Al and Tipper Gore call it a day after 40 years of married life

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Sony Center deal in Berlin indicates a leap of faith

BUSINESS & FINANCE 24

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Prudential's lower offer meets dead end at AIG

LONDON—A $35.5 billion global life-insurance deal that would have remade the industry landscape while helping return some cash to U.S. taxpayers was on its deathbed Tuesday night, after **American International Group** Inc. said it wouldn't agree to a renegotiated purchase price from **Prudential PLC** for AIG's largest Asian life-insurance business.

By Dana Cimilluca, Joann S. Lublin and Deborah Solomon

AIG announced early Tuesday that it would "adhere to the original terms" of its agreement to sell the business, known as AIA Group Ltd., to Prudential. The U.K.-based insurer had sought to pay a lower price for the AIG unit when it became clear that its shareholders, uncomfortable with the price tag and other aspects of the deal, wouldn't approve the takeover on its initial terms.

AIG Chief Executive Robert Benmosche was one of two directors in favor of doing the deal with Prudential at the lower price. Ten directors voted against that, according to people familiar with the matter.

Prudential plans to officially pull the plug on the deal, a person familiar with the matter said. If that happens, it could be liable for a roughly $225 million breakup fee to AIG.

Prudential said in a statement Tuesday that its board is "considering its position." The company also detailed its latest offer to AIG, which totaled $30.4 billion—$23 billion of cash with the rest in shares and other securities. The original deal included $25 billion in cash.

At a Monday night board meeting, AIG directors decided to reject the new offer, concluding that the proposed lower price was "unacceptable," especially given that Prudential shareholders might still reject the lower price or that regulatory opposition might kill the revised deal, people familiar with the matter said.

The deal's woes raise questions about the future of Prudential and its chief executive, Tidjane Thiam. The 47-year-old Ivory Coast native who just took the helm of Prudential last October has spent three months racing to cope with one threat after another to a deal that was meant to transform the 162-year-old British insurer, but which may instead cast it adrift and derail his career.

The decision also represents a setback for AIG, which

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Bloomberg News

AIG's rejection of the deal raises questions about the future of Prudential CEO Tidjane Thiam, 47, who has spent three months racing to cope with one threat after another.

Pressure mounts on Israel over Gaza

By Joshua Mitnick

TEL AVIV—Pressure mounted on Israel Tuesday over its violent boarding of a flotilla bound for Gaza, after Egypt said it would partially open its own sealed border with the territory and some freed activists contradicted Israel's version of events in the incident.

Separately, Israel launched an airstrike against Gaza-based militants, ratcheting up tensions. The air force fired on a team of militants moving rockets into position in northern Gaza, readying them to fire into Israel, according to a spokesman for the Israeli military.

The Israel Defense Force also said it understood two more vessels were headed to Gaza in an attempt to run its blockade of the territory. A spokesman said Israeli forces were making preparations to prevent them from reaching shore.

But Israeli political leaders acknowledged they are struggling to rebut calls to end the three-year blockade on Gaza. Israel's government has warned that such a move would hand a political victory to Hamas and Iran, while weakening the Palestinian Authority and prospects for a peace settlement.

Israel said all six ships seized in a deadly standoff at sea early Monday were forced to sail to the port of Ashdod.

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Investors sour on BP amid setbacks

Nervous **BP** PLC investors sent the company's shares down sharply following its failed bid to stop oil from gushing into the Gulf of Mexico, as concerns grew over the soaring costs of the clean-up.

Meanwhile, U.S. Attorney General Eric Holder said late Tuesday that federal authorities have opened criminal and civil investigations into the spill. That statement came after President Barack Obama said the U.S. was ready to step up its response and prosecute if any laws were broken.

In the first day of trading after a three-day holiday weekend, BP shares sank 13% Tuesday in London.

The selloff, which knocked billions of dollars off BP's market value, reflected investors' escalating fears about the oil major's future.

BP has concluded that its "top-kill" attempt last week to seal its broken well in the Gulf of Mexico may have failed due to a ruptured disk inside the well about 1,000 feet below the ocean floor.

The disk, part of the subsea safety infrastructure, may have ruptured during the surge of oil and gas up the well on April 20 that led to the explosion aboard the Deepwater Horizon rig, BP officials said.

The rig sank two days later, triggering a leak that has since become the worst spill in U.S. history.

Shareholders fear the final costs of the spill, which already stand at $990 million, could prove crippling to BP, fatally weakening a company that features in the portfolios of most of the big London-based investment funds.

Another temporary fix—an effort to saw through the pipe leaking the oil and cap it—could be tried as soon as Wednesday.

Coast Guard Adm. Thad Allen, the U.S. national incident commander, said Tuesday that BP was making its first major cut with super sheers that weigh 46,000 pounds and resemble a giant garden tool. The company will also use a powerful diamond-edged cutter to try to make a clean cut above the blowout preventer, then will lower a cap over it with a rubber seal.

Carol Browner, a top adviser to President Obama, said she doesn't want to guess the prospects for success when BP tries to use the containment cap.

Interviewed Tuesday on ABC's "Good Morning America" television program, the White House energy and global warming czar said, "I don't want to put odds on it. ... We want to get this thing contained."

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After knocking on global door, it's back to basics for Man from the Pru

[Agenda]

By Martin Vander Weyer

There was a time, not so many years ago, when it was easy to sum up exactly what "the Pru" stood for. It was a long-established British mutual assurance company, operating from a Victorian headquarters in London's Holborn Bars that looked much like a "red-brick" provincial university or one of the great South Kensington museums (which happened to be by the same architect).

It employed "the man from the Pru"—indeed, it employed 15,000 men from the Pru, a familiar army of door-to-door collectors of weekly life-insurance premiums. And it was run by a succession of cautious actuaries who spent their working lives rising through the hierarchy of the firm. It wasn't exciting, but it was never meant to be exciting; it was meant to be as reliable and unchanging as that Holborn edifice and that weekly ring of the doorbell.

But for a couple of decades now, **Prudential PLC**—like so many other historical companies—has been eagerly reinventing itself, trying to remove itself from a Victorian brand image that its thrusting executives and their advisers felt was holding back both its business expansion and its stock-market value.

It launched, then sold off, a pioneering Internet bank called Egg. It owns the fund-management business M&G. It owns substantial businesses in the U.S. (Jackson National, unconnected with Prudential Financial Inc. of the U.S.) and Asia. And these days it is run by a French-educated, McKinsey-trained former minister of planning of the Ivory Coast, Tidjane Thiam, who is as different from the traditional man from the Pru as it is possible to imagine.

Reuters

The red-brick relief nameplate of Prudential's former London headquarters.

And in the past few weeks that transformational process has reached its apotheosis in Mr. Thiam's $35.5 billion bid for AIA, the Asian arm of the crippled **American International Group** Inc. insurance giant that, following its 2008 bailout, is 80%-owned by the U.S. government. To partly finance the deal, Mr. Thiam also launched a record $21 billion rights issue, though it stumbled at the first attempt to bring it to market. Still he pressed on; and had his bid gone through by now, the Pru-AIA combo would have more than 30 million customers across Asia, generating most of the combined group's profits.

> **There is no price that would satisfy the most rebellious shareholders, who don't want the deal at all.**

The Pru we thought we knew would have turned itself into an Asian insurance giant with a slightly dusty U.K. business (and a mere seven million U.K. customers) attached.

But as of Tuesday night, the bid didn't look likely to go through. Mr. Thiam has accepted the view of many of his shareholders that $35.5 billion was far too high a price to pay, and has brought his offer down to $30.4 billion. AIG has so far refused to renegotiate—perhaps surprisingly, given global stock-market weakness since the first handshake, and particular Asian worries over Chinese monetary wobbles and simmering Korean conflict.

But even if AIG comes back to the table, it is surely unlikely, given the pressure to be seen to get the best deal for the U.S. taxpayer, to settle for the sub-$30 billion price that would satisfy unhappy Pru investors. Indeed, there is no price that would satisfy the most rebellious shareholders, who don't want the deal at all.

Damaging comparisons have been made with the "transformational" merger that was Royal Bank of Scotland's takeover of ABN Amro in 2007, and with other megadeals and strategic leaps that have failed—critics speak of the value-destroying AOL Time Warner marriage in the U.S.; and in a different context, of the destruction of Britain's General Electric Co. when it turned its back on its heritage, renamed itself Marconi, and tried to become a different business altogether. In response to a cacophony of doubts, the Pru's share price is signaling that the market would breath a sigh of relief if the AIA idea evaporated.

If that happens, the Pru will cough up a giant "break fee" to AIA, Mr Thiam, and perhaps also his chairman, Harvey McGrath, will have to walk the plank, and disgruntled shareholders will press for a selloff of the Pru's U.S. and Asian arms as a way of realizing value. And that would leave, as the Pru's remaining core, the U.K. insurance business from which its executives have been trying so hard to escape.

The moral of the story is that investors will always be reluctant to buy into the vision of a chief executive who suddenly wants to transform an established business into something completely different, whatever the potential of the new market he has spotted or the logic of the projected numbers.

Great corporate names are not mere vessels for megadeals and quantum leaps: they come with a set of baggage and assumptions about what they do and how they do it, which are what persuaded investors to buy into them in the first place. Like great ocean liners, they can be slowly turned around, they can ply new routes, they can be periodically refitted, they can eventually be converted into resort hotels or casinos. But to say "Trust me, I'm taking you tomorrow on an opportunistic magical mystery tour of Asia"—and to say it right now, while the misconceived "transformational" ambitions of so many of the world's leading financial groups are fresh in investors' memories—is to invite blunt rejection. That's the way it's looking for today's man from the Pru.

—Martin Vander Weyer is editor of Spectator Business.

