THE WALL STREET JOURNAL.

VOL. XXVII NO. 95 | EUROPE | FRIDAY - SUNDAY, JUNE 19 - 21, 2009

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THE WALL STREET JOURNAL.

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Too dangerous
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EU leaders back Barroso

On their summit agenda: new pan-European financial regulation

By John W. Miller

BRUSSELS — German Chancellor Angela Merkel and other European Union leaders said they will back Portuguese conservative José Manuel Barroso for another five-year term as president of the European Commission, as they began a two-day summit in Brussels on Thursday.

The likely reappointment of Mr. Barroso to head the EU's executive branch follows a resounding victory for center-right parties in European Parliament elections this month. His approval by the legislature is widely expected.

Mr. Barroso was to set out his planned approach for a second term, including pledges to strengthen the EU and financial regulation within the bloc, at a dinner with the national leaders of the 27 EU countries on Thursday night.

"There is no other candidate, so why wait?" Swedish Prime Minister Fredrik Reinfeldt told reporters, echoing the comments of fellow heads of government as they arrived in Brussels for the gathering. "We need leadership and we need clear decisions."

According to a draft of a joint statement to be released Friday, the bloc's leaders will also endorse general plans to set up two new pan-European financial regulators, a move they say could help prevent a repeat of last year's financial meltdown.

The European Systemic Risk Council would track the financial system for stability. A second group would set standards for governments to supervise banks, insurers and other financial firms.

There remained a split over how to run the two bodies. France and Germany want the president of the European Central Bank, currently Jean-Claude Trichet of France, to head the Systemic Risk Council. The U.K., which isn't a euro-zone member, is resistant to having the head of the ECB lead the council.

"As far as the chairmanship of this body—that is for further discussion," said U.K. Prime Minister Gordon Brown. "The principles matter more than the individuals."

At the summit, EU leaders were also expected to discuss a request from Ukrainian state gas company **Naftogaz Ukrainy** to help ensure the transit of Russian gas to Western Europe this winter.

Naftogaz on Thursday offered two proposals on how

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Reuters

Hundreds of European farmers gathered in Brussels on Thursday to protest low milk prices, as the summit of EU leaders began.

U.K. sees beauty in Parliament 'Beast'

By Alistair MacDonald

LONDON—Over 40 years, the man known as "The Beast of Bolsover" has richly earned his reputation as Parliament's No. 1 killjoy.

Small change

■ Heavily redacted details of MPs' expenses are online 26

Impolitic and often ill-mannered, Dennis Skinner, a representative of the English town of Bolsover, has made a career of verbally shredding colleagues and ridiculing Parliament's ancient protocols. His acid tirades—publicly branding one member of Parliament "a pompous sod" and another "slimy"—have gotten him ejected from Parliament 10 times. His relentless attention-grabbing stunts and statements haven't endeared him to fellow MPs, who tend to regard him as a loner.

But these days, one habit of Westminster's resident grouch—his reflexive need to vote against pay raises and extra allowances for members of Parliament—has put this antisocial 77-year-old outlier in sync with the mood of both the public and other politicians.

For the past month, Britain has been riveted by an explosive scandal revealing how politicians have used taxpayer money to claim reimbursement for everything from "glitter" toilet seats to payments on mortgages that don't exist. It has brought nationwide condemnation of politicians and an early end to the careers of more than a dozen.

On Thursday, the redacted copies of more than a million expense claims and receipts from the past four years were put on Parliament's Web site after a nearly five-year fight between politicians and freedom-of-information campaigners.

As a result, Britain's lead-

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Benjamin Thomas for The Wall Street Journal

Besides targeting parliamentarians' spending habits, Dennis Skinner has also attacked some of the body's traditions.

Rulers in Iran to meet Mousavi

By Farnaz Fassihi and Roshanak Taghavi

TEHRAN—One of Iran's top oversight bodies said Thursday it will invite the country's three unsuccessful presidential challengers to a meeting to discuss the contested weekend elections, as hundreds of thousands of protesters marched mostly peacefully through the capital's streets.

Shaking street

■ Iran protests could make nation harder to deal with.....8

The move by the Guardian Council was the latest in a series of unprecedented concessions to the losers in disputed elections a week ago that, officials said, were won in a landslide by President Mahmoud Ahmadinejad. Mir Hossein Mousavi and two other presidential challengers have alleged vote rigging, a charge Mr. Ahmadinejad has denied.

Meanwhile, reports of arrests of opposition leaders, supporters and associates of Mr. Mousavi continued Thursday. His campaign's top strategist, 26-year-old Mohamad Reza Jalaiepour, was picked up at the airport as he was trying to leave the country with his wife, according to his family. Iranian Nobel Peace Prize winner Shirin Ebadi called Thursday for Tehran to unconditionally release about 500 people whom

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Culture shock

Europeans take a dim view of American influences
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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8555.60	+0.69
Nasdaq	1807.72	-0.02
DJ Stoxx 600	205.64	+0.49
FTSE 100	4280.86	+0.06
DAX	4837.48	+0.78
CAC 40	3194.06	+1.04
Euro	$1.3961	+0.70
Nymex crude	$71.37	+0.48

LEADING THE NEWS

Geithner defends revamp

Lawmakers express concern over Fed role in financial overhaul

BY MICHAEL R. CRITTENDEN AND MAYA JACKSON RANDALL

WASHINGTON—Treasury Secretary Timothy Geithner faced the questions from the U.S. Congress Thursday, but it was the Federal Reserve that had lawmakers' attention as they expressed concern about vesting more authority with the central bank.

Mr. Geithner, appearing in rare back-to-back hearings on both sides of Congress, was repeatedly pressed on the regulatory overhaul unveiled Wednesday by President Barack Obama and the Treasury Department.

In testimony to the Senate Banking Committee, Mr. Geithner said that gaps and weaknesses in the regulatory framework governing banks and other financial institutions "presented challenges" to the government's ability to monitor and address risky market bets. One problem, he said, is that no single regulator saw its job as protecting the economy and financial system as a whole.

"Every financial crisis of the last generation has sparked some effort at reform. But past efforts have begun too late, after the will to act has subsided," he said in prepared remarks.

In the first formal airing of concerns with the Obama plan, lawmakers focused on the linchpin of the proposal: giving the Fed broad authority to regulate systemic risk and examine any firm that could threaten financial stability. Mr. Geithner said the head of the Federal Reserve Board would be held accountable for systemic risks to the financial system.

"I personally believe this represents a grossly inflated view of the Fed's expertise," Sen. Richard Shelby (R., Ala.) said during Mr. Geithner's appearance before the Senate Banking Committee.

Sen. Jim Bunning (R., Ky.), a long-time Fed critic, pointed out that the Fed has declined to use its authority when it was given powers by Congress, most notably with writing mortgage regulations passed by Congress in 1994.

"It took 14 years for the Fed to write one regulation on mortgages that we gave them," Mr. Bunning said. "What makes you think the Fed will do better this time around?"

Some lawmakers also were wary of impinging on the central bank's core mission to set monetary policy. A requirement in the Obama plan that the Fed seek Treasury approval to use emergency lending powers is troubling, lawmakers said.

Reuters

U.S. Treasury Secretary Timothy Geithner gives testimony about a regulatory overhaul before the Senate Banking Committee in Washington Thursday.

"I think that's really crossing a line and a sort of fundamental change," Sen. David Vitter (R., La.) said. "All of a sudden, the Fed is acting more like a department of the government than an independent bank."

Committee Chairman Chris Dodd (D., Conn.) also raised questions about the use of the Fed for such an overarching task. But he applauded the administration for including a new agency to protect consumers in their banking transactions.

Mr. Dodd said regulators must be empowered and that gaps in oversight should be eliminated. Financial institutions that pose a threat to the economy shouldn't go unchecked, he said, and there should be more transparency in certain markets.

But Mr. Dodd blamed the Fed for "dropping the ball" on consumer protections.

Mr. Geithner said that in creating the consumer protection agency, the administration was taking power away from the Fed even as it was adding to its authority. "That is a substantial diminishment of authority, preoccupation and distraction," he said.

—The Associated Press contributed to this article.

Goodwin agrees to shredding of RBS pension

BY SARA SCHAEFER MUÑOZ

LONDON—In February, former **Royal Bank of Scotland Group** PLC Chief Executive Fred Goodwin defiantly rejected calls to reduce a rich pension package that made him the U.K.'s most vilified banker. Now, it appears that Sir Fred has blinked.

RBS said Thursday that Sir Fred has agreed to forgo half of a £700,000 ($1.1 million) annual payout that was negotiated last fall, when he was ousted as the bank's CEO at a time when it was on the brink of insolvency. The pension deal was cut amid a furious scramble to save the bank with a bailout by the U.K. government.

Unnoticed at the time was the fact that Sir Fred, who was then 50, was given credit for 10 additional years of work, boosting his pension from the £579,000 he would normally have received. But the increased pension became public in February, causing an outcry in Britain and transforming Sir Fred into a symbol of bankers' excess and greed leading to the financial crisis.

The new agreement will leave him with £342,500 a year, RBS said. The moves reduced Sir Fred's pension pot of £16.6 million by £4.7 million. He quietly took a £2.7 million lump sum earlier this year in exchange for reduced annual payments.

Fred Goodwin

"On any measure this represents a very substantial reduction to Fred's pension and is an acceptable amount to all parties to the discussion," RBS Chairman Philip Hampton said Thursday. "This issue has been a serious distraction from allowing us to focus on the real causes of the problems facing the company."

The pension deal had put Sir Fred under pressure from the RBS board, shareholders and U.K. officials reaching as high up the chain as U.K. Prime Minister Gordon Brown.

But Sir Fred, nicknamed Fred the Shred for his cost-cutting prowess, remained defiant, at one point writing in a letter to U.K. Treasury officials that he had already made "appropriate" sacrifices and wouldn't take a pension cut.

Yet Thursday, he finally agreed to do so. RBS says his decision follows months of talks with Sir Philip, as well as an RBS internal review that found no legal grounds to justify reclaiming his pension.

The RBS review looked into Sir Fred's pension contract, conduct, use of company assets and expenses during his eight-year tenure as chief executive, and found no wrongdoing, the bank said Thursday.

Sir Fred hasn't been seen publicly since early this year, having essentially gone into seclusion after the deluge of criticism and an incident in which his house in Edinburgh was vandalized. A spokesman Thursday declined to give any information on his whereabouts.

