

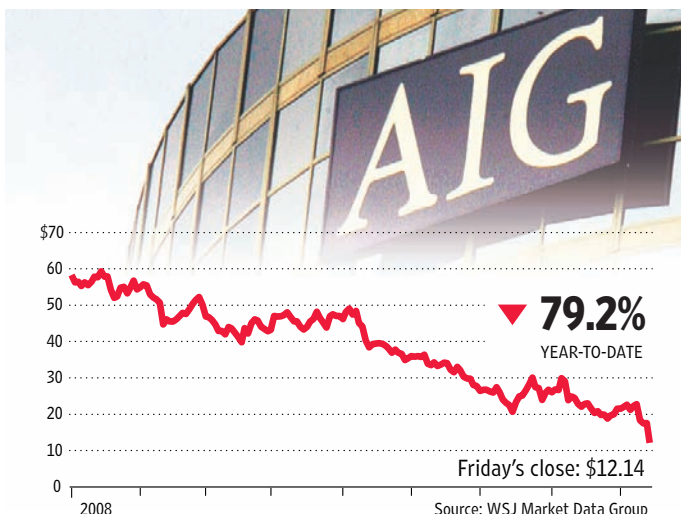
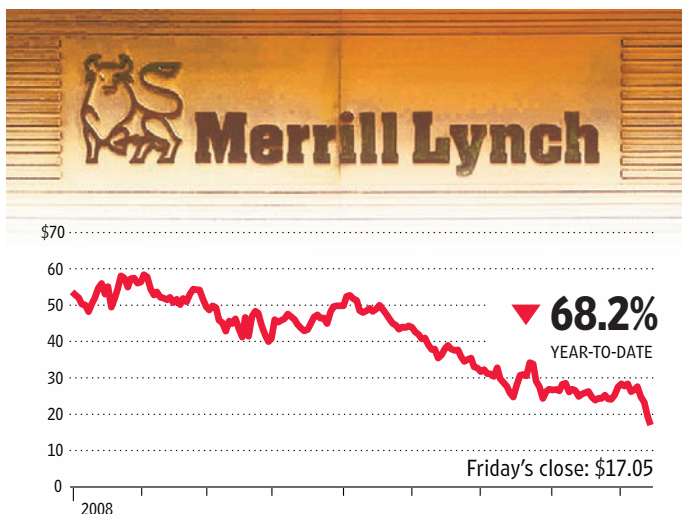
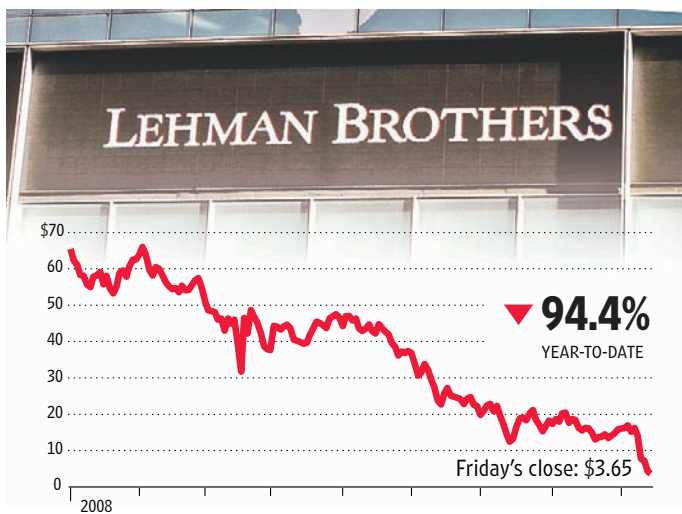
# THE WALL STREET JOURNAL.

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Last week: DJIA 11421.99 ▲ 201.03 1.8% NASDAQ 2261.27 ▲ 0.2% NIKKEI 12214.76 unch. DJ STOXX 50 2858.68 ▲ 3.8% 10-YR TREASURY ▼ 20/32, yield 3.730% OIL \$101.18 ▼ \$5.05 EURO \$1.4217 YEN 107.87



## Crisis on Wall Street as Lehman Totters, Merrill Is Sold, AIG Seeks to Raise Cash

Fed Will Expand Its Lending Arsenal in a Bid to Calm Markets; Moves Cap a Momentous Weekend for American Finance

The American financial system was shaken to its core on Sunday. Lehman Brothers Holdings Inc. faced the prospect of liquidation, and Merrill Lynch & Co. agreed to be sold to Bank

By Carrick Mollenkamp, Susanne Craig, Serena Ng and Aaron Lucchetti

of America Corp.

The U.S. government, which bailed out Fannie Mae and Freddie Mac a week ago and orchestrated the sale of Bear Stearns Cos. to J.P. Morgan Chase & Co. in March, played much tougher with Lehman. It refused to provide a financial backstop to potential buyers.

