THE WALL STREET JOURNAL.

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What's News

The divide between the U.S. and Israel over West Bank settlements deepened after Israel rebuffed a demand by Secretary of State Clinton to freeze all building. Israel said any complete freeze would be discussed only in final-status peace negotiations with the Palestinians. Page 9

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■ **Time Warner's board** approved a spinoff of the AOL division into a publicly traded company. Page 28

Editorial&Opinion

Creative destruction
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Breaking news at europe.WSJ.com

The Wall Street Journal Europe won't publish Monday in observance of the Whit Monday holiday.

GM wins creditor support

A bondholder group backs revised bankruptcy plan; U.S. kicks in $50 billion

By Sharon Terlep

General Motors Corp. won backing Thursday from key creditors for a bankruptcy plan that would give the U.S. government a 72.5% stake in a revamped GM and lead to the forgiveness of tens of billions in taxpayer loans.

The new proposal, outlined in a regulatory filing, set a Saturday deadline for unsecured bondholders to accept an offer that has been sweetened with stock warrants and additional federal backing. GM is expected to file for bankruptcy-court protection by Monday.

Under the proposal, the U.S. Treasury would lend GM at least $50 billion to fund the company through bankruptcy proceedings and finance the entity that emerges from Chapter 11. The government would be repaid through equity in the new GM.

Unsecured bondholders—who rejected an offer to swap up to $27.2 billion in debt for a 10% stake in the new company—would receive that amount of stock plus the rights to buy additional GM shares through two equal-sized sets of warrants. One set of shares would be priced to assume GM had a total stock value of $15 billion, the other would assume a value of $30 billion.

If all the warrants are exercised, these bondholders would end up owning a bit more than 20% of GM.

A group calling itself the Ad Hoc Committee of GM Bondholders said in a statement it supported the revised offer "and believes that when contrasted with the alternative—uncertain and costly bankruptcy-court litigation—that it represents the best alternative for bondholders in the current difficult and dire situation."

The committee, representing institutional investors, had previously said it would oppose both the debt swap and GM's bankruptcy plans to sell assets. Bondholders have until 5 p.m. Saturday to decide whether to accept GM's new offer.

The group's support is critical in winning approval from the larger number of GM bondholders, but far from guarantees success. A separate group representing individual bondholders who hold about 20% of the company's bond debt said Thursday the new proposal doesn't appear to be much better.

"From what many of our bondholders have heard, it's still a bad offer because it only gives bondholders 10% of the company," said Sarah Jackson, a spokeswoman for the Main Street Bondholders.

Under GM's new plan, the *Please turn to page 26*

Plant closure drives workers into streets of Paris

Agence-France Presse

HOLD THE LINE: Carrying a banner reading: "Continental, united workers, against hoodlum shareholders" during a rally Thursday, employees denounce the German auto-parts group's shutdown of a facility in Clairoix, France.

Turkey bucks IMF, sparks a backlash

By Nicholas Birch

ISTANBUL—Eight months into Turkey's loan negotiations with the International Monetary Fund, signs the government doesn't want a deal are stirring a backlash from businessmen and officials determined to force economic austerity.

Elsewhere in emerging Europe, economies slammed by the financial crisis made major concessions to get IMF money and avert a collapse of their banking systems and currencies. Turkey, by contrast, has shown great reluctance to yield to IMF requirements on fiscal tightening.

As Turkey's markets have rebounded along with others around the globe, Prime Minister Recep Tayyip Erdogan appears to believe pressure to accept an IMF bailout and its painful requirements is easing.

"I said this [global crisis] would pass us by and people laughed at me," Mr. Erdogan said recently. "But the proof is there. Turkey remains a safe harbor. There is stability."

However, after five years of budget surpluses averaging 4% of gross domestic product, Turkey is expected by Turkish analysts to have a deficit reaching 7% of GDP this year, fueled by huge rises in spending on health care and municipalities.

That trend worries many economists and officials, in the absence of a clear commitment to the kind of restrictions required by an IMF package, such as cuts in government spending and a restructuring of a budget that is heavily dependent for income on indirect taxes such as sales taxes, making revenues extremely sensitive to an economic downturn.

"Strengthening a commitment to fiscal discipline and structural reform is vital ... if monetary policy decisions are to be effective," Turkey's Central Bank warned in a report published Wednesday, after calling last week for a "Plan B" should an IMF deal fail.

Moody's Senior Vice President Kristin Lindow said Turkey could do without IMF funding through the summer, but would then need external financing.

Business leaders and economists who want Turkey to accept a loan question whether the government has the will to push ahead with long-term economic changes. Conditions attached to an IMF loan could help pay for and force overhauls to which the government might otherwise pay only lip service, these people say.

"Turkey may be able to roll over debt this year, but that is not the issue," says Elif Bilgi, managing director of EFG Se- *Please turn to page 26*

EU vote makes officials nervous

By John. W. Miller in Brussels and Alistair MacDonald in London

If Bulgarian Bilyana Raeva is re-elected to the European Parliament next weekend, she will get a more than eightfold raise. She could also find herself sitting beside a bumper crop of lawmakers from Europe's extreme right.

The European Union's Brussels-based legislature is little loved and less understood, but after polls on June 4-7, it is likely to look significantly different, with new members, new rules and potentially new powers.

The parliament is the Cinderella of EU institutions. With no right to initiate legislation, it is limited to negotiating amendments or blocking laws crafted by the more powerful EU council—made up of the national governments—and European Commission, the EU bureaucracy.

But the next legislature could get expanded powers—and perhaps more public attention and gravitas—if Ireland later this year ratifies an important treaty amending the way the EU works.

It could also get a laundered reputation. The parliament will have new rules governing legislators' salaries and expenses after an expense-abuse scandal that began three years ago, involving *Please turn to page 26*

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House beautiful
The Obamas update the presidential art collection
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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8403.80	+1.25
Nasdaq	1751.79	+1.20
DJ Stoxx 600	207.93	-1.18
FTSE 100	4387.54	-0.65
DAX	4932.88	-1.36
CAC 40	3263.70	-0.95
Euro	$1.3939	+0.17
Nymex crude	$65.08	+2.57

LEADING THE NEWS

U.K. unveils details of stress tests

Parameters include a 6% drop in GDP; Results are withheld

By Adam Bradbery And Laurence Norman

LONDON—In a bid to shore up confidence in the U.K. banking system, the Financial Services Authority disclosed details of how it expects banks to test that they hold enough capital.

The regulator said Thursday that its announcement comes in response to interest in how European banks undertake stress tests in the wake of the U.S. government's efforts to ensure 19 lenders have adequate capital.

The FSA said it has "greatly increased" its use of stress tests over the past eight months as part of an effort to ensure banks can absorb losses during a severe economic downturn.

The regulator said it won't, however, publish the results of its stress tests, in contrast to the U.S. government, which disclosed the results of its stress tests on banks this month, mandating 10 of 19 lenders to raise a combined $74.6 billion in capital.

"We've published these details because there was a lot of interest around how European banks are stress-tested after the U.S. announced theirs, and we wanted to increase transparency about our testing scenarios," said Abi Jones, an FSA spokeswoman.

The FSA has always required banks to test that their capital levels would remain sufficient during an economic downturn, using assumptions set by the regulator. The FSA reviews the results but said it has started to challenge banks more.

The regulator said that under its economic scenario it modeled a recession more severe and prolonged than any experienced since World War II over a five-year period. The FSA said its test assumes a peak-to-trough fall in gross domestic product of more than 6%, with growth not returning until 2011. The test also factors in unemployment rising to just over 12%, house prices falling 50% from peak to trough, as well as a 60% fall in commercial-property prices.

Some observers said the announcement should help reassure investors and lenders that U.K. banks are sound, especially as the tests are viewed by some as stricter than those conducted in the U.S.

"The additional detail on stress tests provided by the FSA, using tougher parameters than those revealed in the U.S., should help to build confidence in the banking sector," said Marcus Sephton, head of regulatory services at KPMG in the U.K.

The FSA said its test assumes a peak-to-trough fall in GDP of more than 6%.

"I think it confirms that the banks have been through a fairly serious exercise which credibly challenges the assumptions included in their balance sheets," said Jonathan McMahon, director of Promontory Financial Group, a company that advises firms on meeting regulatory requirements.

U.K. bank **Barclays** PLC saw its share price rise after it confirmed in March that it had passed an FSA stress test that concluded it held enough capital.

Mr. McMahon said the publication of the FSA's stress-testing scenarios could open the door to pressure for the FSA to disclose more details on these tests in the future. "Now they've done it once it will be very difficult not to continue doing it in the future," he said.

Banks mainly from the Group of 20 industrial and developing nations abide by standards set by the Bank for International Settlements to hold total minimum capital equal to 8% of their assets.

In January, the FSA tightened requirements for banks and building societies in the U.K. by requiring them to hold Tier 1 capital against at least 4% and 7%, respectively, of the value of their risk-weighted assets. Previously, the FSA set different minimum Tier 1 levels for individual banks.