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U.S. NEWS

Al Gore to separate from wife of 40 years

Reuters

Al Gore, with Tipper in October 2007, after winning the Nobel Peace Prize.

By Louise Radnofsky

Former U.S. Vice President Al Gore and his wife, Tipper, announced that they are separating after four decades of marriage.

In an email sent by the couple to friends, reported by several news organizations Tuesday, the Gores said they had come to "a mutual and mutually supportive decision that we have made together following a process of long and careful consideration."

Kalee Kreider, a spokesperson for Mr. Gore, confirmed that the Gores had announced their separation.

Two family friends told the Associated Press that the Gores said they had grown apart and that there was no affair involved. The friends said the Gores, over time, had carved out separate lives, with the former vice president on the road frequently.

For years, the Gores had publicly portrayed their marriage as strong. During Mr. Gore's eight-year stint as vice president to President Bill Clinton, the image of the Gores' warm relationship stood in sharp contrast to that of the Clinton marriage, which was rocked by Mr. Clinton's affair with White House intern Monica Lewinsky.

A long kiss shared by the pair on stage at the 2000 Democratic National Convention, as Mr. Gore was about to accept his party's nomination for president, was widely discussed during the remaining weeks of the campaign.

The couple also co-wrote a book on family life, published in 2002, titled "Joined At The Heart." Mr. Gore lost the presidential election to Republican George W. Bush.

After his years in Washington, Mr. Gore became a climate-change campaigner and won a Nobel Peace Prize in 2007 for his efforts.

He is the co-founder and chairman of Generation Investment Management, a sustainable investment firm, and Current TV, a network based on viewer-created content.

Mr. Gore held his father's former seats in the U.S. House and Senate for 16 years.

He first ran for president in 1988 at age 39, but drew little support outside the South.

A subsequent bid in 1992 was derailed after the Gores' 6-year-old son almost died after being hit by a car in 1989.

Associated Press

Al and Tipper Gore's long kiss in 2000.

"It was a very spiritual time for both of us," Mrs. Gore later wrote. "In Al's case, he decided to write a book and not to run for president in 1992."

The book was "Earth in the Balance," and Mr. Gore ended up in the thick of the 1992 campaign anyway—as the running mate for Bill Clinton.

Mrs. Gore, who has acknowledged treatment for depression after their son's accident, is a vocal advocate on mental-health issues.

She also was a co-founder in 1985 of the Parents Music Resource Center, which pushed for parental warning labels on music with violent or sexually explicit lyrics.

The group drew the ire of musicians ranging from Dee Snider of Twisted Sister to Frank Zappa, who said warning labels were unnecessary and a danger to freedom.

Mrs. Gore later became friends with the late Mr. Zappa's wife, Gail, and played drums and sang backup on daughter Diva Zappa's album in 1999.

The Gores lived together in Nashville, Tenn., and have four adult children and three grandchildren.

—The Associated Press contributed to this article.

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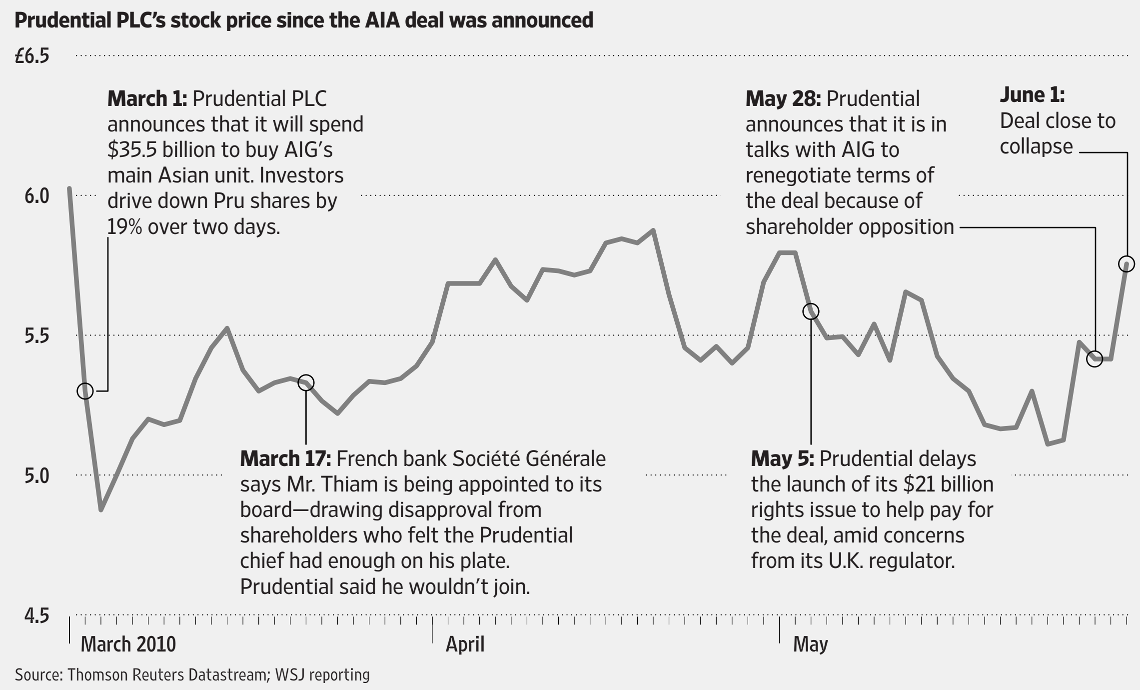
PRUDENTIAL DEAL IN DANGER

Hard sell | Key moments in the Prudential PLC-AIA deal



Source: Thomson Reuters Datastream; WSJ reporting

The Prudential headquarters in London

Bloomberg News

AIG rejects lower offer from Prudential

Continued from first page

has received $132 billion in U.S. government aid since a 2008 bailout and is trying to repay it. Representatives from Treasury and the Federal Reserve were closely involved in discussions, including asking questions and participating in a marathon seven-hour conference call with the board over the holiday weekend, according to a government official. The U.S. has also appointed its own members to the board since the bailout.

When it came time to vote, the government was asked to leave the call, the person said, adding that the government supported the decision.

Now, AIG directors are weighing "all the options" for the business, including an initial public offering in Hong Kong, as had been planned before the Prudential deal was struck, said a person familiar with the matter. The offering, initially expected to reap at least $15 billion, could be smaller or larger than originally considered, said this person.

The person added that alternatives to an IPO could also be pursued, but said the prospect of no sale seemed unlikely, given the company's need to "pay back" its debts.

A decision, the person said, would likely be made within a few weeks.

AIG board Chairman Harvey Golub expressed confidence in Chief Executive Robert Benmosche. "The board admires very much the work that Bob and his senior management team" are doing in "helping the board to think through all the issues related to this transaction," Mr. Golub said in an interview Tuesday. "The board has full confidence in Bob and all the members of" management, Mr. Golub added.

Prudential shares rose 6.3% in London to 575.5 pence. The increase is a reflection of shareholder opposition to the deal. Prudential stock had fallen 19% in the two days after it was announced March 1. AIG shares were down almost 3% to $34.40 on Tuesday afternoon.

The deal's collapse would end what would have been one of the largest M&A deals of 2010. It would mark another setback for an M&A market that has been buffeted by financial-market volatility. Its end could herald continued sluggishness if other CEOs considering bold moves view it as a cautionary tale.

Mr. Benmosche had originally won approval for the deal from the company's board in late February, but only after convincing some skeptical directors that it was preferable to an initial public offering of the unit that AIG had been preparing, people familiar with the matter have said. One of those people added that doing the deal then had been "a very contentious decision" for AIG's board and that some AIG directors think the company had rushed into it.

A collapse of the deal would also be a blow to **Credit Suisse Group**, **J.P. Morgan Chase** & Co. and **HSBC Holdings** PLC, the banks that had lined up to advise Prudential and underwrite the share sale, and were expected to be paid fees in the hundreds of millions had the deal gone forward.

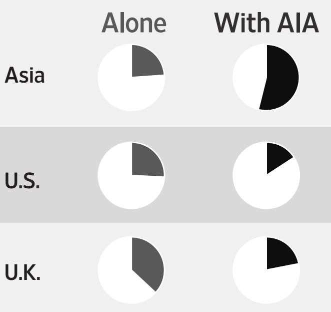
Mr. Benmosche originally won approval for the deal from AIG's board in late February, but only after convincing skeptical directors it was preferable to an IPO.

Should AIA follow the IPO path, some banks would likely collect underwriting fees, though there would be greater risks in how and when the share sale would happen.

—Erik Holm and Serena Ng contributed to this article.

Transformed company

Where Prudential PLC's pre-tax operating profit came from in 2009, and how the AIA deal would change that



Source: the company

End of Pru's hopes for AIA costs bankers

A Wall Street Journal Roundup

The likely demise of the biggest takeover so far this year—**Prudential PLC**'s bid for **American International Group** Inc.'s Asian unit—spells a big hit to fees and reputation for the many investment banks involved.

The attempt to take over AIA Group Ltd. was fraught with missteps, and the quick rejection by AIG and its chief executive, Robert Benmosche, of a reduced $30.4 billion offer from the British insurer pushed the deal close to collapse.

Bankers at **Credit Suisse Group**, **J.P. Morgan Chase**, **HSBC** and a host of others will suffer a heavy blow if the deal they helped craft falls apart.

"At least 50% of the blame would go to the investment banks, I would say,'' said Ian Nelson, a senior adviser at Wyvern Partners in London. "They're obviously motivated by big transaction fees, and that's understood, that's how they earn their living,'' he added.

Prudential boss Tidjane Thiam's efforts hit an earlier glitch last month, when the U.K.'s markets regulator, the Financial Services Authority, held up the deal on concerns over Prudential's capital base, a hitch that investors decried as "shambolic.''