The outcry over Sir Fred's pension was especially fierce because he is viewed by many as the architect of RBS's near-collapse. He pushed to expand RBS's balance sheet, most notably with the purchase of a portion of Dutch bank ABM Amro Holding NV at the peak of the market in 2007. The acquisition turned out to be disastrous, contributing to a shortage of RBS capital and billions of pounds in write-downs.

The bank took £20 billion in state funds in last fall's bailout and is now 70%-owned by the U.K. government.

Unite, the union that represents RBS employees, was even less pleased.

"Goodwin will still enjoy a very comfortable future at the expense of the taxpayer," Rob MacGregor, a Unite officer, said in a statement released Thursday. "This decision to repay some of the massive pension pot he has taken will do nothing for the thousands of staff who have already lost their jobs within RBS."

CORRECTIONS & AMPLIFICATIONS

Fiat SpA began selling its cars in the U.S. in the early 20th century. In the 1960s and 1970s, the Italian auto maker substantially increased its presence in the U.S., with heavy investments in advertising and the production of a model targeted to the American market. A Corporate News article Tuesday incorrectly said Fiat entered the U.S. market in the late 1970s.

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.

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium
Telephone: 32 2 741 1211 Fax: 32 2 741 1600
SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799
Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: www.services.wsje.com
Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Daniel Hertzberg M-17936-2003

INDEX TO PEOPLE

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

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LEADING THE NEWS

Fiat chief sets new tone at Chrysler

Marchionne moves into lower-floor office, seeks a faster pace

By Neal E. Boudette

Just hours after taking over as chief executive of **Chrysler Group** LLC last week, Sergio Marchionne settled into a new office at the company's Auburn Hills, Mich., headquarters—and signaled he's setting a different tone for the struggling car maker.

Rather than take the top-floor suite that his predecessors occupied in the company's executive tower, Mr. Marchionne opted for a fourth-floor office in its adjoining technical center, people familiar with the matter said.

To get Chrysler back on its feet quickly after 42 days in bankruptcy reorganization, Mr. Marchionne felt he should be close to the engineers and managers making day-to-day decisions, these people said.

"It shows he's going to be very hands-on," said one person who meets regularly with senior Chrysler executives.

Mr. Marchionne, who is also CEO of Chrysler's alliance partner, **Fiat** SpA, faces a tall task in reviving the smallest of the Big Three auto makers.

Chrysler has emerged from Chapter 11 with a lighter debt load and lower labor costs, but its sales are slumping and its image is tarnished. Since April 30, its plants and those of hundreds of its suppliers have sat idle, and work on new models in development has ground to a halt.

The most crucial new model is the 2011 Jeep Grand Cherokee, which is supposed to be launched next April. But Mr. Marchionne will have to get Chrysler to hit the gas to avoid a delay.

Some key development milestones for the Jeep have already slipped, according to suppliers. The sport-utility vehicle is supposed to come with a new V6 engine, and by now Chrysler had hoped to be able to build test vehicles with the engine using production machinery. But isn't that far along yet, according to suppliers briefed on the matter.

A big part of Mr. Marchionne's prescription for the company is a rapid flattening out of its management ranks to speed decision-making and move top executives closer to the business of making and selling cars and trucks. He also appears determined to instill a new sense of urgency and focus at the company, and demand close cooperation between Chrysler and Fiat.

On June 10, when Fiat assumed control of Chrysler, Mr. Marchionne announced a broad reorganization that left 23 senior managers reporting to him. His immediate predecessor, Robert Nardelli, had only a handful of direct reports.

Near his office, Executive Conference Room E has been equipped with 23 microphones and video conferencing gear so the Chrysler team can meet with their counterparts in Italy, said people familiar with the matter.

The two sides hold videoconferences several times a week, and Mr. Marchionne has made clear all top managers are expected to attend. "You're either there or you call in, but you do not miss these meetings," said one person in close contact with Chrysler management.

Since Chrysler's survival isn't yet certain, Mr. Marchionne has also told top executives to expect to work—in the office—most Saturdays and Sundays for the foreseeable future, this person added.


Associated Press

Fiat CEO Sergio Marchionne, left, greeted Chrysler employees after taking charge of the Detroit car maker last week.

New Peugeot Citroën board to unify resources

By Sebastian Moffett

PARIS—**PSA Peugeot Citroën**'s new chief executive appointed a management board aimed at consolidating the company's two major brands as the French auto maker struggles with overcapacity and high costs.

Philippe Varin, who took over as CEO June 1, chose a board with four other members, including a manager for brands, Jean-Marc Gales, who will oversee both Citroën and Peugeot.

In the past, each of the company's two brands was headed by a manager who reported directly to the chief executive. Mr. Gales will head centralized marketing and replacement-parts departments, and dealers will report directly to him.

The company said the move would develop synergies and improve geographical coverage.

Like other car makers, Peugeot Citroën is struggling with plunging sales amid the economic downturn. To cope, it has temporarily shut factories and put workers on reduced shifts.

In February, it received a low-interest loan of €3 billion, or roughly $4 billion, from the French government, but on condition that it not close factories in France for the duration of the aid.

Mr. Varin's challenges include reducing capacity in spite of this restriction. In addition, he has to decide whether to focus on successful smaller, fuel-efficient cars, or continue to produce models in all size segments. He will likely announce a new corporate strategy around September, a company spokesman said.

Analysts expect some kind of major partnership with another auto maker. Possible partners include Japan's **Mitsubishi Motors** Corp., Italy's **Fiat** SpA, or **BMW** AG of Germany, analysts said. But much depends on the willingness of the Peugeot family to allow such an alliance: Descendants of the founders of Peugeot, which was merged with Citroën in 1976, own 30% of Peugeot Citroën's capital and control 5% of its voting rights.

Early in June, Thierry Peugeot, administrator of the family's holding, said that alliances could help reduce costs. But he indicated that his family would prefer to remain the core shareholder.

The new management board includes Frédéric Saint-Geours, who will oversee strategic development as well as finance—a role he had from 1988 to 1990.

"Investors may be disappointed by the lack of fresh talent," said Credit Suisse analyst David Arnold.

Mr. Varin spent most of his career in the metals industry—first at Pechiney SA, a French aluminum conglomerate, and later at Corus Group Ltd., an Anglo-Dutch steelmaker. He rescued the latter from near-bankruptcy and later sold it to Tata Steel Ltd. of India at a big profit.

New U.S. jobless claims rise, slowing a turnaround

By Brian Blackstone

The number of U.S. workers filing new claims for jobless benefits rose slightly, as expected, last week, suggesting that while job losses have moderated since the beginning of the year, a rapid turnaround in labor-market conditions is unlikely.

Initial claims for jobless benefits rose 3,000 to 608,000 in the week ended June 13, the Labor Department said Thursday. The four-week average of new claims, which aims to smooth volatility in the data, fell 7,000 to 615,750, the lowest level since mid-February.

The tally of continuing claims—those drawn by workers for more than one week—fell 148,000 during the week ended June 6 to 6,687,000, the first weekly decline since the Jan. 3 week and largest since Nov. 24, 2001.

Separately, personal income fell in 37 states during the first quarter, the U.S. Commerce Department said Thursday. Most of the states where income rose were in the Southeast.

Personal income in the fastest-growing state, Hawaii, was up 0.8%, while personal income in the next-fastest-growing state, Virginia, gained 0.3%.

Private-sector earnings fell in all states. In many states, one or two industries accounted for the bulk of the decline in earnings: finance in New York, Connecticut and Rhode Island; durable-goods manufacturing in Michigan and Indiana; construction in Arizona and Nevada; mining in Wyoming and Oklahoma; and accommodation and food services in Nevada.

Meanwhile, the May index of leading indicators offered more signs that the U.S. economy has moved closer to recovery.

The leading index jumped 1.2% last month, after April's increase was revised to 1.1%, the Conference Board reported Thursday. April's rise was originally reported as 1.0%.

—Kathleen Madigan contributed to this article.

Big Swiss banks exposed to risk, central bank says

By Martin Gelnar And Katherina Bart

BERN, Switzerland—The central bank here warned that local banks still have high risk exposure and said it expects the economy to stay in recession this year and at best stagnate in 2010.

The Swiss National Bank said deteriorating credit quality in Switzerland and abroad as well as uncertain economic prospects make for a gloomy outlook for profitability.

The central bank said Switzerland's biggest banks, **UBS** AG and **Credit Suisse Group**, have made some headway in reducing risky positions, but their risk exposure remains high. Both banks may face further loss provisions of up to 35 billion Swiss francs ($32 billion), the central bank said.

"Losses in the order of roughly 2% of total assets at UBS and 3% at Credit Suisse would currently deplete most of these bank's capital base unless simultaneous corrective measures are taken," the central bank said in its financial stability report.

Switzerland is in a unique position because of the dominance of its two banking groups, so the banks must take steps to increase their resilience to shocks, the central bank noted. Such measures include further reductions of risky positions, a strengthening of capital, steps to preserve liquidity, and cutting costs.

Once the crisis is over, the big banks' size and their too-big-to-fail status will have to be addressed, the central bank said. Possible solutions range from an cap on the size of the banks to new requirements regarding capital and liquidity for systemically important financial institutions, the central bank said. International rules enabling a controlled winding down of a bank are also a possibility, the central bank said.

The central bank also said it expects the Swiss economy to contract 2.5% to 3% in 2009, unchanged from a previous estimate. Pointing to the risk of deflation, the central bank said consumer prices are expected to decline 0.5% this year and possibly post mild rises in the next two years.

Switzerland's economic- and monetary-policy situation is gradually normalizing but risks remain, central bank President Jean-Pierre Roth said.

"We consider that the time for a correction has not yet come, but that an additional relaxation of monetary conditions is not necessary either," he said.

"We think the economy may stagnate next year. A slight contraction is also possible," Mr. Roth said.

The central bank also said it remains prepared to intervene in foreign-exchange markets to prevent a rising Swiss franc from further damaging the economy and will keep interest rates near zero.

Renewing its pledge for a generous liquidity supply through unconventional means—a practice known as "quantitative easing"—the central bank said it will continue to buy foreign currency to prevent an excessive strengthening of the Swiss franc if need be. The central bank started this practice in March, returning to the foreign-exchange market as an active player after a 15-year absence.

CORPORATE NEWS

Google seeks ways to nurture big ideas

Giant speeds access to bosses in effort to transform more projects into products, keep employees from leaving

BY JESSICA E. VASCELLARO

Google Inc. is revamping how it develops and prioritizes new products, giving employees a pipeline to the company's top brass amid worries about losing its best people and promising ideas to start-ups.