The FSA said these requirements will remain in place until the BIS rules, implemented through the European Union's capital-requirements directive, are amended to include the lessons learned from the financial crisis.

The FSA said it will take part in EU-wide capital tests, due to be completed by September, which will take the pulse of the region's banking system and build common approaches to testing.

Economy & Politics

Secret fete

Britain's spies plan to party like 007 when MI6 turns 100 > Page 9

U.S. durable-goods orders climb

By Justin Lahart

U.S. orders for big-ticket items jumped in April, offering more evidence that the manufacturing slump has abated. But a sharp downward revision to the March figures damped hopes that manufacturers are on the edge of recovery.

The Commerce Department said orders for durable goods—long-lasting items that include everything from machine tools to treadmills—rose 1.9% last month to a seasonally adjusted $161.45 billion. Much of the gain was driven by a 5.4% rise in orders for transportation equipment. Overall orders fell 2.1% in March, a steeper decline than the initially reported 0.8% drop. Even so, the decrease in orders that began in the fall appears to have ended.

"We've bounced around this low point for a couple of months now," said Nomura Securities economist David Resler. "If you look at the level of orders, it's starting to look like a bottom."

Orders for capital goods excluding defense items and aircraft, which economists use as a proxy for business spending on new equipment, fell 1.5%. But the first increase in orders for metals and metal products in nine months suggested that manufacturers have run down their inventories of raw materials to the point where they need to buy more.

Separately, the U.S. Labor Department reported that the number of workers filing new unemployment claims fell 13,000 to 623,000 in the week ended May 23. Much of the jump in claims that came earlier this month, as workers furloughed by the Chrysler LLC bankruptcy filing signed up for unemployment benefits, has reversed itself. But with bankruptcy looking likely for General Motors Corp., claims filings could jump again.

The four-week average, used to smooth the volatile initial-jobless-claims figures, fell 3,000 to 626,750. But the total number of workers filing for claims hit a new high of 6.8 million.

Meanwhile, sales of new single-family homes rose 0.3% last month to a 352,000 annual rate, the Commerce Department said. But sales in March fell 3%, more than the initially reported 0.6% decline. Sales rose 10% in February.

Confidence in euro zone improved in May

By Ilona Billington

LONDON—Business and consumer confidence in the 16 countries that use the euro improved for the second straight month in May, reaching a six-month high and suggesting that economic activity will contract at a slower pace in the second quarter.

The sustained pickup in confidence from record lows is consistent with other recent evidence that has indicated the euro-zone economy won't contract as sharply in the second quarter as it did in the first.

"The economy is likely to shrink at a slower pace in the second quarter, though virtually all surveys underestimated the extent of the economic slump over the past two quarters," said Daniele Antonucci, European Economist for Capital Economics.

According to a monthly survey released Thursday by the European Commission, the European Union's executive arm, the overall Economic Sentiment Indicator for the euro zone rose to 69.3 from 67.2 in April.

The data are unlikely to change the European Central Bank's view that it should take new unconventional measures to support growth in the euro zone. The ECB's governing council meets June 4 and is expected to keep its key interest rate steady at 1%.

Employment expectations for the industrial sector picked up marginally for the second straight month in May—good news for the euro zone, which has seen unemployment soar in recent months.

That is in line with German unemployment data, also released Thursday, which showed a jobless rise of just 1,000 in April—much lower than the 57,000 increase reported in March.

Consumer confidence in the euro zone, meanwhile, was unchanged in May from April at -31.

U.K. consumer confidence was also flat in May, buoyed by a more upbeat assessment of the outlook for consumers' personal finances over the next 12 months.

That marks the fourth straight month without a drop, suggesting that consumers believe the measures taken by the government and the Bank of England to support the economy will work and indicating that they in turn won't cut back on spending as sharply as many economists had expected.

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

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INDEX TO PEOPLE

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

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

U.S. train plans attract European interest

Transport secretary scouts out suppliers of high-speed rail

By Thomas Catan
And David Gauthier-Villars

MADRID—Europe's engineering and rail companies are lining up for some potentially lucrative U.S. contracts for high-speed rail projects.

At stake is $13 billion in stimulus funds that the Obama administration is allocating to upgrade existing and build new rail lines that one day could rival Europe's best.

U.S. Transportation Secretary Ray LaHood traveled through Europe this week, riding France's bullet train, and meeting officials from several companies eager for a piece of the pie. On Friday, he is expected to visit Spanish construction, civil engineering and train building companies.

"We think that the U.S. is a market that is going to explode," said Nora Friend, a vice president for the U.S. unit of **Patentes Talgo** SA, a Spanish train builder that is in talks with several U.S. states.

Engineering giants **Alstom** SA, of France, and **Siemens** AG, of Germany, each say they hope the U.S. will adopt their respective bullet-train technologies, which include rolling stock, high-tech signaling and electrification systems. Siemens has already begun talks with California, the state with the most advanced plans for an ultra-fast network in the U.S.

Construction and infrastructure companies that have built high-speed lines in Europe—including Spain's **ACS Actividades y Servicios de Construcción** SA—have said they are interested in building or upgrading U.S. lines. State-owned railways including Spain's Renfe and France's state railway company Société Nationale des Chemins de Fer, or SNCF, have formally expressed interest in running U.S. rail networks.

Officials from both SNCF and Alstom will be part of a delegation led by French Transport Minister Dominique Bussereau that will travel to the U.S. next week to promote French high-speed technology.

"We see that there's now a huge, huge interest in the U.S.," said Joern F. Sens, chief executive of Siemens's rolling stock unit. Siemens believes the global railway business will be worth annually more than $150 billion by 2016, and "a major share of that will be in the U.S.," Mr. Sens said.

Of course, U.S. plans are still at an early stage. And European companies' hopes in a U.S. fast-rail system have been raised—and dashed—before. In 1991, a consortium including Alstom was selected to build a high-speed rail connection between three Texas cities—Dallas, Fort Worth and Houston. But the contract was later canceled because of lack of funding and intense airline opposition.

Associated Press

Transportation Secretary Ray LaHood said the U.S. aspires to rail service like that achieved in Europe. He spoke Thursday at a transport forum in Leipzig, Germany.

This time, however, the federal government is on board. In April, President Barack Obama spelled out his plan to "transform travel in America with an historic investment in high-speed rail."

Some states have already started forging ahead. California's voters approved a $10 billion bond issue to fund its ambitious plan for an 800-mile network of bullet trains that will travel at up to 220 miles per hour. State officials have outlined plans to build bullet train lines capable of taking passengers from Los Angeles to San Francisco in two hours.

Mr. LaHood this week declared France's TGV bullet train a "magnificent system" after a trip from Paris to Strasbourg. "In America we're just beginning what you've done here in Europe," Mr. LaHood said. But he cautioned that the U.S. would not just be looking to Europe for technology.

Emboldened by their domestic success, Spain's construction and civil engineering firms plan to press hard for U.S. rail contracts. "Participating in the U.S. high-speed train is part of our [long-term] strategy," said Marcelino Fernández, president of ACS's construction unit, Dragados.

Still, European companies will face stiff competition from others including Canada's **Bombardier** Inc. And, though the U.S. doesn't have its own candidate to make the high-speed trains, it has construction and engineering companies aplenty for the most expensive part of the projects: building the lines.

"This isn't the conquest of America, or a gold rush," said Ignacio Barrón, director of High Speed Rail at the Paris-based International Union of Railways. European and Japanese companies can give know-how and technical help, he said, but "a very important part of the [investment] will be done in the U.S."

AstraZeneca drug may fight some cancers

By Jeanne Whalen

The world of genetic research is about to make a meaningful step forward in the battle against cancer.

Researchers this weekend plan to present new data confirming what many doctors have long suspected: that Iressa, a lung-cancer drug once thought to be a flop, could be of use to tens of thousands of patients—specifically, Asians, nonsmokers and others with a certain genetic quirk.

The confirmation adds to a body of evidence that is emboldening pharmaceutical companies, including the drug's maker, **AstraZeneca** PLC, to develop a new wave of genetically targeted drugs that could improve treatment of many types of cancer. Other drugs that target specific genetic profiles include Herceptin for breast cancer and Erbitux for colon cancer. Drug companies are attempting to develop many more.

"This is the direction cancer care is going," said Lecia Sequist, an assistant professor of medicine at Harvard Medical School and an oncologist at Massachusetts General Hospital Cancer Center.

AstraZeneca introduced Iressa in 2002 for the most common form of lung cancer, a disease that kills 1.3 million people a year, according to the World Health Organization. The drug quickly fizzled when larger studies failed to demonstrate its effectiveness. But doctors began to notice that the drug still seemed to work in certain groups, such as Asians and nonsmokers.

On Sunday at a conference in Orlando, Fla., researchers will present the results of a clinical study that supports the leading explanation for the doctors' observations: The groups share a genetic mutation in a cellular receptor, which is involved in cancer-cell growth. According to preliminary results of the study, which involved more

AstraZeneca

AstraZeneca recently won preliminary approval in Europe to sell Iressa for people with the appropriate genetic mutation.

than 400 Asian participants, Iressa stalled the progression of cancer for a median 9.5 months in patients with the mutation, compared with 6.3 months for chemotherapy treatments.