Prudential and its banks "should have been more careful with obtaining soundings from the FSA'' and had failed to explain adequately the financial logic of the tie-up to risk-averse investors, Mr. Nelson said.

Mr. Nelson served as head of mergers and acquisitions for Prudential rival **Aviva** and its predecessor for 14 years until 2005, where he worked alongside Mr. Thiam, who joined in 2002 as director of group strategy.

Another misjudgement came when Pru reopened price negotiations with AIG just two days after Chairman Harvey McGrath said that a "vast majority'' of shareholders were comfortable with the deal. "Execution in this deal has been far from smooth so far, to use a euphemism. You would think that with so many advisers involved in this deal ... (they) would have thought of ... the regulator's questions,'' said one Prudential shareholder who requested anonymity.

Reuters

AIG CEO Robert Benmosche is likely to turn to an IPO of AIA instead.

As for AIG's shareholders, perhaps they have faith that AIG can turn to Plan B: An initial public offering of AIA, which is expected to fetch an estimated $15 billion.

Still, it isn't clear why AIG would be willing to accept an IPO that would raise less than half of what an AIA sale would generate—even at a reduced price.

Perhaps the IPO option is just a bargaining chip to show that AIG isn't desperate if it has to walk away. It is also possible that AIA could be a more-valuable asset than it was when Prudential first agreed to the deal in late February. Prudential, one of AIA's chief competitors in Asia, has exposed its weaknesses in its failed bid.

If the deal is scrapped, it meanss the banks on the deal will miss out on a big fee pool. Prudential had said it would pay up to £850 million ($1.24 billion) in costs related to the takeover and the rights issue. That includes underwriting, financial advice and legal, accounting and printing costs.

The rights issue would have incurred fees of 3.5%, split into $315 million for banks, and $420 million for investors sub-underwriting the deal.

Freeman & Co, a consultancy, had estimated the original deal would yield M&A fees of $112.7 million for banks on both sides.

Credit Suisse, HSBC and J.P. Morgan Chase's J.P. Morgan Cazenove venture were leading Prudential's $21 billion rights issue to fund the acquisition as joint sponsors, global coordinators and bookrunners, according to Prudential's rights issue prospectus.

They were joined as financial advisers by **Ondra Partners** and Lazard, while Nomura gave a fairness opinion to Prudential's board. A further 30 banks were involved in the rights issue.

AIG took advice from **Citigroup**, Morgan Stanley, **Goldman Sachs**, Blackstone and **Deutsche Bank**, according to Thomson Reuters data.

All of those firms, except Blackstone, were chosen to handle AIA's IPO in Hong Kong prior to Pru's offer.

PRUDENTIAL DEAL IN DANGER

A deal to make or break a career

BY DANA CIMILLUCA
AND NEIL SHAH

LONDON—As **American International Group** Inc. chief Robert Benmosche informed **Prudential** PLC CEO Tidjane Thiam that his $35.5 billion bid to acquire AIG's main life-insurance business in Asia had been accepted by the U.S. insurer's board, he gave him a jocular warning: "Hey buddy, this is your wake-up call. You won't be sleeping for a long time."

It was an understatement. Mr. Thiam, the 47-year-old Ivory Coast native who just took the helm of Prudential last October, has spent three months racing to cope with one threat after another to a deal that was meant to transform the 162-year-old British insurer, but which may instead cast it adrift and bring down Mr. Thiam's rocket-like career following AIG's announcement that it had rejected Prudential's bid to lower the price of the deal.

Prudential shareholders had been set to vote on the deal at a June 7 meeting, with approval required from 75% of the shares voted. That ultimately proved too high of a bar to cross after some of Prudential's shareholders privately expressed doubts about the ability of Mr. Thiam—who has rocketed to the top of the insurance industry in less than a decade—to both close the deal and then mesh and operate the combined company, especially so soon after taking over as CEO. With funds including those managed by BlackRock Inc. and Fidelity, and influential proxy adviser RiskMetrics Group balking at the deal, it's unclear whether that meeting will now take place.

AIG only agreed to the deal with Prudential after some AIG directors were convinced that it was preferable to an initial public offering of the unit. Going forward with the deal was "a very contentious decision" for AIG's board, a person familiar with the matter says, adding that some AIG directors think the company rushed into it.

In an interview in London last Tuesday, Mr. Thiam said the past three months had been "a bit crazy." He said he would have preferred to wait longer before pouncing on AIA Group Ltd. But with an IPO planned for the first half, he had "zero flexibility." He added: "I would have loved it to be a year or two years later with all those quarters under my belt, go to market with more credibility, but in life you can't always choose when those opportunities come."

While some investors have grumbled that Mr. Thiam is chasing glory by pursuing a big deal, he says it is the other way around. "Would I have delivered my duty if I just sat on this for personal reasons?" he asks. "In the end I guess the answer was that the potential value creation was such that I had to make the case for it."

With all the stumbles in the deal, Mr. Thiam's fast-moving career has suddenly hit a rough patch. Because it would provide access to fast-growing markets in Asia, AIA is a prize he has coveted since September 2008, when he was Prudential's finance chief and AIG teetered on the brink of collapse. AIA, which has been one of AIG's most profitable units, is considered a crown jewel of the beleaguered company, with strong growth prospects. Prudential, a London-based collection of global businesses, gets most of its growth from outside the U.K. market these days.

Reuters

Tidjane Thiam, left, shakes hands with a Prudential staff member in Singapore on a visit that irked some shareholders.

After an initial set of discussions with AIG over AIA fizzled in early 2009, Mr. Thiam wasted little time restarting them after he became CEO. The blitzkrieg approach isn't new for the six-foot-four Mr. Thiam, who was born in the Ivory Coast, the son of a diplomat and sometime journalist. He grew up in France before attending the prestigious Ecole Polytechnique in Paris. One of seven children, he strove to distinguish himself early as a student, attended a top business school and eventually landed a job at McKinsey & Co. in Paris as an insurance consultant.

Mr. Thiam kept close to his homeland. He turned down a job offer from Goldman Sachs Group Inc. in favor of returning to the Ivory Coast, where he became the country's minister of planning in his mid-30s.

In 1998, he was selected as one of 100 "Global Leaders for Tomorrow" by the World Economic Forum, helping put him on the business world's map.

Then chaos struck when there was a military coup in the Ivory Coast in 1999. Though Mr. Thiam was traveling abroad at the time, he returned home, and was put under house arrest. He was offered a job by the new military government after his release a few weeks later, which he turned down. Suddenly, Mr. Thiam found himself without a job. Eventually he returned to McKinsey in Paris.

Mr. Thiam's rapid ascent in the insurance world kicked off in 2002 when he joined British insurer Aviva PLC, rising to head of European operations. Mr. Thiam's prospects for one day getting the top job at Aviva dimmed in the summer of 2007, according to people familiar with the matter, when the company appointed Andrew Moss as its new CEO. A few months later, Mr. Thiam left Aviva, joining Prudential in March 2008 as chief financial officer, despite lacking an accounting or actuarial background. Rumors swirled inside Prudential that the new job was simply a temporary stop on the way to the CEO's office.

Following its rescue of AIG, the U.S. government was looking to raise cash to begin recouping its massive outlay. The sale of AIA would be one of the biggest steps yet toward that goal.

Prudential had once modeled its Asian business on AIA and Mr. Thiam saw the deal as a once-in-a-lifetime opportunity. The combination would enable Prudential to add an army of agents, dramatically boosting its distribution in a region that is brimming with untapped demand.

It would also present the opportunity to slash hundreds of millions in costs per year by combining operations that have significant overlap in 10 different markets. "The notion that we could double our distribution in one move is frankly hard to resist," Mr. Thiam said in the interview in London.

After negotiating for the business through the winter of 2008-2009 Prudential, beset by its own sagging stock price, was forced to walk away from the deal. AIG began to lay the groundwork for an initial public offering of AIA stock instead. An IPO is still a possibility if the Prudential deal falls apart, but it would likely take several months and proceeds would be lower; an IPO was expected to bring in about $15 billion.

Mr. Thiam was meanwhile appointed CEO of Prudential, officially taking over in October and becoming the first black CEO of a FTSE 100 company. By the first quarter, with preparations for AIA's initial public offering in full swing, a resurgence in Prudential stock emboldened Mr. Thiam to try again to seize his prize.

After re-entering negotiations for the deal, Mr. Benmosche, AIG's CEO, summoned Mr. Thiam to New York in the last week of February to present his case to the insurer's board. On the evening of Friday Feb. 26, with a heavy snow falling outside, Mr. Thiam presented Prudential's offer in a nearly three-hour session at the insurer's Manhattan headquarters. He was flanked by his advisers—Jamie Dimon, the CEO of J.P. Morgan Chase & Co., and Brady Dougan, his counterpart at Credit Suisse Group. In a marathon, nine-hour AIG board session the next day, Mr. Benmosche convinced his directors to do the deal. It was "quite an ordeal for him too, " Mr. Thiam said.

Cracks in the deal began to appear immediately, however. Investors reacted to news of the deal by driving down Prudential stock by 19% in two days. They were unnerved partly because, to help pay for the deal, they'd be asked to subscribe to a $21 billion share sale.

They also felt blindsided. Some big shareholders had increased their allocations of Prudential stock as Mr. Thiam successfully helped guide the company through the financial crisis as CFO. Now, some complained that they felt betrayed as Mr. Thiam, as CEO, launched a deal that had a huge negative impact on their increased holdings.

Investors say Mr. Thiam followed up with a series of tactical blunders. As soon as the deal was announced, Mr. Thiam flew to Asia to address employees and regulators there, rankling shareholders who felt they should have been visited first.

Then in March, Société Générale announced that Mr. Thiam was being appointed to its board—drawing a chorus of disapproval from shareholders who felt the Prudential chief had enough on his plate. Prudential quickly said Mr. Thiam would not join the Soc Gen board.