Without such support, Barclays PLC and Bank of America, the two most interested buy-

ers, walked away. On Sunday night, Bank of America struck a deal to buy Merrill Lynch for \$29 a share, or about \$44 billion. Lehman was working on a possible bankruptcy filing that would allow most of its subsidiaries to continue operating as the firm is wound down.

Though it steered clear of a bailout, the Federal Reserve is expected to take new steps to stabilize the broader financial system. These steps, expected to be temporary, would make it easier for banks and securities firms to borrow from the central bank by using a wider range of collateral. Bankers say these financial institutions might need short-term funds as they unwind their many trading positions with Lehman.

In addition, 10 major com-

mercial and investment banks announced Sunday night that they would pool \$70 billion of their own money to create a borrowing facility. The 10 institutions, which include Citigroup Inc., Credit Suisse Group, Deutsche Bank AG, could tap the pool to help them ride out the crisis. The banks also said they are mutually committed to trying to mitigate market volatility.

A sense of foreboding gripped Wall Street as top executives feared collateral damage from a Lehman liquidation. Attention was focused on Merrill Lynch, which boasts the largest force of retail brokers, and American International Group Inc., the insurance giant. Both firms have seen their stocks get hammered on worries that they

needed capital.

"Monday will be a day of reckoning for the financial markets," said Carlos Mendez, senior managing director of ICP Capital, a boutique investment firm in New York. On Sunday, he said, "it was like a fire alarm went off and people ran in all directions."

AIG executives spent the weekend trying to raise cash, either from asset sales or a capital infusion from private-equity firms, or both. AIG executives were meeting with regulators to see if they could transfer capital from some of its subsidiaries to the holding company.

As worries spread across Wall Street that Lehman wouldn't survive, brokerage firms, hedge funds and other

traders moved to disentangle themselves from trades with Lehman. When hopes of a potential sale dimmed, a quiet Sunday on Wall Street turned into a mad rush. Executives and traders hurried to their offices or worked their phones to unwind outstanding contracts with Lehman and to gauge their overall exposure.

Merrill, whose brokerage force is known as the "thundering herd," quietly entered into discussions with Bank of America, which has retail bank branches stretching from coast to coast and has long coveted Merrill. Wall Street executives said the Federal Reserve may have been involved in orchestrating the sale, figuring that it was "better to save the rela-

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## Ultimatum By Paulson Sparked Frantic End

One of the most tumultuous weekends in Wall Street's history began Friday, when federal officials decided to deliver a sobering message to the captains of finance: There would be no government bailout of Lehman Brothers Holdings Inc.

Officials wanted to prepare the market for the possibility that Lehman could simply fail. The best way to do that in an orderly way would be to get everyone together in a room.

Treasury Secretary Henry Paulson, Federal Reserve Chairman Ben Bernanke and his top New York lieutenant, Timothy Geithner, summoned some 30 Wall Street executives for a 6 p.m. Friday meeting at the Fed's offices in Lower Manhattan.

"There is no political will for a federal bailout," Mr. Geithner

By Deborah Solomon, Dennis K. Berman, Susanne Craig and Carrick Mollenkamp

told the assembled executives, according to a person familiar with the matter. "Come back in the morning and be prepared to do something."

Over the next 48 hours, these marching orders developed into a nerve-wracking test of the ability of the U.S. financial system to hold itself together amid the worst series of shocks it has faced in decades.

By taking the rescue option off the table, the U.S. government was declaring that there are limits to its role as backstop-in-chief. A week earlier it had seized mortgage giants Fannie Mae and Freddie Mac, and months prior had brokered the sale of Bear Stearns & Co. to J.P. Morgan Chase & Co. But now, Washington appears to want Wall Street to largely fix its own problems, and feels that failing institutions shouldn't expect the government to commit money to save them.

"We've re-established 'moral hazard,'" said a person involved

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## Bank of America to Buy Merrill



Merrill Lynch CEO John Thain leaving the Federal Reserve Bank of New York Saturday, where U.S. officials and Wall Street executives met to discuss the turmoil facing U.S. financial institutions. More coverage on C1, C3 and C8.

By MATTHEW KARNITSCHNIG, CARRICK MOLLENKAMP AND DAN FITZPATRICK

In a rushed bid to ride out the storm sweeping American finance, 94-year-old Merrill Lynch & Co. agreed late Sunday to sell itself to Bank of America Corp. for roughly \$44 billion.

The deal, worked out in 48 hours of frenetic negotiating, could instantly reshape the U.S. banking landscape, making the nation's prime behemoth even bigger. Late Sunday night, the companies' boards had approved the deal, but lawyers were negotiating over last-

minute details.