To be sure, Iressa itself may not prove to be a big lifesaver. While it appears to stall the cancer's growth in these patients, the drug hasn't been shown to help people live longer.

Drug makers are developing a new wave of genetically targeted drugs.

Perhaps more important, though, is how the Iressa findings will influence the way pharmaceutical companies make cancer drugs—and how, as a result, doctors treat the disease.

"It is a great example of how genetics can be used to guide therapy," said David Carbone, the Harold L. Moses chair in cancer research at the Vanderbilt-Ingram Cancer Center in Nashville, Tenn.

"It's just one more affirmation that genetic profiling of cancers can help us improve diagnosis and treatment," said Gbola Amusa, a pharmaceutical analyst with UBS in London.

Doctors typically have prescribed chemotherapy for cancer. But not every cancer patient responds well to it, and it can have bad side effects because it kills healthy cells alongside cancerous ones. Targeted drugs such as Iressa are designed to kill only cancerous cells, which means they often have fewer side effects.

By using genetics to figure out exactly which patients are most likely to benefit from the targeted drugs, researchers can spend their time and development money more effectively. And doctors can waste less time on treatments that don't work.

Alan Barge, vice president of oncology development at AstraZeneca, said the company's researchers now scrutinize the genetics of the cancers and drugs they are targeting right from the start, hoping to zero in on the patients most likely to respond. In one example, AstraZeneca is testing a drug for ovarian and breast cancer in women who have a mutation in the BRCA gene, which often is associated with cancer.

"Most of our competitors are doing this as well, because the science is taking you there whether you want to go there or not," Dr. Barge said. "Science is redefining disease."

AstraZeneca recently won preliminary approval in Europe to sell Iressa for people with the appropriate genetic mutation, a ruling AstraZeneca hopes to repeat in other markets. It is hoping the new data will revive the drug, which had modest global sales of $265 million last year.

Some researchers aren't yet certain of Iressa's worth. Dr. Carbone of Vanderbilt-Ingram says the drug needs to extend life to make a real difference to lung-cancer treatment. Other oncologists, though, say the drug can make an important contribution just by delaying the cancer's growth, which will help patients feel better.

Greg Vrettos, a 62-year-old New Hampshire resident who has the right genetic mutation, has been taking Iressa for nearly five years. Within days of starting on the drug in 2004, his symptoms—coughing and shortness of breath—went away. After six months, his tumor had shrunk to the point that it was no longer visible on a scan, he said in a telephone interview. "From that point it's never reappeared. It's gone away," he said.

P&G forecasts weak sales gains for coming year

By Ellen Byron

Expecting tough economic conditions to continue next year, **Procter & Gamble** Co. issued a profit forecast for fiscal 2010 that fell well below Wall Street's projections.

P&G's guidance for the fiscal year beginning July 1, delivered in a highly anticipated investor presentation Thursday, included a gloomy sales outlook.

For its current fiscal year, P&G expects organic sales, which exclude the impact of acquisitions, divestitures and foreign exchange, to increase 2% to 3%, below its long-term target of 4% to 6%. The company foresees worse next year, predicting organic-sales gains of 1% to 3%.

Countering investor criticism that P&G's premium-priced household staples are ill-suited for the current recession, Chief Executive A.G. Lafley promised "more new brands, more new products." He emphasized the company's success in "trading up" consumers, or persuading shoppers to pay more for everyday items with increasingly sophisticated features.

"Innovation is P&G's lifeblood," Mr. Lafley said. Still, after months of defending its need to raise prices to offset higher commodity costs, falling sales volumes and added product features, he conceded Thursday that P&G would take a "surgical" approach to cutting prices on some products where the gap with competitors has become too wide, including in its fabric-care and paper-product businesses.

The Cincinnati company projected per-share earnings for fiscal 2010 of between $3.65 and $3.80, well below analysts' forecasts. For the current fiscal year, P&G predicts earnings of between $3.62 and $3.67.

CORPORATE NEWS

Unilever plans test of mobile coupons

In trial at U.S. supermarket, consumers will be able to redeem digital discount offers loaded on their cellphones

By Andrew LaVallee

ADVERTISING

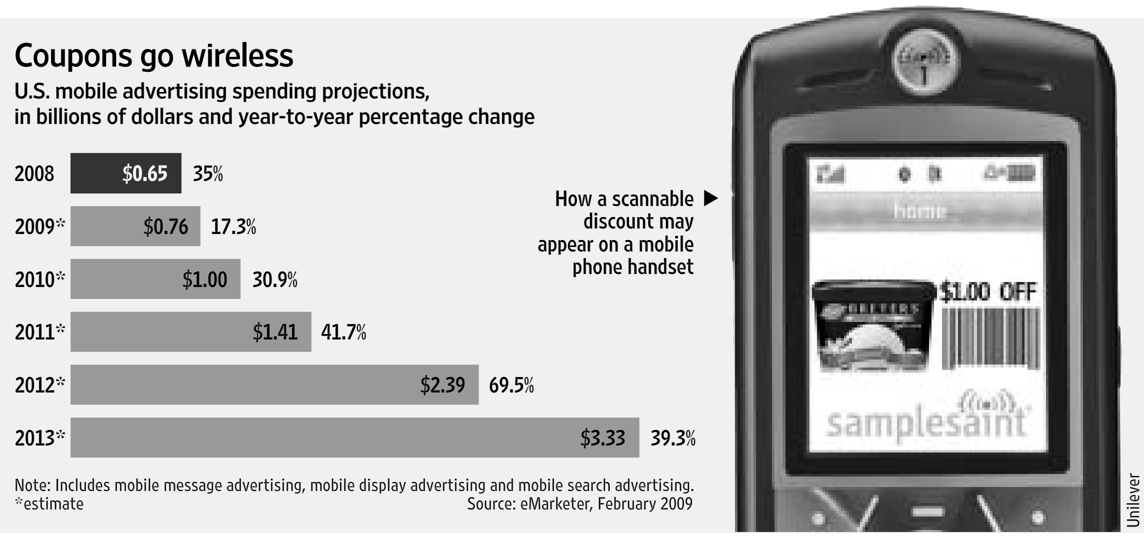
Seeking to marry a ubiquitous device with a time-tested marketing technique in a sour economy, **Unilever** plans to begin a trial run Sunday of a new technology that lets consumers redeem digital coupons by having a supermarket cashier scan their cellphones.

The test, being conducted at a ShopRite store in Hillsborough, N.J., will include discount offers for some of Unilever's most popular brands, including Breyers ice cream, Dove soap, Hellmann's mayonnaise and Lipton tea. Samplesaint, a Chicago mobile-technology firm, developed the system.

"This has been a Holy Grail thing that people have been trying to figure out," says Marc Shaw, director of integrated marketing at the Anglo-Dutch packaged-goods company, the first major marketer to test such a service in the U.S. "I think this is on target for where consumers' heads are at right now."

To get the coupons, customers must visit the Web site Samplesaint.com, from which the discount offers can be transmitted to an Internet-enabled cellphone. At checkout, the cashier scans the bar code on the phone's screen, redeeming the coupon and deleting it from the phone. The test will run for four weeks, and Mr. Shaw says he hopes to see it extended to other stores after that.

Mobile coupons have been an area of growing interest for marketers, though the growth of overall spending on mobile advertising has been slowing down. Research firm eMarketer expects U.S. mobile-ad spending to grow 17% this year, less than half of last year's 35% gain.



Supermarkets, packed with hundreds of brand names vying for attention, are an important venue for coupon providers. In an April study, Icom, a division of Epsilon Data Management, said 87% of survey respondents who had used coupons in the past month redeemed them at grocery stores, compared with 47% at restaurants and 41% at department stores. Earlier this month, Randalls Food Markets, a unit of grocery giant **Safeway**, announced a coupon initiative with technology providers **Cellfire** and **Shortcuts.com** that links discount offers to customers' loyalty cards.

But technological hurdles remain. Many coupons offered on the Web are printable, but can't be transferred to a mobile device. And many cellphone-based coupons require the cashier to enter a code shown onscreen. Manual entry can slow down the checkout process, a big disadvantage in low-margin, high-volume retail businesses.

"We're still in an attempt-and-learn phase" in mobile couponing, says Andy Murray, chief executive of in-store-marketing agency Saatchi & Saatchi X, part of **Publicis Groupe**. Mr. Murray is skeptical that shoppers will load coupons onto their phones before making grocery runs, and he says finding, presenting and redeeming the coupons could prove a hassle for some. "Shoppers have a time budget, a money budget and a frustration budget," he says.

The potential for entry errors and other glitches has kept some big companies from trying the format, says Landy Ung, founder of **8coupons**, which provides online coupons in New York. Steven Boal, CEO of printable-coupon site **Coupons.com**, says checkout with a mobile coupon is "fraught with peril," ranging from incompatible devices to software bugs to phones that get dropped while being passed back and forth. In addition, many retail scanners can't penetrate a cellphone screen to read the data.