People close to Mr. Thiam say unforeseen circumstances worked against him in the various cases. A leak of the AIA deal accelerated the transaction and short-changed Prudential's ability to give shareholders a heads-up. A person close to Mr. Thiam says he had discussed the board seat with representatives of SocGen in the past but was unaware the bank planned to announce the appointment then and would have declined it if he had known.

And Mr. Thiam maintains that it was the right thing to do to visit employees and regulators first in the wake of the surprise deal announcement.

In the biggest foul-up, the investors say, Prudential was forced to delay by over a week the launch of the rights issue as it scrambled to address objections by the U.K.'s Financial Services Authority over the proposed capitalization of the combined company.

Those missteps made an already difficult deal even tougher, feeding investor concerns about Mr. Thiam's ability to pull off a takeover that involves the complex integration of a business that is roughly one and a half times Prudential's market value. Above all, they are concerned Mr. Thiam is overpaying, especially given the increased global financial and economic uncertainty since the deal was struck.

Mr. Thiam last week explained part of what motivates him: "I always find it a great source of satisfaction when people get to do things they didn't think they could do."

—Serena Ng and Erik Holm contributed to this article.

CONFRONTATION AT SEA

Turkey seeks U.S. solidarity

Associated Press

Turkish Prime Minister Recep Tayyip Erdogan blamed Israel on Tuesday for what he called a "bloody massacre."

By Peter Spiegel

WASHINGTON—Turkey's foreign minister ratcheted up the pressure on the Obama administration to take a tougher stand against Israel on Tuesday, saying he was disappointed by what Ankara regards as a slow and tepid response by the international community to the raid by Israeli forces on a flotilla of Turkish aid ships.

Foreign Minister Ahmet Davutoglu said he expected the U.S. to more strongly condemn the raid and to put pressure on Israel to release all civilians they are holding, points he would raise with Secretary of State Hillary Clinton and National Security Adviser James Jones in meetings later Tuesday. "I have to be frank: I am not very happy with the statement from Washington yesterday," Mr. Davutoglu said in a meeting with reporters. "We expect a clear condemnation."

He spoke after Turkish Prime Minister Recep Tayyip Erdogan told the country's parliament in Ankara that Israel's "bloody massacre" was a turning point in their alliance.

The firm stance taken by Turkey could further complicate an already delicate balancing act the Obama administration is conducting in the region, with the White House needing Turkish support for a new round of sanctions against Iran, among other regional priorities.

Mr. Davutoglu didn't link the American response to the Israeli raid to Ankara's support for the sanctions proposal, which Turkey will vote on as a rotating member of the United Nations Security Council.

But he said his government remained opposed to any new sanctions against Iran before serious consideration is given to a Turkish-negotiated deal struck with Tehran last month in which Iran would ship a large amount of nuclear fuel overseas in return for uranium enriched to levels used in medical research.

Mr. Davutoglu expressed disappointment that it took 11 hours for the U.N. Security Council to produce a statement condemning the raid, a thinly veiled criticism of the U.S., which worked behind the scenes to weaken some of its language. "We expect full solidarity with us," Mr. Davutoglu said of the U.S. response. "It should not seem like a choice between Turkey and Israel. It should be a choice between right and wrong, between legal and illegal."

Mr. Davutoglu called the raid a "criminal act," saying that because it occurred in international waters, the ships were sovereign territory that couldn't be legally boarded. He said that the Turkish government had intervened with the nongovernmental organizations behind the flotilla before they approached Israel in hopes that a confrontation could be avoided, but couldn't directly order the groups to desist.

He said that in discussions with the NGOs, the Turkish government had been led to believe the flotilla would approach only Gazan waters, where they would protest Israel's blockade before moving on to Israeli ports to unload their aid. "We did our best to approach the Turkish NGOs to take this humanitarian aid to other ports," he said. "We cannot control NGOs. Turkey is a democratic country; we can only try to convince."

Asked whether Turkey would send military forces to protect a second flotilla that is reportedly being organized by the same NGOs, Mr. Davutoglu said no decision had been made, but he added he hoped Israel had learned from the incidents not to repeat the raid.

Israel faces more heat as activists counter claims

Continued from first page

Israeli Interior Ministry spokeswoman Sabin Hadad said 682 non-Israelis or non-Palestinians had been accounted for on the flotilla, not including the nine killed in the skirmish. It is unclear how many Israelis and Palestinians were aboard.

Israel was detaining about 600 foreign activists at a jail in the south of the country, he said. They were awaiting legal hearings to determine if they would be expelled from Israel. The procedure would take a few days, the spokesman said.

Another 45 or so activists signed forms waiving the right to that legal procedure and have already left the country, he said. About 40 are still being treated in Israeli hospitals. Israel's foreign ministry also said it would deport about 120 Arab nationals to Jordan later Tuesday night.

The interior ministry said the activists removed from the ships came from 42 countries, including Yemen and Mauritania, the U.S. and Ireland. Britain said 31 nationals and 11 dual-nationals had been detained in the flotilla seizure, including one who had already been deported and one who had been injured.

At several Israeli hospitals, foreigners were under the guard of Israeli security services, and reporters weren't allowed to interview them. At Barzilai Hospital in Ashkelon, many activists had refused treatment, a hospital spokeswoman said. Turkey said it had dispatched three planes to bring back injured Turks.

Israel continued to blame the bloodshed on the activists, who Israel accuses of attacking Israeli commandos early Monday morning as they boarded one of six ships in an aid flotilla that had intended to run Israel's blockade of Gaza. They said soldiers used guns only in self-defense, after being attacked by knives, metal poles, chairs and, in at least one instance, after a soldier's gun was taken from him and turned on the Israelis.

Mark Regev, spokesman for Israeli Prime Minister Benjamin Netanyahu, said a group of "hard-core activists" on one of the ships was responsible for the violence, throwing Molotov cocktails at the approaching naval ships and attacking boarding Israeli soldiers with iron bars and other weapons. "They were under a direct threat to their lives," said Mr. Regev in a conference call with reporters Tuesday.

But as Israel began releasing activists, some began publicly challenging that version of events. However, a full picture of the events on the ships has yet to emerge.

Hanin Zoabi, an Arab member of Israel's parliament and a passenger on the Mavi Marmara, the ship where Israel said the violence took place, held a news conference Tuesday in Nazareth, accusing the military of a premeditated attack.

"Israel prepared, expected and planned these results," she said. "Israel wasn't surprised."

She said her fellow activists weren't armed and accused the Israeli navy of opening fire before boarding ships, in order to terrorize the activists. But she also said she was one deck below when the clashes broke out, and she saw little to none of what transpired when the fighting started.

At a news conference in Berlin, German activist Norman Paech said the Israelis weren't provoked. "I saw 2½ wooden sticks," Mr. Paech said. He said he didn't see any knives, axes or iron rods, as some Israeli media had reported early Monday. "To speak of an act of self defense, as the Israelis are doing, is a joke," he said.

Meanwhile, Egypt said it would open up its typically closed land border with Gaza for humanitarian purposes. The crossing remained closed to the general public.

Egypt opens the border from time to time. Egyptian President Hosni Mubarak has faced growing domestic opposition to his policy of keeping the border shut. Both Israel and Egypt enacted a de facto blockade of the territory after the Palestinian militant group Hamas took over in 2007.

Egypt's move could add to growing international pressure on Israel to modify its own blockade. Human-rights activists say European governments—despite their general, public opposition to the blockade—haven't put adequate pressure on Israel to lift the ban.

Critics say the blockade strengthens Hamas by creating an underground economy based on smuggling tunnels to Egypt, which Hamas has started to tax. Israel's seemingly heavy-handed enforcement is also a public-relations coup for the group, critics say.

Israel has justified the blockade as impeding the smuggling of weapons and anti-Israel fighters into the territory, controlled by what Israel has declared a "hostile entity."

On Tuesday, officials indicated they had no intention of bowing to international pressure. Mr. Netanyahu defended the naval blockade at a meeting of cabinet ministers, saying it prevents weapons smuggling to Gaza from Iran and Hezbollah, the Lebanon-based militant group.

"It's true that there is international pressure and criticism regarding this policy," he said. "But we must understand that it is essential to maintaining Israeli security and the right of the state of Israel to defend itself."

Israeli Deputy Foreign Minister Danny Ayalon said in an interview Tuesday with The Wall Street Journal that Israel is fighting an "uphill battle" on the diplomatic front since the incident and that growing comments from Western leaders against the blockade "means we have to redouble our efforts" in explaining to Israel's allies why abandoning the blockade would be a "hasty and premature step."

"The blockade is still necessary to prevent Hamas from killing, and destabilizing the situation in the area," he said.

The European Union has long called for the blockade to end, but as a member of the so-called Mideast Quartet—which also includes the U.S., Russia and the United Nations—it has shied away from raising the issue, according to some analysts. But after the flotilla incident, that opposition could harden, said a Western diplomat in the region.

On Monday, Britain issued blunt calls for Israel to change its policy. British Prime Minister David Cameron called Mr. Netanyahu Monday evening. He said he "deplored the heavy loss of life" and "stressed the importance of urgently lifting the blockade of Gaza," according to an account of the call released by the U.K.

—Laura Stevens in Berlin, Alistair MacDonald in London, Peter Spiegel in Washington and Ashraf Khalil in Cairo contributed to this article.

Associated Press

Israeli port workers Tuesday display toys seized from a boat in the Gaza flotilla.

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EUROPE NEWS

U.S. to push Europe on stress tests

Washington wants Continent's banks to disclose results of examinations to calm worries over financial system

By Michael M. Phillips
And Marcus Walker

The U.S. intends to urge Europe to disclose publicly the results of bank stress tests as a way to calm jitters over the health of the Continent's financial system, U.S. officials said.