The Mountain View, Calif., company famously lets its engineers spend one day a week on projects that aren't part of their jobs. But Google has lacked a formal process for senior executives to review those efforts, and some ideas have languished. Others have slipped away when employees left the company.

"We were concerned that some of the biggest ideas were getting squashed," said Google Chief Executive Eric Schmidt in an interview.

Google can no longer afford to let promising ideas fall by the wayside. The Internet search giant's once-torrid growth has slowed. At the same time, it faces fresh competition from **Microsoft** Corp.'s new search engine, Bing, and start-ups such as **Twitter** Inc., which was founded by former Google employees.

In response, Google has recently started internal "innovation reviews," formal meetings where executives present product ideas bubling up through their divisions to Mr. Schmidt, Google founders Larry Page and Sergey Brin, and other top executives.

The meetings are designed to "force management to focus" on promising ideas at an early stage, Mr. Schmidt said.

The efforts have been behind several services that Google has recently unveiled, including software that allows companies to use Microsoft's Outlook email and calendar software while storing their data with Google. Microsoft said Wednesday the Google software interferes with an Outlook search function; Google disputed the severity of the problem, but said it is working to improve its software.

Another project, an imaging product that is based on facial-recognition software developed inside Google, is expected to be released this summer.

Google has also begun to give a few engineers broad leeway to start big projects of their choosing, Mr. Schmidt said. One result of this effort: Google Wave, a collaboration tool that the company previewed last month.

The moves are a shift for Google. Previously, its early-stage projects weren't systematically vetted by top executives. Employees with a new idea would lobby their bosses for resources and time. Once approved, a project could linger or die without getting much attention from senior management.

Google needs new products to jumpstart its growth. While it remains a juggernaut with one-third of all U.S. advertising dollars spent online, its year-to-year revenue growth has slowed from 56% in 2007 to 31% in 2008 and was just 6% in the first quarter of this year.

What's more, employees continue to leave Google as it evolves into a mature company with 20,000 workers. "Most product managers evaluate [whether to stay] every six months," said Chris Vander Mey, a senior Google product manager who worked on the Microsoft Office integration.

While praising how Google has supported small projects like his own, he said he still expects to leave the company over time to explore other interests.

Employees at their desks inside Google's headquarters in Mountain View, Calif., shown in March 2008.

Reuters

Google has taken cracks in the past at the retention problem. In March, it repriced millions of employee stock options whose value had been wiped out over the past two years. The company has also begun testing a mathematical formula to try to predict which employees are most likely to leave, based on factors like employee reviews.

David Yoffie, a Harvard Business School professor who studies technology and e-commerce companies, said prioritizing is important for Google. While Google has launched hordes of new experiments, "in the absence of focus and promotion" few have turned into blockbusters, he said.

In the case of Google Wave, the company singled out Lars Rasmussen and Jens Rasmussen to test its approach to developing ideas.

The brothers, who are based in Australia, had been working on Google Maps. On the side, they were also thinking about creating a communication system to replace email.

Messrs. Schmidt, Page and Brin were intrigued and gave the engineers a long leash. "We said go do something really interesting and take as many resources as you need," Mr. Schmidt said. They gave the Rasmussens dozens of employees, he added, substantially more people than most early-stage projects.

To allow the duo to stick to their vision for the product, the top executives kept Wave secret from the rest of the company. Wave wasn't opened up to broader employee feedback until later in the development cycle.

Lars Rasmussen said the conditions freed his team from concerns such as fighting for engineers and removed pressure to integrate with other Google products. "We knew we had to do something different," he said.

While Google has high hopes for Wave, which combines communications like email and messaging through a new service that updates in real-time, some are skeptical. Search analyst Danny Sullivan said he was "underwhelmed" by Wave and sees the service as a feature rather than a whole new way to share information.

Other current and former Google employees see Wave as an exception. Sean Knapp, a former Google engineer, left the company in 2007 and started Ooyala Inc., a start-up that distributes and manages advertising around online video.

Mr. Knapp said Google managers offered him the chance to start the project within the company, but he declined. He worried he wouldn't feel the same pressure to succeed. "If you're really aggressive, you want that sink-or-swim environment," he said.

Mr. Schmidt said it is "a fact of life" that some Google employees will ultimately choose the risk and reward of a start-up. But he added the company tries to make it possible to be "part of a start-up within Google."

Breaking away

A few start-ups and the former Googlers behind them

Ooyala Inc. (ooyala.com)
- Founded by Sean Knapp, Bismarck Lepe and Belsasar Lepe
- Distributes and manages advertising around online videos

Aardvark (vark.com)
- Founded by Max Ventilla and Nathan Stoll
- Online service to ask for advice and recommendations from people

FriendFeed Inc. (friendfeed.com)
- Founded by Bret Taylor, Jim Norris, Paul Buchheit, Sanjeev Singh
- Aggregates updates from multiple social-networking services

Source: WSJ research

Alcatel-Lucent teams up with H-P

BY LEILA ABBOUD

Telecommunications-equipment maker **Alcatel-Lucent** and technology vendor **Hewlett-Packard** Co. have signed a 10-year partnership to develop and market communications and computing products, as both firms look for new areas of growth.

Alcatel-Lucent will also outsource the management of its computing systems to H-P, transferring about 1,000 workers to H-P.

The Paris-based company declined to say how much it would save with the move, but Chief Executive Ben Verwaayen has made cutting costs a priority since taking over the unprofitable telecom-gear maker last September.

For California-based H-P, the deal will allow it to package its software and services along with telecom-network gear, without having to invest massively in a new area. H-P hasn't traditionally sold much telecom equipment, relying often on reselling products from competitors **Avaya** Inc. and **Cisco Systems** Inc.

Cisco this year unveiled a server system that competes with H-P. Last month, H-P teamed with **Microsoft** Corp. to offer software, hardware and services that combine phone, video and e-mail functions—an offering that rivals a Cisco product.

The alliance comes at a time when the world's telecommunications infrastructure is changing rapidly to accommodate much higher flows of video and data. In the past telecom networks consisted mostly of switches that transported voice calls around the world. Today telecom networks are built with computers and software to accommodate images, streaming video and music.

"Telecom and information technology are increasingly intermingling and no company has all this expertise under one roof," Mr. Verwaayen said. That's why this partnership makes sense, he added.

Richard Windsor, global technology specialist at Nomura Securities, said the partnership would allow the companies to pool their respective expertise in telecom and technology. For example, Alcatel-Lucent and H-P could develop an Internet-based telephone system that would be linked into a company's computer system, allowing employees to make calls from their PCs.

The deal "makes sense from a strategic point of view, but I doubt it will bring significant revenues to Alcatel-Lucent in the next year or two," he said.

Alcatel CEO Ben Verwaayen, shown last month, has made cost cutting a priority.

Associated Press

Alcatel-Lucent has been losing money for the past two years, in the wake of a difficult merger that was supposed to give it the scale to compete in the increasingly brutal telecom equipment market. Instead, the French company finds itself burdened with higher costs than its rivals, undercut on the low end by Asian rivals such as **Huawei Technologies** Co. and falling behind **Telefon AB L.M. Ericsson** on the high end.

—Justin Scheck contributed to this article.

Eddie Bauer plots its next ascent

With Chapter 11 file, clothing retailer plans return to sport roots

BY PETER LATTMAN AND ELIZABETH HOLMES

Eddie Bauer Holdings Inc., the nearly 90-year-old outdoor retailer with a rich history, filed for Chapter 11 bankruptcy protection, overcome by a heavy debt load.

The Bellevue, Wash., company said private-equity firm **CCMP Capital Advisors** LLC agreed to offer $202 million in cash for its assets. It asked a U.S. bankruptcy court to conduct an auction of the firm and its assets.

Eddie Bauer, which had about $1 billion in revenue last year, said a sale of its assets could be completed by mid-August. While CCMP has agreed to bid on the assets, another buyer could still top the CCMP offer.

The company's debt holders could also show up at the bankruptcy auction and bid for the assets. The group, which includes Monarch Alternative Capital LP and Anchorage Advisors LLC, could object to the bankruptcy sales process in the hopes of obtaining a better recovery.

The latest filing signals a fresh start for an iconic brand that has been buffeted by business fads, starting with the conglomerate model in the 1970s and rapid-fire acquisitions in the 1990s.

But it never lost its strong affiliation with the outdoors despite a succession of owners and a detour to casual apparel. Founded by outfitter Eddie Bauer in 1920, the chain was a retail pioneer of sporting goods, outdoor apparel and gear that predated **Recreation Equipment** Inc., Lands' End, and others.

It was among the first to use quilted goose-down to insulate a garment. During World War II, it was commissioned by the U.S. military to supply more than 50,000 flight parkas and some 250,000 down sleeping bags, many with the Eddie Bauer label. The label helped increase its name recognition after the war.

During the height of America's belief in conglomerates, Eddie Bauer was snapped up by **General Mills** Inc., then diversifying into retailing.

As the fad dissipated, the retailer was sold in 1988 to cataloguer Spiegel Inc., which moved the brand away from its outdoor roots and into mall stores. It also licensed the name to **Ford Motor** Co., which in 1990 began selling Eddie Bauer Edition versions of its Explorer sport-utility vehicle.

Spiegel began to falter after it incurred heavy debt in an acquisition spree. Its troubles in 2003 led it to close 60 Eddie Bauer stores, and sell its Redmond, Wash., campus.

It also drove Eddie Bauer away from its founder's rugged outdoor vision, moving it into a failed effort to extend the brand into women's and children's casual clothing.

Along the way, the corporate hand-offs sapped Eddie Bauer of outlets and much of its connection to the outdoors. The retailer had more than 500 stores in 2002. This year, it had just 371 stores in the U.S. and Canada.

Spiegel's 2003 bankruptcy included Eddie Bauer. When the company emerged from bankruptcy two years later, it was saddled with $300 million in debt. On Wednesday, the company said it owed $324 million to lenders. By 2005, the chain had evolved into a predominantly women's clothing brand that struggled to compete in crowded space that included such chains as **Talbots** Inc. and **Chico's FAS** Inc.

"Eddie Bauer is a good company with a great brand and a bad balance sheet," said Chief Executive Neil Fiske in a statement Wednesday. "We know we can do it if given a fair chance and a better balance sheet."