Lawrence Griffith, CEO of Samplesaint, says his company's technology has solved most of those problems, and is expected to greatly reduce coupon fraud, since coupons will vanish from the cellphone after redemption and can't be forwarded or emailed. "We have full control," he says.

Unilever's Mr. Shaw says putting marketing offers on a phone ties brands to a personal device that people tend to keep with them at all times. "The cellphone is the thing that when you leave it behind at home, you go back and get it. It's the organizer of our lives," he says.

American consumers have been heavy users of coupons amid the recession, and online-coupon providers have seen traffic and usage grow this year. Mr. Boal says Coupons.com is developing a mobile platform it will launch in the third quarter, while 8coupons, currently focused on the New York market, will add Washington this summer, followed by Boston, Chicago and San Francisco in coming months, Ms. Ung says.

Because consumers can select the online coupon they want, the offers have far higher redemption rates than those in newspaper inserts and other ads. Cellfire typically sees redemption rates in the mid-teen percentages, says CEO Brent Dusing. Icom and others in the industry estimate that the average redemption rate for traditional coupons is lower than 1%.

Unilever isn't abandoning traditional print coupons, or even other online partnerships, like one it has with Cellfire. "It's just another way to do this," Mr. Shaw says. "We want to be out there with as much variety as we can."

Wal-Mart exports big-box concept

By Eric Bellman

AMRITSAR, India—**Wal-Mart Stores** Inc. on Saturday rolls out its deep-discount retailing formula in India, targeted at a more than $350-billion-a-year retail industry made up almost entirely of small merchants such as Ranjit Singh.

Mr. Singh, 18 years old, sells cookies, chewing tobacco and soft drinks from a wooden cart across the street from the construction site of Wal-Mart's first Indian store. Under Indian rules governing foreign retailers, Wal-Mart and its joint-venture partner, **Bharti Enterprises** Ltd., can't sell directly to consumers but instead will operate a cash-and-carry business selling 10,000 products to licensed store owners, schools, hospitals, hotels and other institutions.

Even before it opened, the Wal-Mart store, operating under the name Best Price Modern Wholesale, has been a boon for Mr. Singh, he said. Most of his customers are the dozens of construction workers building the giant new edifice.

"I've never seen a store so big, never even heard of Wal-Mart," he said. "I hope it will bring those high-society people here."

Mr. Singh and the more than 10 million other tiny retailers in India are Wal-Mart's greatest challenge and greatest opportunity. If it can win them over, they are likely to become its biggest customers. Anger them and they could use their political power to block expansion.

After opening their first store here in Amritsar, in the northwestern state of Punjab, Wal-Mart and Bharti plan to open as many as 15 stores nationwide in the next three years, said Raj Jain, president of Wal-Mart India.

Wal-Mart has been preparing Amritsar for its arrival, Mr. Jain said. It handed out more than 30,000 free memberships, spoke to small-business associations and surveyed shopkeepers. It prepared a video in the local language to introduce Wal-Mart and its business style. "People are beginning to understand that there is a place for modern retailing and a place for traditional stores," Mr. Jain said.

Wal-Mart and other international retailers, such as Germany's **Metro** AG, and new local players like **Reliance Industries** Ltd. have been working for years to carve out pieces of a retail market dominated by small family-run stores, usually no bigger than a closet.

India is part of Wal-Mart's rapid global expansion under Mike Duke, the former head of the company's international division who in February became chief executive. In his previous job, he recruited native-born managers in international markets who understood local customs. Mr. Jain, for example, had worked more than 20 years here for **Unilever** PLC and **Whirlpool** Corp. Wal-Mart's 3,400 international stores generate close to one quarter of the company's revenue.

The arrival of big-box wholesalers and retailers in India was a major political issue a couple of years ago, with widespread protests from small merchants. Some states also forced Mumbai-based Reliance to back out of planned store openings. But as the Indian economy has slowed, the furor has eased. Shoppers became accustomed to larger stores from local retailers such as Pantaloon Retail India Ltd. "People appreciate that they are clean, that they are organized and you have everything in one place," said Rakhee Mehta, a Mumbai-based retailing consultant.

There have been no protests around the building of Wal-Mart's new store. The 50,000-square-foot Best Price store is surrounded by a huge parking lot, a rarity in India.

The state government welcomed the investment and the jobs it will create though some fear the effect it will have on small merchants—an issue that has accompanied Wal-Mart as it expanded in the U.S. as well.

Representatives from the new store in Amritsar have reached out to local merchants in the neighborhood to let them know Wal-Mart intends to supply small shop owners, not compete with them.

Mr. Singh doubts he will ever have the money or the courage to shop there. "I've never been in an air-conditioned store. I went to a hospital with air conditioning once," he said. "A big store like that isn't for people like me though. I'll just have to imagine what is inside."

—Sonya Misquitta in Mumbai contributed to this article.

Eric Bellman/The Wall Street Journal

Wal-Mart's first store in India, a joint venture with Bharti Enterprises called Best Price Modern Wholesale, will sell to shopkeepers and institutions, not consumers.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GM splits U.S., Germany

Berlin withholds OK on European units amid financing rift

A U.S.-German dispute over the fate of the European operations of **General Motors** Corp. intensified Thursday after the car maker and government officials couldn't agree on financing arrangements for a rescue package.

By ***Doug Cameron*** *in Chicago and* ***Beate Preuschoff*** *in Berlin*

Associated Press

From left, German officials Roland Koch, Karl-Theodor zu Guttenberg and Peer Steinbrueck, on Thursday after talks about financing for GM's European operations.

The German government delayed a decision on supporting the partial sale of GM's Opel and Vauxhall units until Friday, calling for more details from the company and U.S. government officials.

GM needs to secure the fate of its domestic and overseas operations ahead of a bankruptcy filing viewed as all but inevitable, with an announcement expected as early as Sunday.

After talks stretched into the early hours Thursday, Germany delayed a decision on providing state-backed bridge financing to the Opel unit after being surprised by GM's request for an extra €300 million, or roughly $420 million, in bridge financing. That would be in addition to the €1.5 billion under discussion.

"What happened overnight in part borders on the absurd," German Economics Minister Karl-Theodor zu Guttenberg told reporters later Thursday. "I would hope for more seriousness and willingness to compromise from the U.S. side."

Austrian-Canadian company **Magna International** Inc. and Italian auto maker **Fiat** SpA remain in the race for Opel/Vauxhall, but financial investor Ripplewood Holdings LLC has dropped out.

While a decision on Berlin's preferred bidder is pending, the contenders are discussing a plan under which GM would sell 65% of Opel and retain the rest.

Armin Schild, a union member on Opel's supervisory board, said a number of covenants were set late Wednesday on the way toward a bridge-financing solution. "One of them was to agree on a 65%-35% logic," Mr. Schild said.

As the talks in Berlin continue, European Union industry ministers will hold a special meeting in Brussels on Friday to discuss GM's fate amid concerns that the German-led talks could result in other countries with Opel operations coming up short.

The meeting was called to action by the Belgian government to ensure any Opel rescue is fair to all European countries where GM has operations, including a major Opel plant in Belgium and two Vauxhall plants in the U.K. Overall, GM Europe employs nearly 55,000 workers.

—Alessandro Torello, Peppi Kiviniemi and Roman Kessler contributed to this article.

Toyota, Honda, Nissan cut output

By Yoshio Takahashi

TOKYO—**Toyota Motor** Corp., **Honda Motor** Co. and **Nissan Motor** Co. slashed domestic production sharply in April, though at a slower pace than the previous month, suggesting progress in reducing inventories amid the economic slump.

Japan's top three car makers slammed the brakes on output in the quarter ended in March to avoid inventory build-up, as auto demand tumbled in key markets across the globe.

The production data are encouraging signs for Japan's auto industry, after a slight pickup in demand in their home market thanks to tax breaks the government introduced last month for fuel-efficient cars.

For the two biggest Japanese car makers, Toyota and Honda, brisk orders for their recently launched hybrid cars brought more encouraging news. Toyota released a remodeled Prius on Monday, with presales orders totaling more than 80,000 vehicles, while Honda continues to enjoy a growth in demand for its Insight hybrid, which took the top spot in Japan's monthly auto sales by model in April.

The production data are encouraging signs for Japan's auto industry.

However, these car makers are remaining on guard as a collapse of U.S. giant General Motors Corp. could dent auto sales in that market, pushing them to reduce domestic production of vehicles marked for export.

Toyota, the world's biggest car maker by volume, said it reduced domestic output by 56.1% in April from a year earlier, compared with a 58.4% drop in March. Honda said it cut production in Japan by 37.5% in the month, narrower than a reduction of 40.3% in March, while Nissan made 49.8% fewer vehicles in April, compared with a 55.6% output cut in March.

U.S. auto head's net worth disclosed

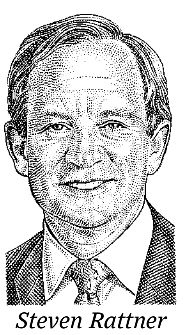
By Neil King Jr.