Worries about Greece's ability to repay its debt, and concerns about the stability of Spain and Portugal, provide a sobering backdrop at the gathering this week in Busan, South Korea, of finance ministers and central bankers from the Group of 20 industrial and developing nations. U.S. officials said they are convinced that by publicly demonstrating the strength of its banks and promising to solidify those that prove weak, Europe might help stem the crisis of confidence.

Market participants are concerned that European banks' books are laden with potentially shaky assets, such as Greek or Spanish government bonds

"This crisis is multifaceted, but I believe bank stress tests can be helpful as a critical component of any comprehensive plan to restore confidence in the European financial system," said Lee Sachs, who was, until a month ago, a top adviser to Treasury Secretary Timothy Geithner.

European banking supervisors performed stress tests on the region's banks last year and plan to repeat the exercise this year. But they have declined to publicize the results for individual banks. European Union officials said national regulators already are well aware of the health of their banks.

"You don't need a stress test to tell you what would happen if Spain became bankrupt; it would be horrible," one German official said.

When U.S. regulators tested the resilience of 19 major bank-holding companies in 2009, they found that 10 of the companies required a total of $75 billion to reinforce their balance sheets. The stress tests and subsequent capital raisings by some banks were seen as helping the U.S. pull out of the financial crisis.

In a speech in May, Federal Reserve Chairman Ben Bernanke said the stress tests "helped restore confidence in the banking system and broader financial system, thereby contributing to the economy's recovery." Fed governor Kevin Warsh is expected to stand in for Mr. Bernanke and join Mr. Geithner at the Busan meetings.

Stress tests are designed to determine what would happen to a bank's balance sheet in the face of a traumatic event, such as a sharp drop in economic growth or a default by a major borrower.

During the height of the global financial crisis, the Europeans said their banks weren't as heavily exposed as U.S. institutions to problem assets such as mortgage-backed securities. Nevertheless, a number of countries, including the U.K., Spain and Germany, bailed out banks.

Now, market participants are concerned that European banks' books are laden with potentially shaky assets, such as Greek or Spanish government bonds and loans to businesses in countries facing economic woes.

"The Europeans are in pretty heavy denial and have been all along about the state of European banks," said Ted Truman, a former senior Treasury Department official who is now at the Peterson Institute for International Economics in Washington.

Mr. Geithner is loath to appear to hector his European counterparts, especially given the opposition to the idea. The U.S. has been urging bank stress tests on European officials for some time, but the European crisis has given the Americans a sense of urgency.

Action Press/Zuma Press

Treasury Secretary Timothy Geithner is wary of appearing to hector Europe on the issue

The French central bank appears amenable to the idea, but Germany has been Europe's leading opponent of publicly disclosing the results of stress tests. German officials argue the U.S. tests were little more than public-relations stunts, designed so that banks would pass.

Euro-zone leaders said a default by a country has no chance of happening, thanks to the nearly $1 trillion bailout fund agreed to by the 27-nation EU and the International Monetary Fund. Publishing the results of stress tests that postulate a Spanish default, for instance, would damage the bailout's credibility, officials said.

U.S. officials want the Europeans to clarify whether they would use the big bailout fund to prop up banks or just national governments.

Stress tests are linked to another major item on the G-20 agenda: negotiating stricter international standards for how much capital banks must keep in reserve. President Barack Obama and other G-20 leaders have promised to come up with such rules by the end of the year. But agreement has proved elusive, with the U.S., France, Germany and other nations unable to agree on what constitutes sufficient capital.

The meeting in Busan is intended to prepare the economic part of the agenda for the G-20 leaders' summit in Toronto in June.

—Nathalie Boschat contributed to this article.

Pharmacists shun Greece

By Nick Skrekas

ATHENS—Pharmacists in and around Athens on Tuesday cut credit to people covered by public health and pension fund OPAD—a blow to the country's near-bankrupt social security system that owes hundreds of millions of euros to pharmacies and drug makers.

OPAD, which covers public servants and pensioners from the public sector, is completely dependent on the state for financial support as it doesn't have its own assets or funds. As of Tuesday, Athens pharmacies will require anyone covered by the fund to pay cash for their medicines.

"We haven't been paid since October 2009 from OPAD and now we are being asked to pay tax on earnings we haven't collected, so we demand a set-off between their obligations and our taxes, or that we are paid as soon as possible so we can remit the taxes," said Kostantinos Lourandos, president of the Attica Pharmacists Association.

According to the association's estimates OPAD—and therefore the state—owes €100 million ($123 million) to pharmacists in Athens and the surrounding Attica region and more than €300 million across Greece.

Tuesday, Health Minister Marilisa Xenogiannakopoulou said the state transferred €168.75 million to OPAD.

Mr. Lourandos said: "We believe that this situation may be resolved soon, but we also want assurances for the future, because we don't want to be forced to take similar action periodically. We need a permanent solution to this persistent problem."

Debt-ridden Greece has to cut its spiraling medical bill to meet deficit-reduction efforts imposed by the International Monetary Fund and the European Union in exchange for a €110 billion bailout. In 2009, Greece spent €11 billion on health and pension funds and has budgeted €10.2 billion for this year, but the reduction seems somewhat optimistic.

As part of the debt-reduction effort, the government is attempting to impose a flat rate 25% cut in pharmaceutical prices. Additionally, the Greek state already owes many millions of euros to companies that it has failed to pay.

Following the announcement of the price cut Danish group **Novo Nordisk** AS, which says it is owed $36 million by Greece, said it was pulling 17 types of medication for treating diabetes from the Greek market. Fellow Danish company **Leo Pharma** also suspended distribution of an anti-blood-clotting agent and a remedy for psoriasis.

Both companies say their Greek operations would become unprofitable if they drop their prices so significantly, and fear such a move would affect their pricing across other European markets.

"At the moment there is no clear understanding of the net cash position of Greek health, social security and pension funds," said a local senior economist speaking on condition of anonymity. "But one solution for the state would be to issue zero-coupon bonds for durations of one to three years to pay off these debts, as they recently did with the hospital system."

Italian bond insurance reaches record levels

By Art Patnaude

The cost of insuring debt issued by European sovereign borrowers continued to rise on fresh fears that the debt crisis affecting some Southern European nations may spread further.

The downgrade of Spain's credit rating by Fitch Ratings after European markets closed on Friday combined with a warning from the European Central Bank Monday night that euro-zone banks face an estimated €195 billion ($240 billion) in write-downs this year and next, pressured the already fragile sentiment surrounding Europe.

As a result, the annual cost of insuring $10 million of Italian government debt against the risk of default for five years climbed to a record $250,000, or $49,000 more than Friday's close, according to data provider Markit.

The cost of insuring the debt of other heavily indebted nations also climbed. Credit default swaps on Spanish debt were 0.47 percentage point wider at 2.65 percentage point, while the level on Portuguese debt was 0.45 percentage point wider at 3.50 percentage points.

CDS are tradable, over-the-counter derivatives that function like a default insurance contract for debt. Swap buyers may be protecting investments they own or simply making bearish bets against companies or countries.

The cost for Greece default insurance rose $60,000 to $720,000, and Irish insurance rose $37,000 to $265,000.

The yield premium demanded to hold Greek 10-year government debt instead of that from Germany, considered the euro-zone benchmark widened to 5.27 percentage point from 5.05 percentage point at the opening. One Greek trader cited Germany's continued criticism of the European Central Bank's strategy of buying government bonds and whether it is a stealth bailout of euro-zone banks that hold Greek debt.

—Nick Skrekas in Athens contributed to this article.

EUROPE NEWS

Germany's economy gains steam

Unemployment falls and manufacturing is poised to rise, highlighting divide in euro zone

By Brian Blackstone And Laura Stevens

FRANKFURT—Germany's economy appears to be gaining steam despite mounting worries the fiscal troubles in countries along the euro-zone's fringe could undermine Europe's recovery.

Germany's economy, the driver of the European economy, is likely to expand at a 3% to 4% rate this quarter, economists say, a forecast supported by a string of strong reports on employment, consumer spending and manufacturing Tuesday. Lower interest rates and a weaker euro have propelled Germany's investment and export-driven economy.

The recovery could still falter, analysts warn. Just as the U.S. subprime-mortgage crisis thwarted Germany's expansion two years ago, Europe's brewing financial contagion could hamper growth if German banks face extensive losses and are unable to extend credit to industry and households. Other countries in Europe face years of weak growth or recession, making Germany vulnerable to any slowdown in markets including China or the U.S.

Still, while the German public was strongly opposed to rescuing Greece, and its central bank is openly at odds with the European Central Bank's decision to purchase Greek and other struggling countries' debt, from an economic standpoint it has little to complain about.

"As a firm, we're always one of the very first to experience the first effects of a crisis," says Dietmar Ahl, chief executive of **Günther Bechtold** GmbH, a Bavaria-based sheet-metal processor and manufacturer. "That also has the benefit of making us one of the first to see a recovery. And that's what's happening right now."

Business should be up 25% this year, Mr. Ahl says, after falling almost 50% between 2007 and 2009. The company has been able to add some temporary workers to its 66-person staff.

German unemployment fell 45,000 in May, more than twice the drop expected by economists, bringing the unemployment rate down to 7.7%, the lowest since December 2008. The EU-harmonized figure is even lower at just over 7%.

The German numbers highlight the divide between its economy and that of the greater euro zone. The European Union's Eurostat agency said Tuesday that unemployment across the 16 countries that share the euro rose to 10.1% in April, its highest level in 12 years, driven by increases in Spain, Portugal, Ireland and Italy. But Eurostat said there are signs the jobless rate may be close to peaking after only 25,000 people joined jobless queues in April, the second-smallest increase since March 2008.