New York-based CCMP started looking at Eddie Bauer five years ago when it was still part of Spiegel but was turned off by its heavy debt and its women's apparel strategy.

CCMP has about $9.5 billion under management, and was spun out from J.P. Morgan Chase & Co. The private equity firm has a number of holdings in the retail sector, including Quiznos Sub and theater chain AMC Entertainment.

Hilco Trading Co. and **Gordon Brothers Group** LLC previously have expressed an interest in the business. Their plans would likely involve liquidating the retail stores and building the Eddie Bauer brand's online and licensing businesses.

CCMP executives say they support Eddie Bauer's current direction of returning to its roots. If CCMP successfully buys the company, Jonathan Lynch, a CCMP managing director, said the new owner will continue operating the majority of the stores and retain the majority of its employees.

Into the wild

Eddie Bauer's history reflects management fads.

1920 Eddie Bauer opens the first store.

1940s Supplies goose-down flight suits to U.S. pilots in WWII.

1971 General Mills, pursuing business portfolio theory, buys retailer for $10 million in stock.

1988 Spiegel buys, shifts focus to casual wear.

2003 Spiegel files for Chapter 11 bankruptcy.

2005 Eddie Bauer emerges from first bankruptcy.

2007 New management team plans to return company to outdoor roots.

2009 Eddie Bauer files for Chapter 11 citing heavy debt.

Gazprom Neft names CEO of Sibir Energy

BY JACOB GRONHOLT-PEDERSEN

MOSCOW—OAO Gazprom Neft, the oil unit of Russian gas giant OAO **Gazprom**, Thursday appointed Igor Tsibelman as the chief executive of **Sibir Energy** PLC in a sign the state-controlled firm is tightening its grip on the London-listed company.

Mr. Tsibelman, head of international legal affairs at Gazprom Neft, will succeed Sibir Energy's acting CEO Stuard Detmer, effective immediately, Sibir said in a statement.

Sibir Energy, which last summer was the biggest company on London's AIM exchange, has been dogged by corporate-governance issues since it agreed to buy distressed real-estate assets from its main owner, Chalva Tchigirinski, in October.

Gazprom Neft, which has been buying shares in Sibir Energy since April and said last month that it made an offer for the whole company, said Thursday that it had become Sibir's biggest stakeholder, accumulating 34.07% of shares.

"This is the best possible outcome both for shareholders and for the company," said Mr. Detmer, who will remain on Sibir's board as a nonexecutive director. "Now we have a shareholder that is actually an oil company. They have the political clout, and they have big plans to grow the company," he said. Mr. Detmer declined to comment on Gazprom Neft's plans for Sibir.

Mr. Detmer described Gazprom Neft's offer of £5 ($8.20) a share to minority shareholders as "a very good deal" and said he expects a smooth management transition.

Analysts believe Gazprom Neft's ultimate goal is to eventually consolidate Sibir Energy, but they said much depends on what will happen to the remaining shares.

Mr. Tchigirinski and his business partner Igor Kesaev each hold 23.5% stakes in Sibir, while the Moscow city government holds 18%. Mr. Tchigirinski's shares currently are held as loan collateral by state lender OAO **Sberbank**, while the Moscow government has said it won't sell its shares.

Mr. Detmer had served as Sibir's acting CEO since February, when he succeeded Henry Cameron, who was suspended pending the outcome of an internal investigation into the real-estate deals with Mr. Tchigirinski.

Neither Mr. Tchigirinski nor Mr. Cameron could immediately be reached for comment Thursday.

Trading in Sibir's shares was halted in February at 175 pence each, pending investigations into erroneous statements to shareholders about its dealings with Mr. Tchigirinski. A year ago, Sibir Energy's shares traded at 814 pence each, making it the most valuable company on London's AIM.

Sibir Energy operates the Salym oil fields in Western Siberia on a 50:50 basis with Royal Dutch Shell PLC. It also has a stake in the Moscow oil refinery, in which Gazprom Neft also is a shareholder, and owns retail gas stations in the Moscow area.

Separately, Gazprom Neft said Thursday that its first-quarter net profit fell 76%, hurt by lower oil prices. The company reported net profit of $335 million for the January-to-March period, down from 1.41 billion in the year-earlier period. The results were an improvement from the previous quarter. The company returned to profit after a net loss of $543 million in the quarter ended Dec. 31.

—Alexander Kolyandr in London contributed to this article.

United Airlines projects traffic will drop 10.5%

BY SUSAN CAREY

CHICAGO—United Airlines parent **UAL** Corp., echoing gloomy guidance issued recently by other large carriers, said Wednesday that its second-quarter traffic is expected to fall as much as 10.5% from a year earlier on a 9% reduction in available seats.

The No. 3 U.S. airline by traffic also disclosed in a Securities and Exchange Commission filing that it expects its passenger unit revenue—the amount taken in for each seat flown a mile—to decline about 18% to 19% in the current quarter from a year ago.

Chicago-based UAL offered better news on the expense front, saying its unit cost excluding fuel will rise 1% to 1.5% year over year. That is an improvement from the guidance the company provided in April. Including fuel, which has declined in price, the airline said its unit cost should be down nearly 20% in the current quarter.

Debt ratings of UAL and United were marked down deeper into speculative territory last week by Fitch Ratings, which said extreme pressure on revenue will continue to offset lower fuel prices this year. Fitch said the airline's operating results and cash generation will remain weak for the rest of the year, partly because of United's heavy exposure to business traffic, which has fallen in the recession.

The International Air Transport Association, a global trade group, said recently that the number of passengers traveling on economy tickets was up 0.3% in April, following a 6.9% decline in the first quarter. But the number of passengers traveling in business or first class fell 22% in April, compared with a 19% decline in the first quarter.

UAL said Wednesday that it expects to be in full compliance with its credit-facility covenants in the current quarter. Fitch lowered its rating on that $1.3 billion term loan to B plus from BB minus. The carrier and its lenders suspended those quarterly tests last year during the fuel crisis.

The covenants will resume for the current quarter and will become more demanding for the six months ending in September and the nine months ending in December. United didn't offer guidance about its expectations for meeting the covenants later this year.

The company said it expects to end the second quarter with an unrestricted cash balance of $2.5 billion. Fitch said it believes United could report negative free cash flow for the final three quarters. UAL, which had no comment on the Fitch report, has been raising money in recent quarters to increase its cash cushion.

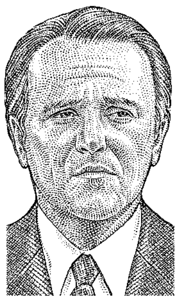
Judge finds Scrushy liable in civil lawsuit

BY VALERIE BAUERLEIN

Richard M. Scrushy, former chairman and chief executive of **HealthSouth** Corp., was found liable Thursday in a civil suit alleging that he masterminded the massive fraud that nearly sank the rehabilitation company.

A Birmingham, Ala., judge awarded the plaintiffs $2.88 billion in damages and rescinded Mr. Scrushy's employment contract.

The plaintiffs said that Scrushy helped artificially inflate HealthSouth's earnings for at least six years through an accounting scam uncovered in 2003. The action was a derivative suit, meaning any proceeds would go to HealthSouth, not to the shareholder plaintiffs directly.



Richard M. Scrushy

Mr. Scrushy, who was acquitted of criminal charges related to the same accounting scandal in 2005, repeatedly said he had no knowledge of the fraud.

All five chief financial officers who served under Mr. Scrushy pleaded guilty to various charges and testified during the civil trial that he was well aware of the fraud. Mr. Scrushy said they weren't trustworthy, as they were admitted felons, but Jefferson County Circuit Court Judge Allwin Horn rejected that argument in his 47-page ruling.

Judge Horn said Mr. Scrushy himself was a felon, as he was convicted in an unrelated bribery case. Judge Horn referred to Mr. Scrushy and the finance chiefs collectively as the "six felons."

Lawyers for Mr. Scrushy couldn't be immediately reached but are expected to appeal.

John W. Haley, a lawyer for the shareholders, described the ruling as a warning to those who engage in corporate fraud. "This is much more than a shot across the bow," Mr. Haley said. "It is a full broadside and a tremendous victory for the shareholders of HealthSouth." The plaintiffs were represented by Hare, Wynn, Newell & Newton, LLP.

HealthSouth said it is "pleased to see that justice has been served through this judgment and that another chapter of our past has been put behind us." The company said it would net about 40% of any amount recovered as a third of the amount would go to lawyers on contingency and a quarter would go to federal securities plaintiffs in a separate action.

Though the judgment is large, it is unclear how much money Mr. Scrushy has left. At one time, Mr. Scrushy's fortune was estimated at more than $200 million, but he has spent tens of millions of dollars defending various legal actions and has had limited income, having spent the past two years in prison on the bribery case.

The cancellation of Mr. Scrushy's employment contract is a huge issue since it would nullify Mr. Scrushy's retirement plan and have implications for Mr. Scrushy's ability to pay other legal bills. Mr. Scrushy had argued that HealthSouth should pay for defending certain cases related to his work as CEO.

Diesel costs on the rise

Anticipated recovery boosts prices, which could hurt economy

By Ana Campoy

U.S. diesel prices are rising again after falling below those of gasoline in recent weeks, piling more financial pressure on recession-stricken manufacturers and truckers.

Prices for crude oil and the gamut of petroleum products have been rising, in part because traders expect an economic recovery to boost demand and in part because fuels look like a good hedge against widely expected monetary inflation and a weak dollar.

Oil prices rose 0.8% Wednesday to $71.03 a barrel as new U.S. data showed demand for gasoline rising. Gas prices have risen for seven weeks in a row, squeezing cash-strapped consumers. Crude closed up 34 cents a barrel to $71.37.

Long-haul truckers and others who use diesel are benefiting from a slight price advantage over gasoline, largely because diesel demand is at a nine-year low. U.S. consumption of diesel and similar fuels fell 17% last week from the same period last year, weekly government data show. Supplies are at a historic high.

Retail diesel prices have climbed more than 14% in the past month to a national average of $2.61 a gallon, according to the auto club AAA. That still trails gasoline prices, which jumped 16% to an average $2.68 for a gallon of regular unleaded.