The head of the Obama administration's auto task force, former financier Steven Rattner, was valued at at least $188 million when he signed on at the Treasury Department in late February, including a sizable holding in an investment fund operated by the owner of **Chrysler** LLC.

According to a copy of his federal financial-disclosure form, Mr. Rattner held between $500,000 and $1 million of shares in Cerberus Institutional Partners LP Series 2, a fund managed by **Cerberus Capital Partners**, which bought Chrysler from Germany's Daimler AG in 2007.

Mr. Rattner is a key participant in the administration's bid to rescue Chrysler through a Chapter 11 bankruptcy reorganization that will wipe out the value of Cerberus's shares.

Treasury officials said Mr. Rattner sold his shares in the Cerberus fund soon after coming to the Treasury Department in February. "Like all employees, Steven Rattner was required to comply with financial conflict-of-interest rules, including divestitures where needed, and he has done so fully," said a Treasury spokeswoman.



Steven Rattner

Mr. Rattner, who declined to comment, resigned as a managing partner of Quadrangle Group, a New York private-equity firm he cofounded, to run the auto-rescue effort. Federal financial statements require officials to list the value of their assets broadly. Mr. Rattner's net worth falls between $188 million and $608 million.

Another member of the Obama auto team, Ron Bloom, disclosed a net worth of between $600,000 and $1.25 million. Mr. Bloom once worked as an investment banker at Lazard Freres & Co., as did Mr. Rattner.

Ford parts maker Visteon takes bankruptcy refuge

By Jeffrey McCracken And Andrew Grossman

Visteon Corp., a former division of **Ford Motor** Co. and one of the country's largest auto suppliers, filed for bankruptcy protection for its U.S. operations Thursday after continued production cutbacks by its car-making customers eroded the company's financial stability.

The crisis in the global auto industry—which has pushed **Chrysler** LLC into bankruptcy protection and **General Motors** Corp. to the brink of filing—is also ravaging parts suppliers. Indeed, Visteon already has company in bankruptcy court. Metaldyne Corp.—a unit of Japan's **Asahi Tec** Corp. that makes chassis and powertrain components for GM, Ford, Chrysler and **Toyota Motor** Corp.—filed for bankruptcy protection Wednesday night. Metaldyne has a deal to sell most of its assets to buyout firms **RHJ International** Inc. and the **Carlyle Group**, subject to higher bids at a court-supervised auction. Metaldyne had revenue last year of $1.57 billion.

Though expected for months, a Visteon filing could complicate matters for Ford, the one Detroit auto maker to so far avoid government aid. Visteon doesn't have any financing lined up from banks, and will have to lean heavily on Ford and other auto companies for cash to get it through a restructuring.

"Visteon is taking this step to maximize the long-term value of the company," Visteon Chief Executive Donald J. Stebbins said in a written statement.

"During the reorganization period, we will seek to address our capital structure and legacy costs that are not sustainable given the current economic environment."

Visteon expects to fund its operations with its U.S. cash balance, cash flows from operations and a debtor-in-possession facility. Ford has executed a commitment letter to support debtor-in-possession financing for Visteon's restructuring efforts and to ensure long-term continuity of supply. Other global customers have also expressed their support, the company said.

"Ford's top priority is to ensure we have sufficient parts and material to protect our production," Ford's Global Purchasing Group Vice President Tony Brown said in a written statement.

"As a result of the growing financial pressure in the supply base, it is not unusual for suppliers to request assistance from Ford — as well as other auto makers, Mr. Brown said. "Ford evaluates these requests on a case-by-case basis and takes action when appropriate to maintain our production. Because Visteon is an important, preferred supplier to Ford, we have committed to providing financial support to help Visteon meet its business challenges."

As of Dec. 31, Visteon employed 11,000 salaried workers and 22,500 hourly workers world-wide. It also had $893 million in unfunded pension obligations.

Visteon has failed to turn an annual profit since it was spun off by Ford in 2000. In 2005, the auto maker took back the majority of Visteon's plants. Since then, Ford has whittled those 17 plants to six.

Auto-supplier bankruptcies have frequently caused unforeseen and expensive problems for auto makers, as suppliers can use the courts to reject contracts and demand higher pay for much-needed parts. Some suppliers are unable to line up enough financing from lenders, forcing auto makers to inject money to keep the companies afloat.

Visteon is by far Ford's largest parts supplier, and the auto maker accounts for one-third of Visteon's $9 billion of annual sales. Korean-based auto maker **Hyundai Motor** Co. is the next biggest customer, with 30% of Visteon's sales.

Visteon, based in Van Buren Township, Mich., produces parts including radios for Ford's Fusion sedan, instrument clusters on the F-150 pickups and climate-control parts on the new Flex crossover.

Ford hasn't experienced any production issues as a result of Visteon's troubles, Mr. Brown said. The auto maker will continue to monitor the situation.

Visteon received waivers from its lenders after it violated the provisions of its loans in March, after independent accountants said they doubted the company's ability to remain a going concern. One of those waivers expires on May 30.

Whether Visteon is able to restructure or is forced to liquidate depends largely on how much support Ford is willing to give, said Doug Bernstein, managing partner of the bankruptcy group at law firm Plunkett Cooney P.C. "How dependent is Ford?" he said. "If Ford's not there to support, it could very well end up in liquidation because I don't know who's going to finance it then."

Ford assumed $167 million in Visteon secured loans this month. Visteon hopes Ford will let it borrow against that loan for bankruptcy financing and also provide other lending as well, said people familiar with the matter.

Visteon has hired law firm Kirkland & Ellis as bankruptcy counsel and financial advisers Rothschild LLC and Alvarez & Marsal.

The filing was made in a Wilmington, Del., federal bankruptcy court.

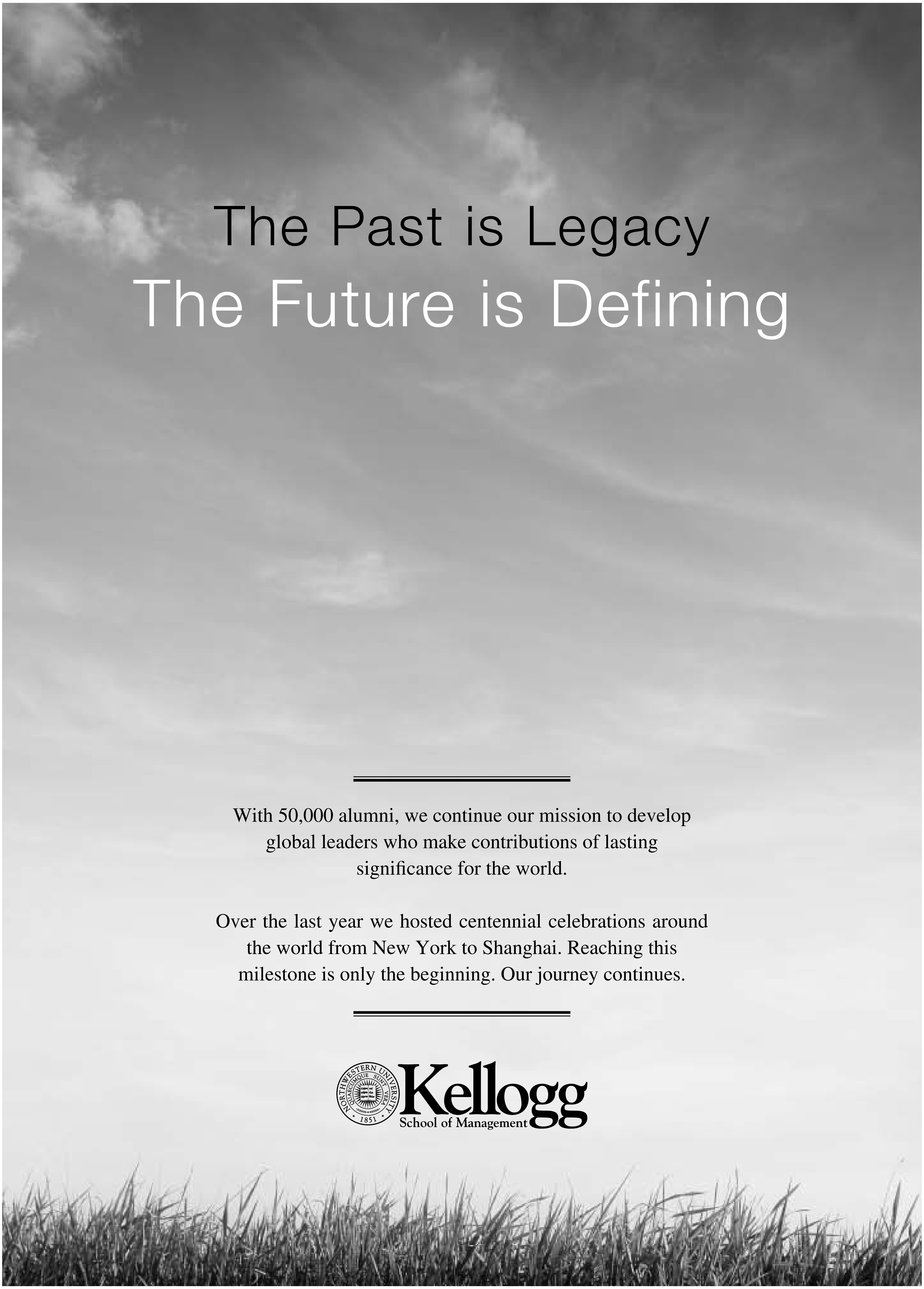
Mahindra earnings rise sharply

NEW DELHI—**Mahindra & Mahindra** Ltd. said its fourth-quarter net profit surged 89% year-to-year, boosted by higher nonoperating income and a reduction in other expenses and tax provisions.