German manufacturing slowed in May, according to purchasing manager reports released Tuesday by Markit, but continues to expand at a healthy pace. Factory output slowed more markedly in the euro zone as a whole, highlighting the region's fragility.

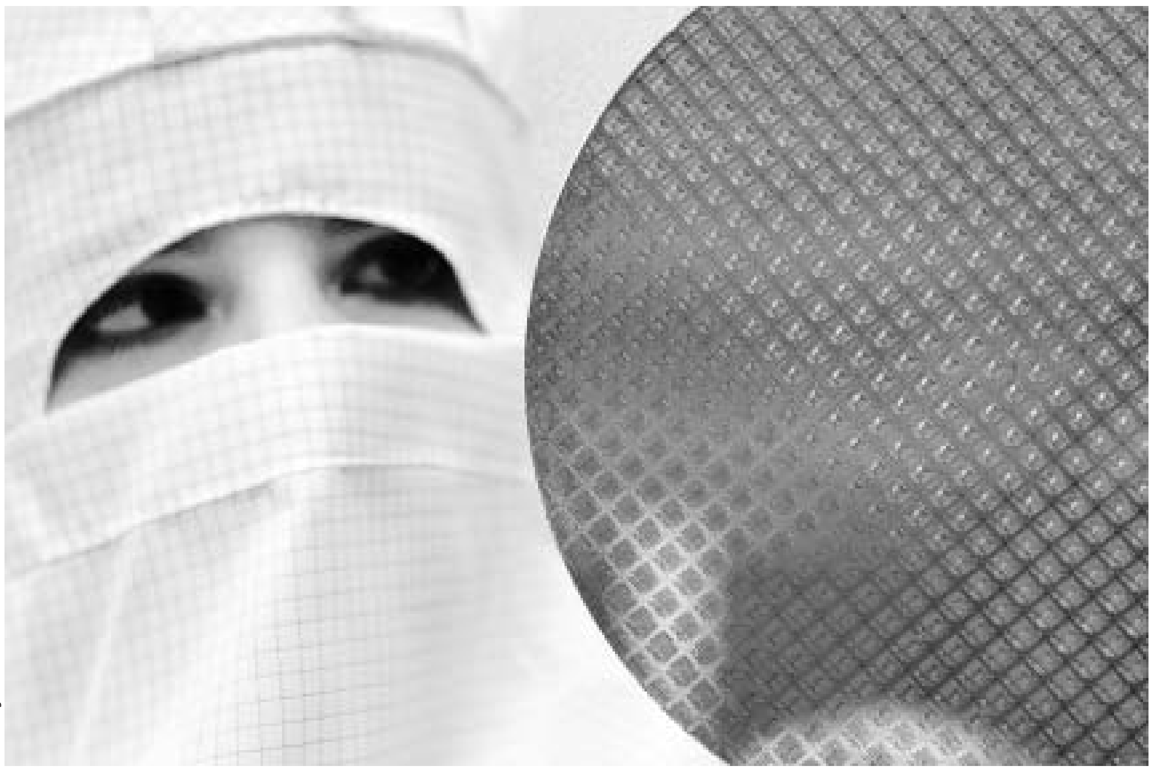
"The short-term outlook is very favorable" for Germany, said Alexander Koch, economist at UniCredit Group. He thinks Germany's GDP could swell 4%, at an annualized rate, this quarter. "The momentum is strong, which bodes well for the labor market in coming months," Mr. Koch says.

J.P. Morgan Chase expects Germany's GDP to expand 3% this quarter, though that could be revised higher in light of recent data, economist Greg Fuzesi says. That should propel euro-zone growth to around 3% this quarter as well, Mr. Fuzesi says. GDP in the currency bloc advanced just 0.8%, at an annualized rate, last quarter, well below growth rates seen in the US and developing countries such as China and India.

The total number of German unemployed fell last month to 3.24 million. It was once feared that unemployment would top four million or even five million. The labor market is one area where Germany has outperformed the U.S., where the jobless rate is 9.9% despite strong economic growth at the end of 2009 and early 2010.

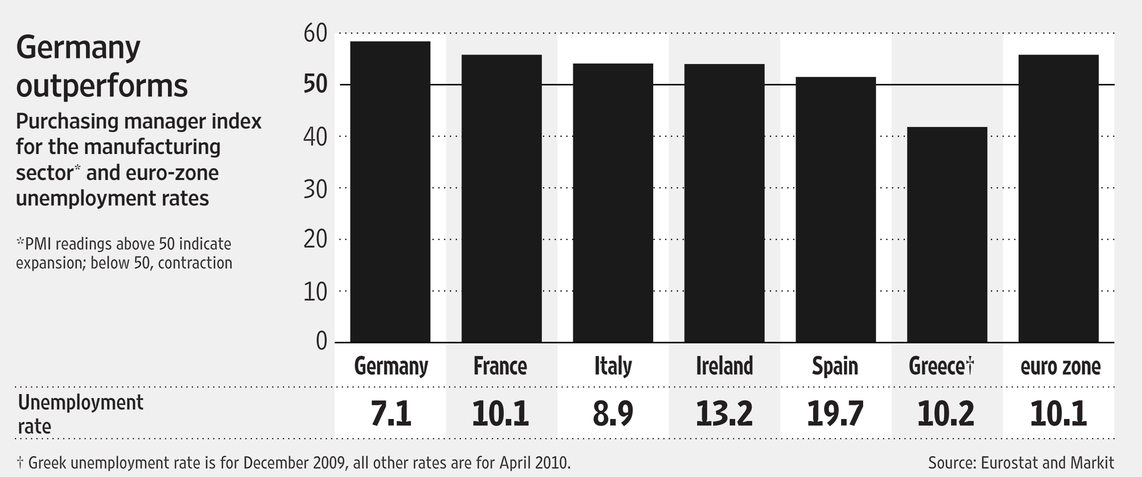
Among the forces at work here, economists say: The Germany statistics office changed how it classifies unemployed people who are using employment agencies, reducing the reported numbers of unemployed. State subsidy programs aimed at keeping people in their jobs by paying part of their wages and employment taxes kept as many as 500,000 from going on the jobless rolls, some economists estimate.

—Nicholas Winning in London contributed to this article.



Bloomberg News

German firms like Infineon (where a worker, above, examines a semiconductor wafer) expect manufacturing to expand.



Clegg, Cable offer support to new No. 2 at Treasury

By Ainsley Thomson

LONDON—Deputy Prime Minister Nick Clegg and Business Secretary Vince Cable expressed support for Danny Alexander, describing the newly appointed chief secretary of the U.K. Treasury as "extremely gifted" and "exceptionally able."

Mr. Alexander's appointment Saturday, as the second in command at the Treasury, has met with criticism for his perceived lack of economic experience. His appointment came after fellow Liberal Democrat David Laws resigned over allegations he had broken parliamentary rules by claiming as expenses £40,000 (about $58,000) he had paid his lover in rent and other housing costs.

Mr. Clegg, also a Liberal Democrat, defended Mr. Alexander's appointment, calling him "extremely gifted" and saying the 38-year-old was "as determined as anybody else" to tackle the financial crisis.

"The partnership between [Chancellor of the Exchequer] George Osborne and Danny Alexander is an excellent one. They will now set to work to fill this black hole so we have sustainable public finances and we can do the good things that this coalition government wants to do in the years ahead," Mr. Clegg told the BBC. He added that Mr. Alexander and the rest of the government should be judged by the emergency budget on June 22 and by what happens to public finances in the years ahead.

Mr. Alexander's first days in office have also been marred by a newspaper's allegation that he had avoided paying capital-gains tax on the sale of his former London home. Mr. Alexander has insisted that he had acted within the law.

Reuters

Danny Alexander in London Tuesday.

Polish president was consulted before plane crash

By Marcin Sobczyk

WARSAW—Pilots of the plane that crashed in April killing Poland's president and scores of other public figures indirectly communicated with President Lech Kaczynski as they tried to decide whether the plane should attempt a landing at a fog-shrouded airport in Smolensk, Russia, or divert to another landing field, according to a transcript of cockpit conversations.

About 15 minutes before the plane crashed, Mariusz Kazana, the Polish foreign ministry's protocol chief, entered the cockpit and was told by the captain that a landing at Smolensk would be impossible because of limited visibility.

The captain then suggested he would try to land the plane, but if it proved too risky, he asked Mr. Kazana what he should do next.

Mr. Kazana replied: "We have a problem, then," according to the transcript.

Four minutes later, Mr. Kazana told the crew: "There's no decision yet from the president about what to do next." No further conversation between the crew and Mr. Kazana was recorded.

The transcript showed the pilots ignored repeated automated warnings that they were about to hit the ground, and appeared to recognize only in the last seconds of the flight that they would crash.

The transcript fills out some details of the accident amid questions about whether the president or someone in his delegation pressured the pilot to ignore advice from the ground and try to land the plane.

Mr. Kaczynski, his wife, the head of Poland's central bank and other dignitaries were on their way to attend a ceremony commemorating the deaths of thousands of Polish soldiers killed during World War II. Their plane slammed into the ground a kilometer short of the runway, killing all 96 people aboard.

In the 11 minutes that followed Mr. Kazana's words on the president's reaction, the pilots were busy managing the plane's descent to Smolensk. About one minute before the crash, the plane's terrain proximity warning system sounded its first alarm. But the plane continued to descend as pilots apparently ignored two more warnings as well as automated commands to "pull up."

Thirteen seconds before impact, the co-pilot said the plane would divert to another landing strip. But the aircraft continued its descent, eventually hitting trees, including one that sheared off part of the left wing and sent the plane spinning. The transcript says the last audible sounds from the crew were shouts and curses in Polish.