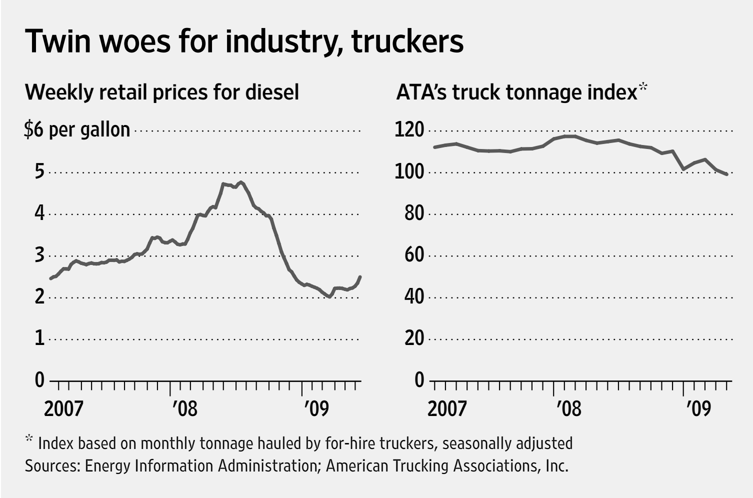
In many parts of the world, diesel is used to fuel manufacturing plants and the trucks that transport their products. Its prices are mostly tied to the fate of the global economy, currently in a severe downturn. In the U.S., the number of tons hauled by trucking companies dropped 13% in April from a year earlier to the lowest level since November 2001, according to an index compiled by the American Trucking Associations, an industry trade group.

If the economy strengthens, fuel prices will likely continue to climb in coming months, analysts say, potentially stalling out a budding recovery. That is what Freeport, Ohio, truck driver Lewie Pugh fears. Mr. Pugh said activity at many of his usual delivery spots—chemical plants and paper and steel mills—is at a near standstill.

"I don't see anything picking up, and fuel prices are just going to make it worse," said Mr. Pugh as he drove a load of water-treatment chemicals to an oil refinery near Philadelphia.

One consolation for truckers is that diesel prices remain considerably lower than last year. Diesel hit a record $4.85 a gallon last July as refiners struggled to keep up with demand.

—Russell Gold contributed to this article.



Microsoft criticizes Google tool

By Nick Wingfield

Microsoft Corp. and **Google** Inc. clashed Wednesday, as the two giants traded barbs over a new Google software offering.

Microsoft said Google's new Apps Sync software disables the search capabilities of Microsoft's popular Outlook email program.

Google acknowledged an issue with its software, which it released earlier this month. But Google disputed the severity of the problem, and said it is working to improve its software.

Apps Sync, which is aimed at businesses, allows users to merge data between Google's email and calendar service and Outlook.

In a company blog post Wednesday, Microsoft's Outlook product manager, Dev Balasubramanian, said Apps Sync includes a "serious bug/flaw" that disables Outlook's ability to search data like emails and calendar appointments.

Intel chip brands shrink; Core to replace Centrino

By Don Clark

Intel Corp. said it is changing the branding on its computer chips, including phasing out the high-profile logo Centrino to identify a set of technologies in laptop computers.

The Silicon Valley company, whose products serve as electronic brains in most of the world's computers, said the changes were designed to simplify an array of brands and logos. Among other things, Intel plans to spend less energy promoting "platforms" of multiple chips, such as Centrino, to concentrate on promoting the microprocessors that are the company's hallmark.

"Things have gotten more and more confusing," said Deborah Conrad, an Intel vice president and director of corporate marketing. "A consumer doesn't need to see that minutiae."

Centrino, introduced in 2003 along with a $300 million advertising campaign, included a logo on laptops containing three different kinds of chips from Intel—a microprocessor, a separate product called a chip set, and chips that manage wireless networking. Starting next year, the Centrino brand will refer only to the company's wireless networking technology. Ms. Conrad said Centrino advertising was a huge success in driving demand for laptop computers, but consumers didn't understand what the brand meant in terms of Intel products.

In another key part of the effort, Intel plans to reinforce the word Core as the flagship brand on Intel microprocessors. But it will phase out current derivative identifiers such as Solo, Core 2 Duo and Core 2 Quad.

Those secondary terms were meant to signify the number of tiny calculating engines on each chip—an increasingly difficult task, as the number of such processor "cores" expands beyond four in the next few years. In their place, three grades of performance within the Core line will be identified with the designations i3, i5 and i7, Ms. Conrad said.

INTEL

Intel's Centrino brand will disappear on laptop chips and be replaced by Core.

Intel already sells a high-end chip for desktop computers called Core i7, which was the first member of a product family that carries the code name Nehalem. The next model, a midrange version of the same technology, will arrive in the second half of the year under the name Core i5.

Intel also still plans to keep its Pentium, Celeron and Atom brand names for microprocessor families that offer lower performance than its Core models. The company doesn't plan to change the names on existing chips, but will use the simpler naming conventions as new products come to market.

Roger Kay, an analyst at Endpoint Technologies Associates, said the transition period will be even more complex for PC makers trying to manage both new and old product names. Even when that period is over, he said, Intel will be left with a lot of brands. "Even after the so-called simplification, it is still going to be pretty complex," Mr. Kay said.

U.K. energy workers spread protests amid Total dispute

By Angela Henshall

LONDON—A rash of unofficial strike actions and protests broke out across U.K. energy plants Thursday as workers voiced their support for contractors at **Total** SA's Lindsey oil refinery in Lincolnshire, east England.

The dispute at Lindsey, which refines about 20,000 barrels a day, started a week ago, after Total told 65 workers that the hydro-desulfurization project they are working on was close to completion, putting their jobs in doubt.

Workers at **BP** PLC's Saltend Chemical Plant near Hull downed tools on Thursday, joining protesters at **Scottish and Southern Energy** PLC's Fiddlers Ferry power plant in Cheshire, northwest England. Similar action occurred at **Drax Group** PLC's coal-fired power generator in Yorkshire, northern England, and at Ratcliffe power station in Nottinghamshire, central England, which is owned by E.ON U.K., a subsidiary of **E.ON** AG. A spokeswoman for Drax said fewer than 200 workers hadn't come to work.

This is the third episode of rapid industrial action to hit the U.K.'s energy industry in five months, but the strikes have so far failed to affect output from plants, according to the companies that manage the installations. The speed of the action has been attributed to the increased use of mobile technology and social-networking sites to mobilize workers.

The first period of unofficial strikes took place in February after a dispute at Lindsey over the use of foreign workers. It culminated when an estimated 2,000 workers walked off the job at more than a dozen other refineries, power plants and energy facilities across the U.K.

The second followed in May after a dispute between contractors and industrial-services company Hertel at Dragon Liquefied Natural Gas Terminal in Wales, which triggered walkouts by hundreds of contract workers at several sites. The action forced Hertel to withdraw 40 non-U.K. workers from a project.

CORPORATE NEWS

Mongolia mines hit snag

Canada's Ivanhoe seeks agreement on $3 billion project

BY ELISABETH BEHRMANN

SYDNEY—Representatives of **Ivanhoe Mines** Ltd.'s $3 billion Oyu Tolgoi project in Mongolia have held talks with the government there for the past two weeks to forge an investment agreement, but there is no clear timetable for progress, a person familiar with the matter said.

Resources companies have been awaiting a solid investment framework for years to mine Mongolia's copper, gold, coal and uranium. Talks to forge an investment deal dragged particularly after Mongolia's government in 2006 announced it would seek a stake of up to 50% in strategic mining projects, as well as imposing a windfall tax on company profits from copper and gold production.

Mongolia's government is under pressure to move forward on Oyu Tolgoi, after its economy was hit hard by the slump in prices for its main export commodities, copper and coal, which forced it to seek loans from the International Monetary Fund.

Shares of Canada-based Ivanhoe fell 8.4% to $5.59 Wednesday after Bloomberg published an interview with Mongolia's president-elect, Tsakhiagiin Elbegdorj, saying he wanted to change the proposed deal with Ivanhoe and **Rio Tinto**, under which the government would take an equity stake in the project.

Mr. Elbegdorj, who was sworn in as president Thursday, suggested that instead of the government buying an equity stake, it should take 50% of the project's profit. He also proposed changes to the windfall tax.

The person familiar with the matter said a parliamentary standing committee two weeks ago submitted to the government its report on the deal, seen as a blueprint for other projects in the mineral-rich but impoverished country. "Since then there have been talks with the government. The investment agreement isn't a presidential issue; it's a parliamentary or governmental issue," the person said.

Under Mongolian law, parliament, called the Hural, passes legislation on matters such as Oyu Tolgoi's investment agreement, while the president holds a veto. In practice, the president rarely vetoes legislation, and can be overruled by a two-thirds parliamentary majority.

Rio Tinto holds a minority stake in Ivanhoe after making an initial $303 million investment in 2006, with an option to increase investment to $2.3 billion for a 46.65% stake.

Separately, a **BHP Billiton** spokeswoman said the company is in the process of closing down its exploration office in Mongolia. The diversified miner opened an office there in 2005, after signing exploration agreements with a number of Western companies in the region.

BHP didn't say why it was closing the office.

NBC taps Microsoft for ad sales

BY EMILY STEEL

General Electric Co.'s NBC Universal will use technology from **Microsoft** Corp. to sell commercial time on its broadcast and cable-TV networks in a process similar to the sale of online advertising. The change, which the companies announced Thursday, marks the latest development in a broader effort to refine the purchase of TV ad time.

Typically, marketers buy ad time based on the number of viewers tuning in to a particular show. In recent years, they have sought to better target their purchases with more data on viewers' characteristics, such as age, income and sex. But TV ad time is still sold mostly through negotiations conducted over the phone or by email.

The technology NBC is deploying will add a layer of demographic information as well as automated ad buying. It analyzes anonymous set-top box data from satellite and cable systems, adds in data obtained from other companies, including consumers' purchasing habits and locations, and updates daily, says Chet Kanojia, founder of Navic Networks, the TV ad technology company Microsoft acquired last year.

For instance, currently a real-estate company might place an ad on a number of home-improvement shows. The Microsoft technology would show the real-estate marketer other programs that homebuyers or sellers are watching, and sell ad time during those shows, whether they are prime-time dramas or early morning cable-news programs.

Companies such as **eBay** Inc. and **Google** Inc. have also sought to automate the process of buying TV ad time. An online TV ad-buying system from eBay, based on an auction model, failed to gain traction with marketers and TV networks and was ultimately abandoned.

Mike Pilot, president of sales and marketing at NBC Universal, points out that the new system isn't based on an auction format and says it is an "absolute necessity" to streamline ad sales efforts, partly to give his staff more time to create custom marketing campaigns, such as weaving an advertiser into the story line of a show.