The company, India's biggest maker of sport-utility vehicles and tractors by sales, said in a statement to the Bombay Stock Exchange that net profit in the three months ended March 31 climbed to 4.18 billion rupees ($87.9 million) from 2.21 billion rupees a year earlier. Sales rose 15% to 36.19 billion rupees.

Income from sources other than its main business of manufacturing jumped nearly fourfold to 614.3 million rupees from 159 million rupees a year earlier.

Mahindra said its other income included a 340.1-million-rupee profit from the sale of shares of Swaraj Mazda Ltd. by Punjab Tractors Ltd., a wholly owned unit of Mahindra.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CORPORATE NEWS

Ahold net is hurt by leases

Dutch grocer books charge, but remains bullish on U.S. units

By Maarten van Tartwijk

Ahold NV posted a 24% drop in first-quarter net profit, hurt by higher taxes and a charge tied to asset sales, but the grocer kept its long-term targets and predicted its market share in the U.S. will rise.

The Netherlands-based supermarket operator, which generates the majority of its sales and profit in the U.S., Thursday reported a net profit of €196 million ($272.4 million) for the three months ended March 31, compared with €258 million a year earlier. The latest results reflected higher taxes and a €66 million provision for lease guarantees at Ahold's former Bi-Lo and Bruno chains in the U.S.

Operating profit rose 18% to €396 million from €336 million.

Revenue, reported earlier this month, grew 15% to €8.65 billion, boosted by robust sales throughout the company and the stronger U.S. dollar.

Same-store sales, or sales from stores open at least a year, at Stop & Shop and Giant-Landover, its key U.S. chains, were "the strongest in many years," Ahold said. Both supermarket chains saw their operating margins rise to 4.5% from 3.9% a year earlier. Analysts tend to focus on operating margins to track the overall profitability per product sold.

Bloomberg News

Sales at Ahold's U.S. chain Stop & Shop held up well despite the recession.

"We had strong sales and solid margins in the Netherlands and the United States, despite the challenging economic environment," said Chief Executive John Rishton.

Ahold didn't give a short-term outlook but confirmed its long-term targets of 5% sales growth and a 5% operating margin.

In recent years, Ahold has rebranded its U.S. stores and lowered prices there under its "Value Improvement Program." The company generates about 60% of its revenue in the U.S.

Mr. Rishton said it is "too early and too optimistic" to describe the current economic environment in the U.S. as stable, and called rising unemployment a source of concern. Still, he said he remains confident on increasing market share in the U.S.

Mr. Rishton also hinted that Ahold will add more private labels to its portfolio in response to consumers' cutting their budgets.

The company's performance in the U.S. was better than expected when excluding one-time charges, SNS Securities analyst Richard Withagen said. "The reported results are unambiguous proof that the momentum, both in identical sales growth and operating margins, continues to be positive," Mr. Withagen said.

The impact of the company's Value Improvement Program is "clearly still strong," KBC Securities analyst Pascale Weber said, adding that she expects Ahold to report similar results for the coming quarters.

Ahold's Albert Heijn chain in the Netherlands performed in line with expectations. At Albert/Hypernova in the Czech Republic and Slovakia, sales dropped in the quarter, and Ahold said it is "taking aggressive actions" to restructure these operations.

Terra Firma adds funds to aid EMI

By Aaron O. Patrick

LONDON—Investment firm **Terra Firma Capital Partners** Ltd. has put up an additional £28 million ($45 million) to bail out **EMI Group** Ltd., people familiar with the matter said, in a sign the music group is still struggling despite efforts to turn it around.

Terra Firma, a private-equity firm owned by financier Guy Hands, injected the cash into London-based EMI in March to avoid breaching covenants on a multibillion-dollar loan from **Citigroup** Inc., the people said. In an added challenge, the chief financial officer of the company's music division has chosen to change jobs after just a year in the role.

The cash call is just the latest in a string of problems at EMI that could ultimately push the company into a merger with rival **Warner Music Group** Corp.—a deal that has been in the works for almost a decade and was discussed as recently as last year. Terra Firma, which bought EMI Group for £2.4 billion in August 2007, injected £16 million in September last year as the music company struggled with falling CD sales and rampant Internet piracy.

The recently appointed chief executive of EMI Music, Elio Leoni-Sceti, has said that a deep cost-cutting campaign launched when Terra Firma acquired EMI has begun to bear fruit, generating cash and improving the company's prospects. Also, EMI's top act, Coldplay, produced the best-selling album in the world in 2008, "Viva La Vida," which sold 6.8 million copies, according to EMI. The album helped EMI Music more than triple earnings before interest, tax, depreciation and amortization to £163 million in the fiscal year ended March, according to the company, although it says the figure hasn't been audited.

A combined Warner Music and EMI could pose a threat to the industry's leaders.

But in a move that could complicate the attempted turnaround, one of the EMI Group's two chief financial officers, Chris Kennedy, has chosen to move to another role overseeing the company's investments. He will be replaced on an acting basis by a Terra Firma finance executive, Andrew Chadd, EMI said in a statement.

Mr. Kennedy was appointed finance chief of EMI Music in April 2008, according to the company's Web site. He didn't return a call seeking comment.

Mr. Kennedy oversaw deep job cuts that boosted cash flow but made it harder for EMI to recruit artists and maintain market share. In 2008 its share of the global music market fell to 9.6% from 9.9% the year before, leaving it ranked fourth among global music companies, according to Music & Copyright, a trade publication. Warner Music increased its market share to 14.9% from 14.8% over the same period, the publication said, ranking it third.

Analysts believe a combined Warner Music and EMI would pose a greater threat to the industry's dominant players, **Vivendi** SA's Universal Music Group and **Sony** Corp.'s Sony Music Entertainment Inc.

It isn't clear, though, who would buy whom if a merger occurred. Mr. Hands held talks last year with Warner Music CEO Edgar Bronfman about EMI buying Warner's recorded-music business, according to a person familiar with the situation—an audacious deal that would have significantly increased Terra Firma's exposure to the troubled music business. The deal floundered over which side would get most of the estimated £1.6 billion in merger savings, the person said.

Warner Music executives, meanwhile, are interested in buying EMI's music division and believe they could get the company more cheaply if it went into bankruptcy, according to a person familiar with their thinking.

Warner Music has been in the process of raising $1.1 billion through a bond sale, which it plans to use along with cash reserves to pay off all its bank debt, a spokesman said. A clause in the sale documents allows Warner Music to redeem the bond early if a major transaction occurs, a possible sign it is keeping its options open for a deal with EMI. But there are currently no discussions going on between the two companies, people familiar with the situation said.

GLOBAL BUSINESS BRIEFS

Tate & Lyle PLC

Annual profit drops 66%, hit by charges in the U.S.

U.K. sugar and food-ingredients producer **Tate & Lyle** PLC posted a 66% decline in full-year net profit and said the global recession made its outlook difficult to predict. Net profit fell 66% to £65 million ($104 million) in the year ended March 31 from £194 million a year earlier, hit by charges at the company's U.S. operations. Revenue rose 24% to £3.55 billion. The company said it will close an Alabama factory that makes Splenda. The artificial sweetener was the key plank in outgoing Chief Executive Iain Ferguson's project to turn Tate & Lyle into a "value added" food company rather than a food-commodities business. Demand for the product has been disappointing, however.

OAO Vimpel Communications

OAO **Vimpel Communications** reported its second consecutive quarterly net loss and gave results in rubles for the first time as the depreciation of that currency triggered another large foreign-exchange loss. Vimpelcom, Russia's second-largest mobile operator after OAO **Mobile TeleSystems**, reported a net loss of 8.51 billion rubles ($272.8 million) for the quarter ended March 31, compared with a year-earlier net profit of 14.58 billion rubles. The latest results were weighed down by a 23.6 billion ruble loss representing the increase in the cost of the company's foreign debt resulting from the ruble's depreciation. Revenue rose 31% to 66.84 billion rubles. Vimpelcom said it is reporting in rubles instead of dollars to make it easier to compare results between quarters.

Tesco PLC

British retailer **Tesco** PLC said Thursday that Moody's Investors Service's downgrade of its credit outlook won't hurt its ability to finance operations or raise funds. Wednesday, Moody's cut its credit outlook on Tesco's A3 ratings to negative from stable, citing the company's higher-than-expected commitments on leases and a decline in its debt cover. It said the decision would affect some $17 billion of debt securities. Tesco has expanded heavily in recent years. Its capital spending hit £4.7 billion ($7.5 billion) in the fiscal year ended Feb. 28 and is unlikely to decrease, said Moody's. "We continue to reiterate that we've got a strong balance sheet," said a spokesman for Tesco, adding that the retailer is "focused on managing cash and reducing our debt this year." Tesco's net debt totaled £9.6 billion on Feb. 28.