U.S. ramps up probes into oil spill

Obama outlines scope of special commission as Justice Department launches civil and criminal investigations

By Jared A. Favole

WASHINGTON—President Barack Obama said Tuesday he wanted his new oil-spill commission to thoroughly investigate the catastrophic Gulf oil spill, as frustration continued to build about the government's response and investors shaved billions off **BP** PLC's market value in response to a failed attempt to plug the leak over the weekend.

"In doing this work, they have my full support to follow the facts wherever they may lead," Mr. Obama said in the White House Rose Garden after emerging from a meeting with the co-chairmen of the National Commission on the BP Deepwater Horizon Oil Spill.

He said if laws were broken, justice would be done. He also said the federal government was monitoring the situation minute-by-minute.

In another sign of intensifying pressure on BP, U.S. Attorney General Eric Holder said Tuesday that the Justice Department was launching civil and criminal probes into the spill.

Getty Images

Mr. Obama on Tuesday with co-chairmen of the oil-spill commission Bob Graham, right, and William Reilly, left.

"We must ensure that anyone found responsible for this spill is held accountable," Mr. Holder said. "If we find evidence of illegal behavior, we will be forceful in our response."

He was in the Gulf on Tuesday to meet with state attorneys general and U.S. prosecutors based in the region.

Mr. Holder wouldn't specify which companies or individuals might be targets of the probe, the Associated Press reported, but Justice Department lawyers are examining BP's conduct before and after the disaster.

Mr. Holder said federal clean air and pollution laws gave him the power to open the investigations.

Since the April 20 explosion aboard the Deepwater Horizon drilling rig, BP's well deep in the Gulf of Mexico has spewed more oil into the water than the 1989 crash of the Exxon Valdez in Alaska, becoming the worst oil spill in U.S. history.

Mr. Obama said the commission would report back to him in six months on the causes of the spill, the government's response and what changes were needed to oil regulations to prevent a repeat of the disaster.

"Only then can we be assured deep-water drilling can be done safely," he said after noting that he had halted exploratory deep-water drilling along the Gulf coast for six months, while the commission conducts its investigation.

He said he told the panel's chairmen to hold hearings on the disaster, and to involve officials from BP, **Halliburton** Co. and **Transocean** Ltd. Mr. Obama had earlier chastised the three companies for pointing fingers at one another during congressional hearings into the disaster.

The chairs of the commission are former Sen. Bob Graham and former Environmental Protection Agency Administrator William Reilly. Mr. Obama said he would name five other members to the panel soon.

Shares of BP dropped nearly 13% Tuesday, cutting the London-based company's market value by about $18 billion as investors digested news that a procedure to plug the oil well with heavy mud failed despite early signs of success.

Mr. Obama traveled to Louisiana on Friday to survey the disaster and the federal government's cleanup efforts amid growing criticism the government hasn't done enough.

Mr. Obama said over the weekend that he was outraged that the mile-deep well continued to leak roughly half a million gallons of oil daily and that attempts to plug the leak continue to fail.

A new maneuver BP is attempting this week has never been tried at such depths and Mr. Obama cautioned over the weekend that the latest move will be difficult and take several days.

Frustrations over the disaster appear to grow daily as it persists, despite proclamations from the government and BP that the best-and-brightest minds are working to solve the crisis.

The Obama administration has taken a tough approach to dealing with BP, and over the weekend officials clashed with the British oil giant.

Administration officials said the latest attempt to stop the leak, which involves placing a large cap on the well and redirecting the oil, could increase the flow by 20% temporarily despite suggestions from BP that the new move posed little risk.

White House Press Secretary Robert Gibbs said that BP had not been forthcoming about the danger that the attempt might cause oil to leak faster, Associated Press reported.

Meanwhile, U.S. Coast Guard Rear Adm. Mary Landry is stepping down from her role as federal on-scene coordinator for the oil spill response to lead the agency's preparations for hurricane season, the Coast Guard said Monday.

—Angel Gonzalez contributed to this article.

BP made late tweaks to design

Just a week before the Deepwater Horizon exploded, **BP** PLC asked regulators to approve three successive changes to its oil well over 24 hours, according to U.S. records reviewed by The Wall Street Journal.

By Russell Gold, Ben Casselman and Maurice Tamman

The unusual rapid-fire requests to modify permits reveal that BP was tweaking a crucial aspect of the well's design up until its final days.

One of the design decisions outlined in the revised permits, drilling experts say, may have left the well more vulnerable to the blowout that occurred April 20, killing 11 workers and leaving crude oil gushing into the Gulf of Mexico.

The U.S. Minerals Management Service approved all the changes quickly, in one instance within five minutes of submission.

New information about the well has become public as BP has faced increasing pressure from government officials and Gulf Coast residents frustrated over the protracted spill, now the worst in U.S. history.

With the failure of its "top kill" effort to stop the leak, BP is returning to its strategy of trying to corral the oil, sucking it up from the well a mile below the surface. BP has begun the risky step of cutting off a bent pipe into the well. Undersea robots will then try to attach a siphon device to the wellhead.

Coast Guard Adm. Thad Allen, the national incident commander, on Tuesday said BP was making its first major cut with super sheers that weigh about 20,000 kilograms. The company will also use a powerful diamond-edge cutter to try to make a clean cut above the blowout preventer, then will lower a cap over it with a rubber seal, according to the Associated Press.

It could be as many as three days before the oil can be siphoned to the surface, Adm. Allen said.

Both BP and the MMS have faced growing scrutiny from congressional investigators looking into the Deepwater Horizon disaster and resulting oil spill. Last week, a Wall Street Journal investigation found that BP had made a series of choices that made the well more vulnerable.

BP's flurry of revisions and re-revisions stands out as uncommon. Of the more than 2,200 wells drilled in the Gulf since 2004, only 5% have had multiple permit revisions submitted to the MMS within one calendar day, according to a Wall Street Journal analysis of MMS records.

In only one other case, a 2005 well drilled in just 15 meters of water, has a company submitted three revisions within 24 hours, as happened on BP's well. BP's well was in about 1,500 meters of water, which has made dealing with the well far more complicated. BP declined to comment on the permit changes. Rig operator **Transocean** Ltd. didn't respond to a request for comment.

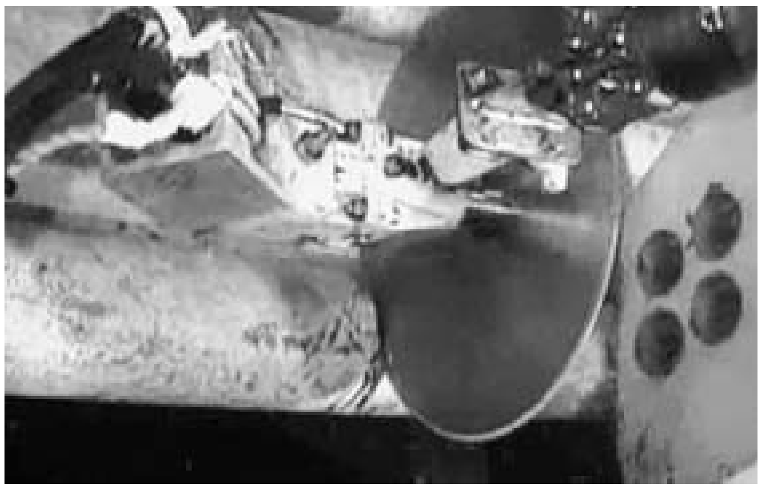
The MMS declined to comment, citing the continuing investigation into the causes of the disaster.

By April 14, when BP filed the first of three permits that would later be amended, the London-based oil company had already faced many problems with the well, including losing costly drilling fluid and fighting back natural gas that tried to force its way into the well.

The problems had caused BP to use eight pieces of steel pipe to seal the well, rather than the planned six pieces. The permit filed on April 14 dealt with the eighth and final section, which hadn't yet been installed.

BP had hoped to get a 9 7/8-inch pipe—big enough to handle a lot of oil and gas—into the reservoir. But for the final section, the largest pipe they could fit was a 7-inch pipe. The company had to decide whether to use a single piece of pipe that reached all the way from the sea floor down to the oil reservoir, or use two pipes, one inside the other.

The two-pipe method was the safer option, according to many industry experts, because it would have provided an extra layer of protection against gas traveling up the outside of the well to the surface. Gene Beck, a longtime industry engineer and a professor at Texas A&M University, said the two-pipe method is "more or less the gold standard," especially for high-pressure wells.



Reuters

Technicians use a robotic saw at the site of the Deepwater Horizon oil leak.

But the one-pipe option was easier and faster. BP was spending about $1 million per day to operate the Deepwater Horizon.

In an April report, a BP engineer concluded that the one-pipe option was the "best economic case" despite having "some risk" of leaving an open path for gas to travel up the outside of the well. The two-pipe option, the report said, would provide an extra barrier against gas but would only be used if "stability problems" or other issues arose.

On April 14, at 8:34 p.m., BP informed the MMS that it planned to use the one-pipe method, using a single 7-inch-wide pipe for the length of the well. The MMS approved the permit at 8:13 the next morning, according to federal records. At 9:54 a.m. on April 15, BP filed another permit informing the MMS of a correction. Rather than using a 7-inch-wide pipe the whole way, it planned to run a tapered pipe that was wider at the top than at the bottom. This was approved by the MMS seven minutes later.

Then, at 2:35 p.m., BP filed another revision. This one informed the MMS that it had "inadvertently" omitted mention of a section of pipe already in the well. Four and one-half minutes later, the MMS approved this permit, also.

—Stephen Power contributed to this article.

U.S. NEWS

Associated Press

Scott Wilkerson assembles an electric vehicle in April at the headquarters of Club Car Inc. near Augusta, Ga.