Network executives have been concerned that new ad-sales technologies, especially those based on auction formats, could bring down the price of ad time and commoditize the TV-ad market. Some of the big media buyers, which purchase advertising time for marketers, are leery as well, as their business depends largely on their ability to pool clients' ad dollars and use the resulting leverage to negotiate better rates.

The fact that the Microsoft technology isn't based on an auction system could help mitigate those concerns.

"It is going to take a little bit of time to understand how to change the course of business," said Curt Hecht, president of VivaKi Nerve Center, a digital media and advertising unit of **Publicis Groupe**. Still, Mr. Hecht notes that "there is a level of automation that they can bring forward that [mostly] makes the process easier for the buyer and the seller."

Medtronics discloses pay to surgeon

BY DAVID ARMSTRONG AND THOMAS M. BURTON

Medical-device maker **Medtronic** Inc. says it paid nearly $800,000 over the past three years to a former U.S. Army surgeon accused of fabricating a study that reported positive results for one of the company's key spine products.

Some of the consulting payments occurred during the time that the surgeon, Timothy R. Kuklo, was shopping his favorable study of Medtronic's Infuse bone-graft product to medical journals. The paper, ultimately published last August in the Journal of Bone and Joint Surgery, reported advantages in healing the legs of injured soldiers when Infuse was used.

The army has said that the study is based on "falsified information" and that Dr. Kuklo forged the signatures of purported co-authors. Dr. Kuklo listed his affiliation with Walter Reed Army Medical Center in the journal. He left the army hospital in August 2006 and joined the faculty of Washington University in St. Louis.

Medtronic disclosed the payments to The Wall Street Journal Wednesday. It says the payments were compensation for Dr. Kuklo's work developing products for the company, training doctors and speaking at company events and that they weren't connected to the study or journal article in any way.

Bone and Joint Surgery withdrew the paper after the army contacted it about the fraud allegations. Dr. Kuklo, who has taken a leave from the university, hasn't commented publicly on the matter and didn't return a message left Wednesday. The university declined to say whether it was investigating Dr. Kuklo.

In 2007, Dr. Kuklo offered the study to at least two medical journals, according to the publications. Medtronic says it paid him $356,242 that year for consulting, speaking, travel and training services. In 2008, the year the study was published, Medtronic says it paid Dr. Kuklo $249,772.

Medtronic has said consulting arrangements with surgeons are critical to the development of products. Its payments to surgeons who use its spine products are under investigation by the Justice Department following accusations by several former employees that the doctors were being induced to use the products—allegations the company denies.

Medtronic last year provided Congress with a list of 22 consultants who worked specifically on Infuse-related matters. The payments to those doctors ranged from $100 a year to $67,600. Medtronic placed its consulting relationship with Dr. Kuklo on "inactive status" in May, when the Army disclosed it had found problems with the study. In the first few months of 2009, it paid him $132,453.

GLOBAL BUSINESS BRIEFS

British Airways PLC

Pilots union agrees to pact on pay and productivity

The British Airline Pilots' Association reached a draft pay and productivity package with **British Airways** PLC that would see pilots deliver a permanent annual saving program of £26 million ($43 million) from Oct. 1 for the carrier. The pilots union, whose members must vote on the pact, is recommending proposals that include pay cuts and longer working hours, and in return, pilots would be awarded shares in the airline. The package also allows for up to 78 voluntary pilot layoffs due to changes in productivity, but the union insisted no layoffs would be compulsory. The union is recommending that BA pilots each take a wage cut of 2.61% in their basic pay. In return, pilots would be eligible to receive BA shares if certain company targets are achieved.

GKN PLC

GKN PLC said Thursday it will raise £423 million ($694 million) through a rights issue to shore up its balance sheet as the automotive slump continued to hammer sales. The U.K. auto- and aerospace-components maker said sales for the five months ended May 31 fell 10% from a year earlier to £1.79 billion. Excluding a £584 million gain from currency movements, sales fell 33%. With the rights issue, GKN hopes to improve its recently lowered credit rating and reduce its reliance on debt financing. About £300 million of the proceeds will be used to pay off the company's revolving credit facility and the remainder for working capital, said Finance Director Bill Seeger. GKN said it will cut a further 900 jobs this year, adding to 2,400 earmarked earlier this year. The company employs about 36,000 workers world-wide.

Fiat SpA

Fiat SpA on Thursday outlined plans to retool its Italian plants as the car maker seeks to cut costs and expand abroad to better cope with the economic crisis. The Turin-based company, which last week took control of U.S. car maker Chrysler LLC, said it plans to keep production of cars at its Termini Imerese plant in Sicily only until 2011. Fiat Chief Executive Sergio Marchionne said at a meeting with the government and labor unions that the Termini Imerese plant, which employs about 1,700 people, would be retooled from 2012. He didn't elaborate. Italian Premier Silvio Berlusconi attended the meeting.

Promotora de Informaciones SA

Spanish media company **Promotora de Informaciones** SA will cut salaries and operating costs and won't pay a dividend until at least 2011 as it looks to pay down €5 billion ($6.98 billion) in debt, its chief executive said Thursday. "We are going through a difficult situation," Juan Luis Cebrián said during the company's shareholders meeting. "But it isn't desperate and doesn't threaten our future." Prisa has debt of more than €5 billion and a current market value of just €703.3 million. In May, Prisa won an extension from its creditor banks for a €1.95 billion bridge loan with the understanding it would cut its debt. Mr. Cebrián said Prisa would negotiate with unions to reduce salaries by 8% for the rest of this year and during 2010. There will be further austerity measures, he said, without giving details.

Wizz Air Hungary Airlines Ltd.

Budget carrier **Wizz Air Hungary Airlines** Ltd. said it intends to buy 50 Airbus single-aisle A320 commercial jets, in a move to further expand its all-Airbus fleet and increase capacity on its routes in Central and Eastern Europe. The deal is valued at $3.8 billion on the basis of Airbus's list price for the aircraft, Airbus Chief Operating Officer John Leahy said at the Paris Air Show. Airbus said the order would increase the number of Wizz Air aircraft ordered by the airline to 132. It already operates a fleet of 24 A320s. The Wizz Air order is the biggest so far this year for Airbus, a subsidiary of **European Aeronautic Defence and Space** Co.

Tesco PLC

Tesco PLC said it has sold and leased back 14 properties valued at £458 million ($751.3 million) as part of its program to extract more value from its U.K. property portfolio. The move comes a day after Tesco, the world's third-biggest retailer by sales behind Wal-Mart Stores Inc. and Carrefour SA, raised £431 million by selling a commercial-mortgage-backed bond. It was the first commercial-mortgage-backed bond that has been sold to private investors in Europe or the U.S. since the start of the credit crisis. Since 2006, Tesco has sold and leased back properties valued at £2.66 billion. The retailer had 2,282 stores and 30 distribution centers in the U.K. as of Feb. 28 and owns about 80% of its property. The properties were sold to the Universities Superannuation Scheme, a U.K. pension fund; Prupim, the property-investment arm of U.K. insurer **Prudential PLC**; LaSalle Investment Management, a unit of **Jones Lang LaSalle** Inc.; and **Canada Life Assurance** Co.

New York Times Co.

Greenpeace published a spoof edition of the International Herald Tribune on Thursday to highlight environmental issues and draw attention to the Copenhagen climate-change conference in December. The Paris-based International Herald Tribune, the global edition of **New York Times** Co.'s flagship newspaper, complained. It asked the environmental group immediately to remove any fake IHT Web pages.The eight-page spoof, dated Dec. 19, 2009, was meant to "show world leaders...the future we all might have if they do right by the planet at the Copenhagen Climate Summit in December," Greenpeace spokeswoman Elsa Lee said. Greenpeace printed 50,000 copies of the spoof, of which 35,000 were distributed in Brussels, where European Union leaders were meeting.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Several scenarios, not all bright, for Iran

West has no way of guessing where on spectrum new government will fall—and can't easily prepare for outcome

By Gerald F. Seib

CAPITAL JOURNAL

It's nothing if not exhilarating to watch young people in Tehran's streets trying to change the nature of the Iranian regime, and to imagine that they are forcing deep and positive changes in the nation that has been America's most implacable foe for a generation.

Yet it also would be a mistake to ignore this darker reality: In the short run, the turmoil there could just as easily make Iran more dangerous and harder for the West to deal with.

The fact that it's possible to envision such starkly different outcomes illustrates just how remarkable the story unfolding in Iran really is, and how much it is pulling the country and the watching world off into uncharted territory. There is no other nation that runs quite the way Iran runs, so there is no playbook to know how this kind of episode plays out—not for Iranians, and certainly not for American policy makers.

That has left American officials flat-footed. President Barack Obama has been struggling for almost a week, without success, to find a way to show support for the reformers without undercutting them in the process by making them appear to be American stooges. American officials, deeply burned by memories of backfired attempts to give support and substance to Iran's last reform-minded president, Mohammad Khatami, have been muted in their cheerleading. Now the pressure to stand up taller for the opposition is growing steadily.

Yet the outcome of this struggle almost certainly will be determined within Iran, not outside it, and it is impossible to predict. Sometimes "people power" works—as it did for Corazon Aquino in the Philippines, and the Orange Revolution in Ukraine—but just as often it fizzles or is crushed, as it has been before in Iran.

So you can be an optimist or a pessimist about the tumult in Iran. Here are three optimistic scenarios that could unfold—followed by three pessimistic ones:

• People power prevails. After some period of extended protest, President Mahmoud Ahmadinejad is shown to be a fraud, his re-election rigged, and Mir Hossein Mousavi and his forces of moderation win a runoff. A long process of changing Iran's system in which real power lies in the hands of clerics operating behind the scenes begins, and the voices demanding an end to Iran's international isolation move to the fore. Such a simple and straightforward outcome seems unlikely, but that's what happened in Ukraine.

• Mr. Ahmadinejad survives, but only by moderating his position in order to steal the thunder of the reformers and beat them at their own game. U.S. officials think it's at least possible the erratic leader decides to survive by showing his critics that he actually is capable of what they claim he isn't, which is reducing Iran's isolation. He stays in power and regains his standing with internal critics by, among other things, showing new openness to discuss Iran's nuclear program with the rest of the world.

• The forces of repression win within Iran, but international disdain compounds, deepening world resolve to stop Iran's nuclear program and its sponsorship of extremists. In other words, Iran doesn't change, but the rest of the world does.