Christian Lacroix SNC

Christian Lacroix SNC said it has filed a request to a Paris commercial court to protect it from creditors. The French fashion house, which is known for its colorful gypsy-themed clothes, hasn't turned a profit since its creation 22 years ago. Christian Lacroix's owner, the **Falic Group**, a U.S.-based duty free store operator, has been trying to sell a stake in the company for a year. That effort has been "directly hit" by the financial crisis, Christian Lacroix Chief Executive Nicolas Topiol said in prepared comments. The company said Falic would continue with financing until a buyer was found. Falic bought Christian Lacroix in 2005 from French luxury group **LVMH Moët Hennessy Louis Vuitton**. Under its new owner, the fashion house expanded in the U.S., opening stores in New York and Las Vegas.

Bank Medici AG

Austrian private bank **Bank Medici** AG's banking license has been withdrawn because its capital stock was too low, the Austrian Financial Market Authority said Thursday. The bank's customers lost large sums of money in the Bernard Madoff fraud. A Bank Medici spokeswoman said the license was pulled by mutual agreement after the capital stock fell below the €5 million ($6.9 million) required to run banking operations in Austria. The company said it will continue operating, though it will no longer be a bank. Since the fraud came to light, Bank Medici has fought to reorganize its business model. The roles of Bank Medici and its founder and chairwoman Sonja Kohn in the Madoff scheme are under investigation. Neither Ms. Kohn nor her lawyer were available for comment.

CSL Ltd.

Plasma-products maker **CSL** Ltd. said it will "vigorously oppose" the U.S. Federal Trade Commission's attempt to block its proposed takeover of U.S.-based **Talecris Biotherapeutics Holdings** Corp. Australia-based CSL proposed last August to buy Talecris for $1.9 million in cash and the assumption of $1.2 billion in debt. The move was intended to boost CSL's share of the $15-billion-a-year global plasma-therapeutics market and to control about half of the world's immunoglobulin market. The FTC said Wednesday that it will file a complaint in U.S. District Court in Washington, D.C., to challenge the purchase on antitrust grounds."We are surprised and disappointed by this decision," CSL Chief Executive Brian McNamee said.

AirAsia Bhd.

AirAsia Bhd.'s first-quarter net profit rose 26% as lower fuel prices and higher passenger traffic offset currency-related losses. The Malaysian carrier, Asia's biggest budget airline by fleet size, posted a net profit of 203.2 million ringgit ($58 million), up from 161.3 million ringgit a year earlier. Revenue rose 33% to 714.2 million ringgit, boosted by a 21% increase in passengers carried to 3.1 million. The company recorded a foreign-exchange translation loss of 90.4 million ringgit versus a gain of 86.2 million ringgit a year earlier. Load factor, the portion of seats filled, fell to 69.7% from 72.1% as capacity rose 19% with the addition of two Airbus A320s. AirAsia chief Tony Fernandes said the airline is optimistic about the second quarter.

Costco Wholesale Corp.

Costco Wholesale Corp.'s fiscal third-quarter earnings fell 29%, hurt by lower revenue, a litigation settlement and higher staff benefit costs. While warehouse and discount retailers such as Costco—known for selling household goods in bulk—have held up better than other retailers in the U.S., the company still has been pinched by the recession. Slumping gasoline prices have cut into revenue, as has the stronger dollar. For the period ended May 10, Costco posted net income of $209.6 million, or 48 cents a share, down from $295.1 million, or 67 cents a share, a year earlier. Revenue fell 4.8% to $15.48 billion. Sales at stores open at least a year fell 7%, though excluding gasoline and currency changes increased 2%.

—Compiled from staff and wire service reports.

Britain's spies plan to party like 007

Guest list and menu for MI6's 100th birthday fete are hush-hush, but spooks must buy their own tickets

By Stephen Fidler

LONDON—In the Hollywood version of the British foreign intelligence agency known as MI6, elegant black-tie affairs are all part of a night's work for super spy James Bond. When his real-life counterparts don their tuxedos later this year for an elegant celebration of the MI6's 100th anniversary, they are being told to pay their own way.

The true life version of MI6 has always been less opulent than its fictional counterpart. But in the midst of a deep recession, when British bankers and members of Parliament are being publicly pilloried for extravagance, the spy agency's chiefs have decided that British taxpayers shouldn't be asked to pick up the tab.

The espionage ball, nonetheless, will almost by definition be one of the most remarkable and exclusive of 2009. Along with a host of spies past and present, a carefully screened guest list includes, according to people familiar with the arrangements, the great and powerful of the U.K., from members of the royal family to leading politicians.

Yet while MI6 is tripping the light fantastic, its sister organization—MI5, responsible for domestic intelligence—is celebrating its own centenary more soberly.

MI5's main event will be the launch of its first official history by Cambridge University historian Christopher Andrew. The book—"Defence of the Realm: The Authorized History of MI5"—will be published Oct. 5 by Penguin, a subsidiary of Pearson PLC. Penguin says no big launch parties are planned, just a series of lectures by Prof. Andrew.

Next to this, it sounds like MI6—formally known as the Secret Intelligence Service—will be having more fun. Some people in Britain's tightknit intelligence community grumble that, even though the agency has done its best to keep the event under wraps, it isn't appropriate for MI6 to be holding balls.

"It's a secret service, for God's sake," said one individual familiar with the plans.

Getty Images

Before there was Bond: Commander Mansfield Cumming, pictured far left, at Southampton in 1907. Cmdr. Cumming would later go on to become the first chief of the Secret Intelligence Service.

Others say that while the black-tie occasion is unprecedented, it is exactly in line with what the agency has done as well in real life as it has in the James Bond version: rubbing shoulders with the powerful.

"It's a very SIS thing to do," says Philip Davies, an intelligence specialist at London's Brunel University. "It has a reputation for cultivating its links to 'the great and the good.' "

People close to the service say the decision to hold the ball was made at the top, by Sir John Scarlett, the director general of MI6, who, like his predecessors, is referred to by the initial "C"—after the service's first chief, Mansfield Cumming.

Government officials are mum about details. All staff will pay for their tickets, the most senior paying the most. But they won't say more, refusing to acknowledge the existence of a guest list or disclose the party's date or location, citing security concerns.

The rest of the event is shrouded in, well, secrecy. According to people familiar with the matter, the party has been planned for a secure location well fortified against gate-crashers. One person says musical entertainment from more than one band, dinner and dancing are planned. "C" himself signed off on the menu, this person says.

For Sir John, 60 years old, who retires soon afterwards, the event should also cap an illustrious career.

In the 1980s, he was the MI6 case officer for Oleg Gordievsky, then the senior KGB officer in the Soviet Embassy in London and later perhaps the most celebrated Soviet defector of the Cold War, helping to turn over information of huge value to London and Washington.

As chairman of the interdepartmental Joint Intelligence Committee, Sir John signed off on a faulty 2002 intelligence dossier released to the public about Iraq's weapons of mass destruction. It did his career no harm, however. In 2004, he returned to MI6 as its chief, appointed by then-Prime Minister Tony Blair.

To his detractors, the Iraq dossier and the celebration show Sir John's failure to keep MI6's political masters at arm's length. His supporters say he is a man with a keen sense of duty, and his wish is to honor a service that has made an important but largely unsung contribution to the security of the U.K.

The secret agencies have struggled with heightened public scrutiny, the likes of which the U.S. Central Intelligence Agency, a mere sexagenarian in the intelligence business, has faced for decades now.

That's partly explained by history. MI5 and MI6 were created together as the Secret Service Bureau in October 1909, prompted by British fears about a growing threat of invasion from Germany. Days later, says Nick Hiley of the University of Kent, they split after the heads of its foreign and domestic units fell out. The home section evolved into MI5, responsible for counterintelligence and security within the U.K., while the foreign section became MI6. Both were departments of military intelligence, hence the initials.

For eight decades, the government officially denied their existence. MI5 was formalized by law in 1989, while MI6 had to wait until 1994 before that step was taken.

Today, both increasingly face public examination and controversy. In recent weeks, MI5 admitted it had had the ringleader of the July 7, 2005, suicide bombings on London's transport system in its sights on several occasions before the attacks. MI6 has faced questions about how much it knew of the harsh treatment meted out to U.S. terror detainees.

Both have benefited from big increases in funding since the 2001 terrorist attacks on the U.S. The total intelligence budget for the two services and GCHQ, Britain's signals intelligence agency, is set to exceed £2 billion ($3.2 billion) this year, more than double what it was in 2001, according to figures from the parliamentary committee that oversees the agency. But MI5's budget has tripled to combat the threat from domestic Islamist terrorism, outstripping the increase in MI6's funding.

For much of their history, MI5 was the Cinderella organization compared with its more glamorous sister: MI6 officers were said to regard their counterparts as plodding bureaucrats. That may have changed now. But Cinderella or not, it's still MI6 that gets to go to the ball.

