3% to 5% gain in same-store sales.

Even Weaker

Wal-Mart's same-store sales gains in the U.S.



Note: Easter fell in April 2006 and March 2005.

Source: the company

Wal-Mart didn't provide total sales for the month, which it is expected to release today along with its forecast of October's same-store sales.

Separately, Wal-Mart today is expected to disclose an expansion of its generic-drug pricing program to stores in the Orlando, Fla., area, according to people familiar with the situation. In Tampa, it reduced prices on 150 generic drugs to $4 a prescription and promised an expansion to the rest of the state beginning in early 2007. A Wal-Mart spokesman declined to comment. Florida Gov. Jeb Bush's office said he will join Wal-Mart executives at a store in Orlando for what it termed a "significant health-related announcement."

Why EADS's Growing Pressures Can Further Hamstring the Firm

By Daniel Michaels

PARIS—Already saddled with cost overruns for delays on the A380 superjumbo, Airbus parent EADS now faces additional costs implementing a new restructuring plan and possible penalty payments on another jetliner program, the long-haul A350.

European Aeronautic Defence & Space Co., which owns 80% of Airbus, has already slashed its operating-profit forecast by €4.8 billion ($6.11 billion) through 2010 because of a two-year delay in production and delivery of the A380 two-deck plane. Trying to draw a line under Airbus's industrial problems, EADS this week announced a sweeping restructuring plan aimed at improving the European plane maker's operations.

But implementing the plan is likely to increase the financial squeeze EADS faces in the next four years. EADS plans to give details on its eight-point plan, called Power8, early next year. Yet steps to boost long-term efficiency, such as layoffs, factory closures and manufacturing overhauls, usually increase short-term charges, analysts say. Such measures may face resistance from European politicians concerned about job losses and labor unrest.

Airbus also faces other, and unquantified, expenses related to delays on another plane project—the proposed A350 long-range wide-body plane. Initial plans for the proposed A350, which was marketed to compete against Boeing Co.'s strong-selling 787 current turmoil, it is also unclear whether the new A350 schedule will be maintained. An EADS spokesman declined to comment.

Analysts can only estimate what slippage in the A350 schedule might cost EADS. They predicted from €300 million in potential A350 contract losses to €500 million. EADS shares in Paris and Frankfurt fell 4.2% at €21.71. As the extent of EADS's troubles grew clearer, shareholders in Britain's **BAE Systems** PLC overwhelmingly approved the sale of its 20% stake in Airbus to EADS for €2.75 billion, as expected. Under terms of an agreement, EADS must pay BAE by Oct. 14. EADS, which expects to pay in cash for the stake, has welcomed the prospect of owning Airbus outright.

Explaining the selling out of Airbus, BAE Chairman Dick Olver told a meeting of BAE shareholders that the board is concerned about the possible cash requirements for the Airbus business in the medium term. EADS officials acknowledge the company's financial squeeze. Managing EADS's sudden drain on cash presents "a significant challenge," EADS Chief Financial Officer Hans Peter Ring said. EADS, which has very little debt on its books and has kept a positive cash position since its creation in 2000, is set to hold an investor conference Oct. 19 to update its financial outlook.

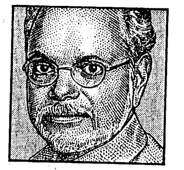
—Rod Stone in London and Andrea Thomas in Berlin contributed to this article.

◇ CAPITAL ◇

Law Is Unlikely to Corral Internet Gambling

OH WHAT A TANGLED Web we weave when we seek to make the Net do as we please.

Politicians often proclaim that government should keep its hands off the Internet lest it be strangled. But almost any issue that draws congressional scrutiny—pornography, privacy, piracy, prescription-drug prices, taxes, consumer-lending practices—is now intertwined with the Internet.



By David Wessel

Last week's passage of a federal law to explicitly restrict Internet gambling—a ban on using banks, credit cards and online money transfers to pass money between bettor and "unlawful" gambling site—shows how tricky regulating the Internet can be.

Applying old laws to new technologies is messy: The Justice Department and the gambling industry disagree on whether existing federal law permits or bans Internet betting on horse racing. Ignoring the reach of the Internet can expose vulnerable consumers to rip-offs by unscrupulous Web sites: Requiring licenses for barbers and bricks-and-mortar casinos but letting Internet gambling sites take billions from Americans without any oversight is somewhere between foolish and irresponsible.