Here, on the other hand, are the darker scenarios:

• The protests are simply crushed by security forces operating under the control of spiritual leader Ali Khamenei, the election results stand untouched, and Iran's veneer of democracy ultimately is shown to be totally fraudulent. That makes it clear that the only power that matters at all is the one the U.S. can't reach or reason with, the clerical establishment. There is no recount, no runoff, and the idea that "moderates" and "reformers" can change Iran from within dies forever.

• There is some legitimate recount or runoff, but Iran emerges with Mr. Ahmadinejad nominally in charge anyway. He emerges beleaguered, tense and defensive, knowing he sits atop a society with deep internal divides and knowing the whole world knows as well. His control is in constant doubt. What's the classic resort of such embattled leaders? Distract attention from internal problems with foreign mischief, and use a military buildup (in this case, a nuclear one) to create a kind of legitimacy that's been shown to be missing on the domestic front.

• Mr. Mousavi somehow prevails, perhaps through a runoff, and becomes president, but he operates as a ruler deeply at odds with the clerical establishment that controls the military and security forces, and deeply mistrusted by it. As a result, he's only partly in charge, and in no position to take chances with a real opening to the West. He has always supported Iran's nuclear program anyway and now has to do so with a vengeance to show that, while a reformer, he isn't a front for the West.

What's striking in talking with American officials about such scenarios is how little they know about what is happening within Iran's regime as the internal struggle plays out—and, hence, how hard it is to prepare for the ultimate outcome. Things almost never go according to plan in U.S.-Iranian relations anyway. Now, it's hard to even have a plan.

Agence France Presse

A picture on Twitter's photo-sharing Web site purports to show opposition supporters protesting in Iran Thursday.

Ahmadinejad gets support from once-critical lawmakers

By Roshanak Taghavi

TEHRAN—Despite street protests against his contested election victory, President Mahmoud Ahmadinejad is getting a boost from an unexpected corner: conservative lawmakers who had stymied some of his controversial economic initiatives.

During his first term, many conservative lawmakers broke ranks with Mr. Ahmadinejad, openly criticizing the president's economic management. His officially sanctioned landslide victory of more than 60%—though it still has to hold up through challenges—now has those lawmakers rallying behind him.

So far, 220 out of 290 members of Iran's parliament have written to him to formally endorse his victory. The reaction to Mr. Ahmadinejad's big official win may also be a move by conservatives of all stripes to send a message backing their president in a time of uncertainty.

In any case, it appears to give him a strong bloc of support that he lacked in the body in much of his first term. He has had at times an acrimonious relationship with parliament—especially over his economic stewardship and public finances.

If Mr. Ahmadinejad and Iran's clerical leadership can tamp down the unrest, the new backing could translate into support for the same economic policies he has had trouble pushing through. Those include populist spending initiatives that economists blame for stoking inflation.

It is unclear how long the fresh support will last. For now, "Ahmadinejad will consider his victory an absolute mandate for his populist programs," says one Tehran-based analyst, who asked not to be named amid the political uncertainty.

The growing unrest presents a formidable political challenge to Mr. Ahmadinejad's grasp on power. Presidential challenger Mir Hossein Mousavi has claimed fraud and is demanding a revote. His supporters have swarmed the streets of Tehran and other cities, in sometimes-violent demonstrations that are the most dramatic in the Islamic Republic's 30 years.

Still, many Iranian political and economic analysts are far from predicting his ouster.

Iran's economic direction over the next four years is important at home, but also across the region and beyond. Iran is one of the world's largest oil producers, and is the Middle East's second-largest economy after Saudi Arabia. How Iran weathers the current global downturn could also have a big impact on the effectiveness of U.S. and United Nations sanctions against the regime. The Obama White House is pursuing diplomatic outreach with Tehran. But Washington also has threatened tougher sanctions over Iran's nuclear ambitions, if talks fail.

Iran's Supreme Leader Ayatollah Ali Khamenei has final say in all matters of state, limiting the president's influence in many spheres, especially foreign policy. But the president and parliament retain significant scope to guide domestic policy.

Mr. Ahmadinejad first won election in 2005 on a populist platform, promising to redistribute oil wealth. He has presided over a period of supercharged oil prices, despite crude falling more recently. But his lavish spending on everything from infrastructure, housing projects, easy credit and cash handouts has strained Iran's budget. Many economists blame it for exacerbating inflation and the economic pain caused by sanctions. High unemployment is a problem, too.

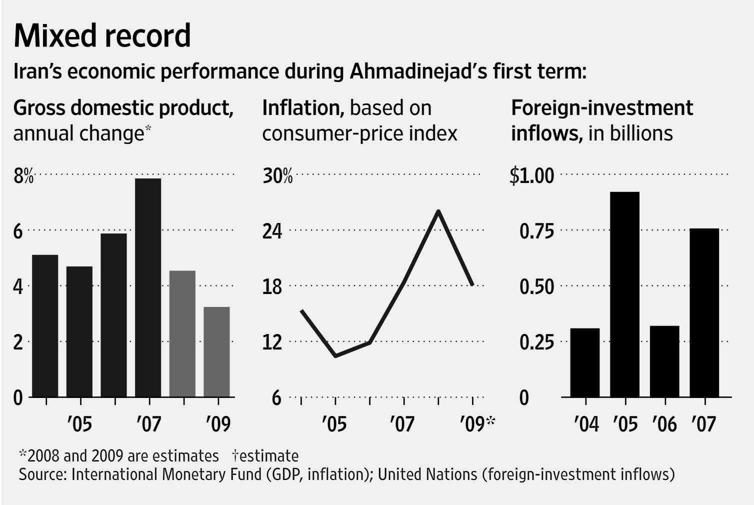
One key initiative has been subsidy reform. The president has proposed replacing subsidies with cash handouts. Fuel subsidies alone cost the government $35 billion to $45 billion a year. High unemployment remains a pressing problem, too.

With oil prices sharply lower than last year, few economists question the wisdom of cutting the outlays. But they also say Mr. Ahmadinejad's approach would do little more than boost inflation.

"I don't think anyone is against the notion of cutting the subsidies," says the analyst. "The question is ... do you start to give out cash?"

No matter what happens with Mr. Ahmadinejad's domestic spending initiatives, economists say his biggest challenge will remain attracting needed foreign investment. That will be especially difficult if Tehran continues to flout Western calls to curb its nuclear program.

Western sanctions have all but shut off meaningful investment from overseas, though some Asian companies have announced big commitments in recent years.



U.S. faces twin threat: unemployment, deficit

Difficulty of fixing both woes presents problem for Obama

By Jonathan Weisman

WASHINGTON—President Barack Obama is facing a dilemma: the U.S. public identifies both rising unemployment and soaring budget deficits as their top policy concerns, over health care and over war.

But fixing one is almost certain to worsen the other.

Mr. Obama can ill afford to lose public support on the eve of the biggest political fights of his presidency, over health care, energy and financial re-regulation. But three separate polls this week, including one from The Wall Street Journal, have raised red flags at the White House that the president, though still personally popular, is losing some ground with the public on his economic policies.

Officials concede there is little he can do to please everyone, given the economic Catch-22. If he heeds concerns on the deficit and pulls back on economic stimulus, he risks choking off the "green shoots" of what may be a fledgling recovery. Mr. Obama said this week he expects the U.S. unemployment rate to reach 10% this year, but without sustained stimulus spending, it could shoot even higher as he and his party prepare for midterm elections.

But that sustained push threatens to push the budget deficit over the $2 trillion mark, a percentage of the economy not seen since World War II.

"Traditionally people haven't paid enough attention to looming fiscal crisis in this country, so people seem to be waking up," said R. Glenn Hubbard, who was chairman of the White House Council of Economic Advisers when President George W. Bush pressed forward with tax cuts in the face of rising deficits. "The issue the administration faces here is a tradeoff between short-term budget help to fix the economy and long-term deficit control."

In a Wall Street Journal/NBC News poll released this week, 58% said the president and Congress should worry more about keeping the budget deficit down, even though such action may mean a longer recession and slower recovery. Just 35% said they favored boosting the economy, even though it might mean larger budget deficits.

Democrats are more evenly split, with 50% favoring boosting the economy, and 42% urging a deficit focus, while Republicans are overwhelmingly more concerned about the red ink. But independents are breaking with the president's priorities: By 2-to-1, that politically pivotal group would rather see the White House and Congress bring the deficit under control.

That said, 31% of those polled identified job creation and economic growth as the highest priority for the federal government to address, by far the biggest priority. The deficit and government spending came next, at 19%.

Given the public's conflicting impulses, the White House is urging Americans to stay the course. Christina Romer, chairman of the White House Council of Economic Advisers, cited the lessons of the Depression. In the opening years of Franklin Roosevelt's New Deal, annual economic growth averaged over 9%. Unemployment fell from 25% to 14%.

Then came 1937, when a large bonus for World War I veterans came to an end, Social Security taxes were collected for the first time, and the Federal Reserve Board, looking for an "exit strategy," began reining in the money supply. The budget deficit fell, by about 2.5% of the gross domestic economy, but unemployment leapt back to 19%.

"The urge to declare victory and get back to normal policy following an economic crisis is strong. That urge needs to be resisted until the economy is again approaching full employment," Ms. Romer wrote Thursday in the Economist magazine. "If the government withdraws support too early, a return to economic decline or even panic could follow."

The real dilemma could come late this year or early next, if it becomes clear a recovery is stalled but rising long-term interest rates make another stimulus plan a gamble, cautioned Martin Baily, a former chairman of President Bill Clinton's Council of Economic Advisers who was skeptical of the $787 billion stimulus plan that ultimately passed.

Stern's former mistress sentenced

By Alessandra Galloni

PARIS—A Swiss court sentenced the former lover of French financier Edouard Stern to 8½ years in jail for murder after she confessed to shooting him during an argument while the two were having sex and he was tied to a chair in a flesh-colored latex bodysuit.

Cécile Brossard testified during the trial that she had flown into a rage when, while the two were together one evening in February 2005, Mr. Stern had suggested she was a prostitute.

"A million dollars is a lot to pay for a whore," Mr. Stern allegedly said, according to Ms. Brossard's testimony to the court, which was confirmed by lawyers. The words prompted Ms. Brossard to reach into a drawer for a gun and shoot her lover four times in the head and chest, according to her testimony.


Edouard Stern

Ms. Brossard, who has spent four years in pretrial detention, won't appeal her sentence, lawyers said Thursday. Under Swiss law, she can apply for a reduced term that may allow her to leave prison as early as next year.