Israel rebuffs U.S. demands over West Bank settlements

By Charles Levinson

JERUSALEM—The divide between the United States and Israel over West Bank settlements deepened Thursday after Israel rebuffed a strongly worded demand by Secretary of State Hilary Clinton to freeze all building.

President Barack Obama "wants to see a stop to settlements—not some settlements, not outposts, not natural growth exceptions," Mrs. Clinton said after a meeting Wednesday evening with visiting Egyptian Foreign Minister Ahmed Aboul Gheit. The comments were the Obama administration's most strongly worded and unambiguous renunciation of Prime Minister Benjamin Netanyahu's West Bank policies yet, and appeared to leave Mr. Netanyahu no alternative but to choose between his right-wing base and Washington.

On Thursday, Mr. Netanyahu's spokesman Mark Regev said the prime minister won't change his long-held position that building should be allowed to continue in existing settlements as part of a "natural growth" exception.

Mr. Regev said any complete freeze in settlement activity would only be discussed in final-status peace negotiations with the Palestinians. But those talks are frozen as Palestinian leaders have refused to resume negotiations until Mr. Netanyahu acknowledges commitments made by past Israeli governments to Palestinians' right to an independent state.

The steady growth of Jewish settlements on land occupied by Israel in 1967 has been a consistent source of strain between Israel and the U.S. for decades. In 2003, Israel agreed to stop all settlement expansion, but former President George W. Bush generally avoided public confrontations with Israel over the issue. Today, about half a million Jews live in more than 100 settlements in the West Bank.

Israel is trying to deflect the growing tensions with Washington by shifting the burden to act first back to the Palestinians, who Mr. Regev said have failed to live up to their obligations to crack down on terror in the West Bank. That argument has failed to gain traction in Washington.

The Obama administration is wary of allowing natural growth in settlements because past Israeli governments used that as a pretext for rampant building, said Martin Indyk, a former U.S. ambassador to Israel. "Washington has a strong enough memory of what Netanyahu did with natural growth last time he was prime minister, which is basically drive a settlement truck through that loophole," said Mr. Indyk.

Mr. Netanyahu is struggling to simultaneously placate the U.S. and his hard-line base. If his policies lead to a perceived rupture in Israel's relationship with the U.S., many Israelis will turn against Mr. Netanyahu. Similarly, if he abandons the Israeli right that voted him into office, he is unlikely to survive politically. His inability to navigate those opposing forces caused his political downfall during his stint as prime minister from 1996 to 1999.

Mr. Netanyahu is trying to find a middle ground. On Monday, he told lawmakers from his Likud Party that Israel would have to destroy 26 illegal outposts in the West Bank in order to win U.S. support for tough action against Iran.

After his return from meeting with Mr. Obama in Washington last week, Mr. Netanyahu ordered a few illegal structures built by teenage settlers on private Palestinian land in the West Bank razed. But none of them were among the 26. Lawmakers from Mr. Netanyahu's party responded coldly to the prime minister's proposal.

"The message from the party was clear: We were not chosen by voters to evacuate Jews from their property," a Likud lawmaker said after a party meeting Monday.

Settler leaders, meanwhile, have vowed to bring down Mr. Netanyahu's government if he presses forward with plans to evacuate outposts. The last time the Israeli government razed an illegal West Bank outpost in 2005, clashes erupted between thousands of settlers and police.

Palestinians, meantime, view Mr. Netanyahu's plan on outposts as a token gesture that will have little impact on Palestinians' daily lives as long as building continues in other settlements. "The 26 outposts are not the issue," said Diana Buttu, a former aide to President Mahmoud Abbas and Prime Minister Salam Fayad. "It's the mentality that these settlers have a right to be there, that Israel has a right to continue to build these settlements and that it is a huge concession by Israel to just abide by international law."

A spokesman for Israel's opposition Kadima Party, lead by Tzipi Livni, said Mr. Netanyahu's position on settlements would hurt Israel's ties with the U.S. at a time when it most needs them to confront Iran.

Berlusconi moves to quash political turmoil

Italian leader denies 'spicy' relationship with 18-year-old

By Stacy Meichtry

ROME—Italian Prime Minister Silvio Berlusconi on Thursday denied having a "spicy" relationship with an 18-year-old aspiring model, as he stepped in to quell a mounting political and personal storm that has tested the media mogul's public-relations savvy.

Italy has been transfixed for weeks by questions surrounding Mr. Berlusconi's ties to Noemi Letizia, at whose 18th birthday party the 72-year-old premier was photographed in April. Mr. Berlusconi's wife publicly accused him of "consorting with minors" and demanded a divorce. Members of Italian opposition parties have called on the premier to clarify his ties with Ms. Letizia.

On Thursday, Mr. Berlusconi raised the subject before a battery of photographers and a television camera that had gathered to follow a meeting in his office. "I've responded to the only question that everyone has a right to ask me: 'Mr. President, did you have relations, let's say spicy or more than spicy, with a minor?' The response is, 'Absolutely not,' " Mr. Berlusconi said. "On top of that, I swore on the heads of my children."

It's unclear whether his statement will calm the turmoil. The issue hasn't shown signs of affecting his popularity among Italian voters: With elections for the European Parliament only days away, polls indicate that Mr. Berlusconi's right-leaning People of Freedom party has a strong lead over the left-wing opposition.

Mr. Berlusconi's somewhat muted reaction to the controversy is unusual. In his three terms as prime minister, he has been unflappable, though at times aggressive, in the face of public scrutiny. Earlier in the decade, he fought off corruption charges with fiery oratory and theatrical court appearances that boosted his popularity. Mr. Berlusconi's drawn-out trials have ended in acquittal. Other charges against him expired because the statute of limitations had run out.

Silvio Berlusconi

Mr. Berlusconi's response to questions surrounding Ms. Letizia hasn't been as nimble, some analysts say. "I've never seen him like this," says Alessandro Campi, a political scientist at the University of Perugia and director of right-wing think tank FareFuturo. "He hasn't been able to keep the situation under control."

The controversy began in late April, when left-wing newspaper La Repubblica reported that Mr. Berlusconi had dropped in on Ms. Letizia's birthday party.

Days later, Mr. Berlusconi's wife, Veronica Lario, said in an interview with Turin newspaper La Stampa that she was seeking a divorce. The contents of the interview were confirmed by a person close to Ms. Lario.

Shortly after, on an Italian TV show, Mr. Berlusconi said he was a longtime acquaintance of Ms. Letizia's father, Benedetto Elio Letizia. A magazine owned by Mr. Berlusconi's family then published photos of the prime minister toasting with Ms. Letizia and her mother at the event.

In an interview with CNN, which was taped Saturday and aired Monday, Mr. Berlusconi pledged to publicly clear the air.

Also Monday, Naples daily Il Mattino published an interview with Mr. Letizia, recounting how he first shook hands with Mr. Berlusconi at a public event in 1990. Mr. Letizia said his relationship with Mr. Berlusconi deepened in 2001, when the prime minister sent a handwritten letter to the family consoling them over the death of their son in a car accident. Mr. Letizia, reached by phone, confirmed the contents of the interview but declined to elaborate.

Letizia family attorney Giulio Costanzo declined to elaborate on the matter. "A personal matter has become a matter of the state," he said.

—Davide Berretta contributed to this article.

Russia criticizes Belarus as loan raises tensions

Associated Press

Russia and Belarus failed to agree Thursday on the final installment of a $2 billion Russian loan that aimed to help its struggling neighbor avoid bankruptcy, Russia's finance minister said.

Russian Finance Minister Alexei Kudrin said his country offered to provide the final installment, worth $500 million, in Russian rubles instead of dollars, but that Belarus had refused. Mr. Kudrin, who accompanied Russian Prime Minister Vladimir Putin on a trip to the Belarusian capital, criticized Belarus's planned economy and the stiff control of its currency as a "meaningless policy." He also described Belarus as taking a "parasitic" attitude to Russia.

The unusual bluntness of his criticism reflected a growing split between the two countries, which have an accord envisaging close political, economic and military ties.

Mr. Kudrin told reporters that Belarus, which spent $2 billion to prop up its national currency in the first quarter of 2009, will run out of hard-currency reserves by the end of third quarter if it keeps spending at that level.

"We may see insolvency of the Belarusian government and the Belarusian economy as a whole due to the hard-currency shortage at the end of this year or next year," he said.

Moscow has been the main ally and sponsor of Belarusian President Alexander Lukashenko but has been increasingly vexed by Mr. Lukashenko's resistance to Russian attempts to take control of key Belarusian industrial assets.

Moscow also expected Belarus to quickly follow its example in recognizing Georgia's breakaway provinces of South Ossetia and Abkhazia as independent nations, which Russia did in the wake of the Russian-Georgian war in August.The Belarusian parliament, however, hasn't taken up the issue.

Mr. Kudrin said that the disagreement on the final loan installment to Belarus wasn't rooted in Belarus's refusal to recognize the independence of two Georgian regions. "I have never raised this issue with any Belarusian official," he said.