Exports aid factories

Strength of developing nations reduces impact of Europe's woes

By Justin Lahart And Kris Maher

U.S. manufacturing grew at a brisk pace last month, drawing strength from export orders that continue to expand rapidly despite Europe's financial woes.

The Institute for Supply Management said Tuesday that its index based on a survey of purchasing managers came in at 59.7 in May, down slightly from April's 60.4. Any reading over 50 indicates that manufacturing is expanding.

Zach Pandl, an economist at Nomura Securities International, said the report "shows us the recovery is quite durable at this point and is unlikely to be significantly damaged by turmoil in financial markets."

Economists have worried that Europe's difficulties could stunt or reverse the global recovery now under way. This is especially worrisome at a time when economies, including that of the U.S., are counting on exports to help fuel their own growth.

After getting hit hard by the recession, U.S. manufacturing has bounced back strongly over the past year. Orders have been expanding to the point that some companies, particularly in the technology sector, have begun to complain of shortages of electronics and other components. In addition, manufacturers have begun hiring and buying capital equipment to meet demand.

Much of that demand has been coming from abroad. Within the manufacturing report, an index of export orders rose to 62 in May—its highest level since 1988—from 61 in April.

"We've got orders coming in from Europe, we've got orders coming in from Japan, China, India and Russia," said Michael Zimmer, president of **Cyril Bath** Co., of Monroe, N.C. "They're coming in fast and at record levels."

The company, which builds machines used in the aircraft industry and also sells airframe components, has so far seen little fallout from Europe's financial crisis. The jet-engine makers that Cyril Bath counts among its customers are stepping up production as Boeing Co. produces its 787 Dreamliner and Airbus prepares for its competing A350.

The biggest challenge that Europe's crisis poses to U.S. manufacturers like Cyril Bath is through the euro, Mr. Zimmer said. Since the start of the year, the euro's value has fallen substantially against the dollar. That makes it easier for European companies to compete with their U.S. counterparts on prices. In part because of the decline in the euro, Cyril Bath has recently shifted some production to a sister company in Nantes, France.

In Europe, the financial crisis's effect on manufacturing activity has been modest so far. On Tuesday, survey firm Markit Economics reported that its purchasing managers' index for the 16 countries that use the euro fell to 55.8 in May from 57.6 in April. As with the U.S. index, anything over 50 signals growth.

Even though **Jagemann Stamping** Co. hasn't seen a sharp drop-off in business, company executives are concerned about its exposure to Europe.

"We're still seeing solid order rates, but new order rates have slowed as the dollar has continued to strengthen," said Ralph Hardt, president of the Manitowoc, Wis., maker of fuel-systems components. "Europe is definitely slowing down."

Jagemann has tightened its credit policies for some customers in Europe, demanding payment within contract terms and asking for parent-company guarantees. Exports account for about 35% of Jagemann's sales, with 15% of its sales going to auto suppliers in Europe, including Germany, the Czech Republic, Poland and Spain.

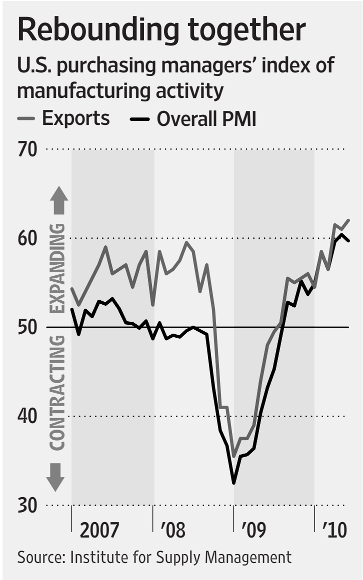
Rising commodity prices are a bigger concern for him than currency issues, Mr. Hardt said. He estimated that his costs for stainless steel and aluminum—the biggest inputs for the fuel systems Jagemann makes—were up 30% to 50% year-over-year.

Any slowdown in Europe may be offset by growth in developing nations like China and Brazil.

Strong demand from Asia for products like big excavators used in the mining and energy sectors is fueling export growth at **Caterpillar** Inc., the world's largest maker of heavy equipment. In the first quarter, Caterpillar recalled or hired 1,500 workers, including 600 in the U.S., to meet increasing orders, including at a plant in Lafayette, Ind., that makes diesel engines used in the natural-gas industry, and at a Decatur, Ill., plant that makes large mining trucks. "For some of our large mining trucks, we're already sold out for the year," said Jim Dugan, a Caterpillar spokesman.

Deere & Co., of Moline, Ill., likewise sees uneven global demand, with farm-machinery sales expected to increase 25% in South America, driven by Brazil and Argentina, which are benefiting from strong commodity prices for soybeans and sugarcane, government financing and improved weather.

When it reported results last month, the company said that even though sales in Central Europe and among former Soviet republics would "remain under pressure as a result of challenging economic conditions," it expected an increase of 9% to 11% in world-wide sales overall for 2010 in its agriculture and turf division, which makes harvesting machines used on farms and residential riding mowers.



Chicagoans wonder: Is Blagojevich nuts?

By Doug Belkin

Associated Press

The trial of former Illinois Gov. Rod Blagojevich, shown here in April at the Federal Court building in Chicago, is scheduled to begin Thursday.

CHICAGO—In the 19 months since his arrest on corruption charges, former Illinois Gov. Rod Blagojevich has been fired by Donald Trump on television, portrayed himself as a Christ figure in a Second City satire and impersonated Elvis Presley for cash.

Mr. Blagojevich's campaign to recast his public image from ousted politician to uncensored celebrity has inspired a spirited back-and-forth in his hometown. With his trial slated to begin June 3, Chicagoans are now hoping for an answer to the question many of them are asking: "Is Blago nuts?"

The question pits those who think Mr. Blagojevich is crazy like a fox—casting himself as a likable celebrity and trying to influence prospective jurors—against those who think he is just plain crazy. At stake: a 20-year federal sentence.

"Clearly, he has made a very calculated decision," said Leonard L. Cavise, a law professor at DePaul University in Chicago who falls into the former category. "He decided that he has the persuasive ability to be able to turn public opinion around."

Mr. Blagojevich, 53 years old, says his motivation is a combination of financial hardship and moral indignation. "I'm an honest man who has been falsely accused," he said in a recent interview. "I'm outraged this could happen...I'm fighting back."

Last summer, Mr. Blagojevich, an Elvis Presley fan, accepted $10,000 to sing "Treat Me Nice" at a downtown Chicago party. He has discussed prison rape and breast size with Howard Stern. One interviewer asked him to do his impression of Richard Nixon saying, "I am not a crook." Mr. Blagojevich declined.

Last June, Mr. Blagojevich made an appearance as himself at Second City's satirical "Rod Blagojevich, Superstar!" In the opening scene, he rose above the stage, arms outstretched, as cast members sang: "Rod Blagojevich Superstar, are you as nuts as we think you are?"

"It was as surreal a moment as there has ever been in Chicago theater," said co-writer T.J. Shanoff.

Mr. Blagojevich's need for a public makeover began Dec. 9, 2008, when he was arrested after federal prosecutors secretly recorded 500 hours of conversations that they allege show he was involved in a "political corruption crime spree." The capstone was an alleged plot to sell the U.S. Senate seat vacated by President Barack Obama. Mr. Blagojevich infamously described the opportunity to make the appointment as "f—ing golden."

Mr. Blagojevich insists he was going to hand the Senate seat to a rival, Illinois Attorney General Lisa Madigan, in exchange for the passage of a jobs program by her father, Speaker of the Illinois House Michael Madigan. In his memoir, Mr. Blagojevich writes that this constituted an epic political sacrifice that prompted him to repeatedly ask himself the question "How much do I love the people of Illinois?"

For days after the charges, Mr. Blagojevich was silent. "Those were dark days for me," he said. "It was like I got sucker punched." Then, the two-term Democratic governor made a sharp pivot, called a press conference in which he quoted Rudyard Kipling and swore to fight the allegations until his last breath.

During his impeachment, he made the rounds of talk shows in New York. He then flew to Springfield to deliver a 45-minute speech to the state senate, which voted 59-0 to remove him from office. A few months later, Mr. Blagojevich published his autobiography. At one book event, he signed a copy of the U.S. Constitution near the 17th amendment, which covers the appointment of senators: "Always remember that the rule of law is sacrosanct, nay it is more—it is fn golden."

When a judge wouldn't let him leave the country for an appearance on the reality television show "I'm a Celebrity... Get me Outta Here," his wife, Patti, went in his place. On one episode, she ate a tarantula. The sight made the couple's then-6-year-old daughter cry but filled him with pride, Mr. Blagojevich said.

"It's the kind of thing a loving mother does for her family," he said.

A few weeks later, Mr. Blagojevich told Esquire magazine he was "blacker than Barack Obama," a comment for which he quickly apologized. In April, he called U.S. Attorney Patrick Fitzgerald, the prosecutor bringing the charges against him, a liar and a coward in a press conference that he called.

He said he regretted none of his public appearances or remarks.

One of Mr. Blagojevich's attorneys quit the case, saying the governor refused to listen to him. A current attorney, Sam Adam Jr., was quoted in Chicago Magazine last month calling Mr. Blagojevich a "celebrity idiot." Mr. Adam didn't return several phone calls for comment. Mr. Blagojevich said Mr. Adam told him he was misquoted.

Illinois Democrats are worried about what Mr. Blagojevich might say this summer. The former governor has promised to take the stand and has subpoenaed, or intends to subpoena, figures such as Obama Chief of Staff Rahm Emanuel, U.S. Rep. Jesse Jackson Jr. and Senate Majority Leader Harry Reid. A judge refused Mr. Blagojevich's request to subpoena Mr. Obama.

"I'm not alleging any of them did anything wrong," he said when asked whether the Democratic establishment should be concerned. "I just want them to tell the truth."