"We are satisfied with the ruling," said Catherine Chirazi, a lawyer for Mr. Stern's family. "His family hopes people will stop talking about the case and tarnishing his memory."

Mr. Stern's murder four years ago shocked the close-knit world of European finance. Fifty years old at the time, Mr. Stern was one of Europe's richest men, a shrewd financier who had amassed a $1 billion fortune through a series of clever business deals.

Early in his career, he had ousted his father from the family-owned bank, Banque Stern. In 1992, he was hired by his powerful father-in-law, Michel David-Weill, the head of investment bank Lazard, but ended up arguing with him and left the bank five years later. Around the same time, Mr. Stern was divorced from Mr. David-Weill's daughter, with whom he had three children.

At the time of his death, Mr. Stern was heading a Geneva-based fund called Investment Real Returns. He was also entangled in a legal battle over a failed investment in a French chemicals company—a dispute that friends and associates said at the time had led him to believe his life was in danger.

On March 1, 2005, Mr. Stern's body was found in a pool of blood next to his bed. Ms. Brossard, an artist who was 36 years old at the time, turned herself in to police two weeks later and confessed to the murder.

According to testimony given during the trial, the couple had always had a stormy relationship, but tensions heightened when, in early 2005, Mr. Stern had deposited $1 million in Ms. Brossard's bank account—and subsequently frozen the money. Ms. Brossard, through her lawyer and in testimony during the trial, has said she considered the money proof of Mr. Stern's love for her—and was devastated when he blocked it.

During the trial, prosecutors argued that Ms. Brossard had killed Mr. Stern for money. But Ms. Brossard argued that, while the couple had argued about the bank account, she hadn't killed the financier for money. Throughout the trial, she said she would always love Mr. Stern.

Defense lawyers had pleaded that Ms. Brossard committed a crime of passion, which carries a lower jail sentence than murder. The jury didn't accept the crime of passion argument, but did take into account a psychiatric profile of Ms. Brossard as an "anxio-depressive person with a heavy family history," said Ms. Chirazi, one of Mr. Stern's lawyers.

In addition to her jail sentence, Ms. Brossard will have to pay one, symbolic Swiss franc to Mr. Stern's children for "moral damage" and 217,000 Swiss francs ($201,000) to the court to cover legal proceedings. Ms. Brossard has also handed over the $1 million to Mr. Stern's family, Ms. Chirazi said.

—David Gauthier-Villars contributed to this article.

U.K. economic data show hurdles remain to recovery

By Laurence Norman

LONDON—The U.K. economy has shown signs of a revival recently, but insufficient bank lending, a new slump in retail sales and soaring government deficits pose obstacles to a solid and sustained recovery.

A day after Bank of England Gov. Mervyn King warned the government needed to set out a clear path for controlling the public debt, he Office for National Statistics said net borrowing by the public sector reached a record £19.9 billion ($32.6 billion) in May, from £12.2 billion a year earlier.

Central government current tax receipts fell 10.8% from a year earlier in May, while current expenditure grew 7.4%.On Wednesday, Finance Minister Alistair Darling sought to calm investor nerves about the U.K.'s soaring deficits, saying he will keep the public finances on a sustainable mid-term path. He also promised to set aside the proceeds from the eventual sale of the government's stakes in leading U.K. banks for debt reduction. The government expects its net debt to double over the next few years.

But James Knightley, U.K. economist at ING, said surging borrowing "will only increase pressure on the government to cut spending growth further and raise taxes, which will limit the potential strength of the economic recovery over the next couple of years."

Separately, the statistics office said retail sales in May fell 0.6% from April and 1.6% from last May. The Council for Mortgage Lenders, meanwhile, said gross lending fell in May to £10.3 billion from £10.5 billion in April.

Hungary may need buffer

Prime minister says recovery is fragile, could extend IMF aid

By Margit Feher

BUDAPEST—Hungary's prime minister said his country could need to extend its $25 billion credit line from the International Monetary Fund and European Union after it expires next year, if financial markets see another relapse.

Gordon Bajnai said in an interview that he hoped Hungary would be able to manage without continued international aid. He pointed to returning confidence in Hungarian markets, which were hammered earlier this year as the national currency, the forint, tumbled and investors fled.

"Our job is to stabilize with further measures the still-fragile recovery in investor sentiment and to show that Hungary has understood the message of this crisis," Mr. Bajnai said. But he acknowledged that Hungary might need a continued buffer if financial markets undergo a new pullback that makes it difficult for the government to raise money in capital markets.

"Should the *force majeure* scenario return to financial markets, Hungary may need to continue its IMF-EU program," he said. "We have time to decide about that sometime in the autumn when we see how markets develop," he added.

Bloomberg News

Hungarian Prime Minister Gordon Bajnai says his country could need to extend its $25 billion credit line after it expires next year if financial markets see a relapse.

Hit by last year's market turmoil because of its large fiscal deficits and foreign-currency debt, Hungary was the first EU country to request help from international organizations.

To avert a deeper banking crisis, Hungary in October secured a $25.1 billion standby credit line from the IMF, the EU and the World Bank, which is set to expire in March 2010. The economy is expected to contract 6.7% this year and a further 0.9% in 2010, as a collapse in demand in Western Europe stifles exports.

The Hungarian forint has risen against the euro after plummeting to a record low in early March. Hungarian debt also is now deemed less risky. The annual cost of insuring $10 million of Hungarian government debt against default for five years was quoted at $378,000 Wednesday, down from $636,000 in March.

Mr. Bajnai, who says he plans to stay in power only until the spring 2010 general elections, is a former businessman without party affiliation, but rules with a Socialist minority in government.

Since being appointed to his post in April after the previous premier resigned, Mr. Bajnai's stewardship has restored some stability to a country that has been pooled with Iceland and Latvia as being among Europe's riskier markets.

Georgia is in recession as investment dries up

By Samantha Shields

TBILISI, Georgia—Georgia's economy, which had been bolstered by a flood of donor money after August's war with Russia, has finally succumbed to recession, Prime Minister Nika Gilauri said in an interview. But he said he is confident the country will return to growth next year.

"The current situation is definitely not great, but I'm not worried because we see where we're going, we have a very concrete plan and we know the situation," said Mr. Gilauri, who predicts the economy will shrink by 1.5% this year and return to growth of about 1.2% in 2010.

The downturn puts the spotlight on the effects of a domestic political standoff that has been dragging on for two months. The turmoil is widely seen as hurting prospects for restarting the flow of foreign direct investment that made the country a dynamo in the region after the 2003 Rose Revolution that swept President Mikheil Saakashvili to power.

Foreign investment helped growth soar to 12.4% in 2007, before slowing to 2.1% last year. On Wednesday, Georgia's statistics office said total foreign direct investment in the first quarter of this year dropped to $124.7 million from $537.8 million in the year-earlier period.

Street protesters have been camping out and blocking roads in central Tbilisi since April 9 in support of a coalition of parties calling for Mr. Saakashvili to step down because of what they see as his increasing authoritarianism.

The numbers of protesters have dwindled, but disruption and uncertainty rumble on. On Monday, Georgian police clashed with a few dozen protesters, beating them with truncheons and seizing some photographers' cameras. Deputy Foreign Minister Eka Zguladze said 39 protesters were arrested and apologized to journalists who had equipment seized.

Talks aimed at ending the stalemate have failed, with Mr. Saakashvili steadfastly refusing to leave office before his term ends in 2013 and opposition leaders refusing to budge on that demand.

While opposition leaders say the onus is on Mr. Saakashvili to resolve the situation, the government puts blame on the protesters for the economic slide.

"There was a [downward] turnaround in the Georgian economy in April and May," Mr. Gilauri said. "You can blame it on anything you want, but the fact is that it coincided with the internal political situation."

Both the protests and the economic decline are the result of the government's failed policies, said Irakly Alasania, Georgia's former ambassador to the United Nations, seen as the most moderate of the opposition leaders.

Companies operating in the country also say the political upheaval is damping the business climate. "The battle that's yet to be fought is getting the foreign investors to start coming in again, and anything that interferes with that needs to be dealt with quickly so that we're not hampered when opportunities arise again in the world-wide market," said David Lee, general director of MagtiCom, a U.S. company that is a major mobile telecommunications provider in Georgia.

The country is in a better position than many of its neighbors in Eastern Europe because before the financial crisis it didn't run up deficits that made its currency vulnerable, and it hasn't suffered a banking collapse.

The International Monetary Fund's senior representative in Georgia, Edward Gardner, also sees a 1.5% contraction in Georgia's GDP in 2009, citing the global downturn and the internal political woes. He said the IMF currently forecasts 2% growth for 2010 but that it is "looking more carefully" at this prognosis.

The IMF expects foreign direct investment in Georgia to drop by about a third to just over $1 billion this year, from $1.56 billion in 2008. Mr. Gilauri said the shortfall would be met in the near term by the remainder of the $4.5 billion in donor money pledged to Georgia's $12 billion economy after the war ended.

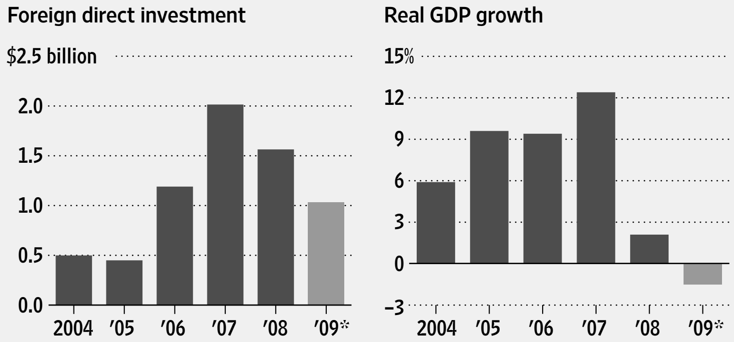
Some $1.8 billion of the donor money has been contracted and an additional $1.6 billion will be allocated before the end of the year, Mr. Gilauri said, adding that he doesn't expect a need for more aid.

Mr. Gilauri said Georgia plans to tempt investors back by emphasizing the country's strategic location as an energy corridor between Turkey, Azerbaijan and Russia, and its favorable customs and tax regulations.

He said the government would also concentrate on trying to attract foreign companies by developing industrial zones where producers are exempt from taxes or customs duties.

Turmoil's toll

A drop in the foreign direct investment that powered growth in the past is playing a part in dragging down the country's economy.



Sources: Georgian government (FDI, GDP through '08); IMF (forecasts) *Forecast