Passing new laws, however, can be messy, too. Make them too tough, and businesses move offshore. Make them too loose, and they make lofty promises without practical effect.

The Internet gambling saga is rich. There's the tension between the puritanical and libertarian strains among Republicans. There's maneuvering by U.S. casino companies eyeing what is said to be a $12 billion global market, which is regulated and taxed in other countries. There's the stench of scandal: Disgraced lobbyist Jack Abramoff helped thwart earlier legislative assaults on Internet gambling, and some Republicans backed the new law to show that Mr. Abramoff is history. And there's presidential politics: Senate leader Bill Frist is courting antigambling social conservatives.

SO WHAT DID Congress do?

It did *not* resolve the contentious issue of what constitutes "unlawful Internet gambling."

Under presidents Clinton and Bush, the Justice Department has said the 1961 Wire Act, written in the days before telephone lines morphed into an information highway, prohibits all forms of Internet gambling. But a 2002 federal appeals-court decision ruled that the statute applies only to sports betting, not poker or casino games. That allowed online gambling to flourish in the U.S.—until American authorities arrested a couple of foreign Internet-gambling executives.

Internet horse-race betting sites say another federal law makes their business lawful. The Justice Department says otherwise but has done nothing to thwart Youbet.com, a Woodland Hills, Calif., horse-betting site.

The new Unlawful Internet Gambling Enforcement Act applies to any "bet or wager...unlawful under any applicable federal or state law," without acknowledging that it's murky what is unlawful. The Senate did *not* embrace Virginia Republican Rep. Bob Goodlatte's bill to amend the Wire Act to explicitly apply it to the Internet. (Note to Wall Street: Relax. Congress explicitly excluded over-the-counter derivatives.)

Publicly traded European betting sites got the message and cut off U.S. customers. As Britain's **PartyGaming** PLC put it: As "the first piece of federal legislation dealing explicitly with Internet gaming, it does make clear that the U.S. government intends to stop the flow of funds from Americans to online gaming operators through criminal sanctions."

Because the Internet doesn't respect national boundaries, banning something in the U.S. can be a hollow act. ("'Traditional law enforcement mechanisms," the bill says, "are often inadequate for enforcing gambling prohibitions or regulations on the Internet, especially where such gambling crosses state or national borders.") So the new law goes after the lifeblood of gambling sites: money. It will be a civil and criminal offense to move money between bettor and "unlawful" gambling site. (The new law specifically excludes horse betting from its ban.)

MAJOR CREDIT CARDS already ban their use for Internet gambling, as does **eBay** Inc.'s PayPal service, but other online outfits, such as Neteller.com, based in the Isle of Man, sprang up to move money to the sites. This bill takes aim at them.

Although Congress resisted the temptation to require search engines such as **Google** Inc. and **Yahoo** Inc. to scan the Web to identify gambling sites, it empowered federal prosecutors and state attorneys general to go to court to force search engines to remove links to specific gambling sites, just as the sites now do for child porn. Of course, this is the sort of thing that brings howls when Google is told to do it by the French (to sites selling Nazi paraphernalia) or the Chinese (to sites questioning the Chinese government).

So the big publicly traded Internet gambling sites have left the U.S., disappointed that their plea—"regulate us and tax us to make our business legit"—has been rejected. Determined American bettors are bound to seek technological back doors to keep betting at those sites or, more likely, at shadier, less scrupulous underground betting sites. And big U.S. casino companies have pushed out potential foreign competitors in case, someday, Internet gambling becomes legal in the land where lotteries are seen by governments as a smart way to raise revenue.

In days before the Internet, Prohibition didn't stop drinking, and gambling bans didn't stop the numbers runners. Despite the headlines, my bet is that Congress hasn't yet stomped out Internet gambling.

—Amy Schatz contributed to this article.

WSJ.com **Online Today:** *David Wessel talks about Congress's attempt to restrict Internet gambling, at* **WSJ.com/Video.** *Send comments to* **capital@wsj.com.** *WSJ.com subscribers can see Q&A next Thursday at* **WSJ.com/Capital.**