Driven by Chief Executive Kenneth Lewis, Bank of America has already made dozens of acquisitions large and small, including the purchase of ailing mortgage lender Countrywide Financial Corp. earlier this year. In adding Merrill Lynch, it would control the nation's largest force of stock brokers as well as a well-regarded investment bank.

The combination, if approved by shareholders, would create a bank of vast reach, involved in nearly every nook and cranny of the financial system, from credit cards and auto loans to bond and stock underwriting, merger ad-

vice and wealth management.

Through the weekend, federal officials, including Federal Reserve Bank of New York head Timothy Geithner, made it clear that they strongly encouraged a deal to sell Merrill. They worried the firm could be the next to approach the brink of failure after Lehman Brothers Holdings Inc., said people familiar with the matter.

The all-stock deal came together quickly. With Merrill stock dropping sharply last week, Merrill President Gregory Fleming, a former financial-institutions adviser, urged Merrill Chief Executive John Thain to

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## What's News—

Business & Finance

World-Wide

**L**ehman faces the possibility of liquidation, and Merrill Lynch agreed to be sold to Bank of America on Sunday, a day in which the U.S. financial system was shaken to its core. The Federal Reserve is expected to take new steps to stabilize the broader financial system. Meanwhile, AIG sought to raise cash and craft a survival plan amid investor pressure. **A1, A18, A19, C1, C2**

**Regulators and investors** prepare for Monday as Lehman's collapse, an AIG deal and talks between Bank of America and Merrill could rattle investors. **C1**

**Oil futures pushed** lower Sunday even after Hurricane Ike forced shutdowns of Gulf Coast refineries and platforms. Crude fell \$2.09, or 2.1%, to \$99.09 a barrel. **C1**

**Exit packages** for the departed CEOs of Fannie Mae and Freddie Mac highlight a weak link in efforts to link executive pay with performance: severance deals. **B4**

**Charles Prince**, former Citigroup chairman and CEO, has a new job: using his contacts to drum up business for a Washington consulting firm. **C5**

**Electronic Arts dropped** its bid for Take-Two, hinting its inability to get a deal by the holiday season was a factor. **B1**

**China introduced** a high-level commission to oversee enforcement of its new anti-trust legislation, which is facing a test from Coca-Cola. **B2** monopoly

**Sirius XM's CEO detailed** his plan for addressing the company's debt and proving satellite radio's potential. **B1**

**GM on Tuesday aims** to unveil the Chevrolet Volt, its battery-powered car set to hit the market by 2011. **B1**

**The lengthening lead** Japan's auto makers hold in securing batteries for the next generation of cars has become a rallying point for the U.S. auto industry. **B1**

**Ike left a trail of damage** from Texas to Louisiana. Destruction from the hurricane could squeeze energy supplies and strike a blow to the strong regional economy. More than 2.5 million homes and businesses lost power. Despite a broad evacuation effort, tens of thousands refused to leave their homes. Thirteen people were reported dead by Sunday. **A3** Gulf Coast oil refineries appeared to have escaped major damage, but power problems prevented many from returning to service.

**The NTSB was trying** to determine the cause of a commuter-train crash in a Los Angeles suburb Friday. The train barreled into an oncoming freight train, and 25 people were killed. The wreck highlights the absence of key safety equipment on the nation's rail network. **A4**

**In New Delhi, bombings** in popular shopping areas on Saturday killed 21. The five blasts followed three similar attacks that have hit other cities since May. **A10**

**Obama raised** a record \$66 million from donors in August, but the money race between him and McCain is likely to be tighter than many originally thought. **A6**

**A plane crash in Russia** killed all 88 people on board. Officials said the Boeing 737-500, operated by an Aeroflot unit, was circling in "difficult weather conditions" when it lost dispatcher contact. **A17**

**Russian troops began** pulling back from western Georgia checkpoints, part of an EU-brokered peace deal, but a new battle looms over international access to Russia-backed separatist regions. **A14**

**Bolivia's Morales agreed** to talks over a clash with opposition-led provinces, after political violence killed as many as 30 last week. **A17**

**Pakistani security forces** killed 16 suspected militants in a tribal region bordering Afghanistan, the latest round of a military offensive with no end in sight, officials said.

## Political Turmoil in Thailand Boosts Business for Astrologers

Mr. Luck Automates Fortunetelling; Some Rivals Want Industry Regulation

By JAMES HOOKWAY

BANGKOK—For a glimpse into the future of fortunetelling in Thailand, pay a visit to Luck Rakhaniethes.

At Mr. Luck's plush, three-story Bangkok offices, a team of telephone operators guides anxious callers through the chaos of everyday life. Some learn what their prospects are for securing a suitable love match or a well-paying job. Others are given auspicious dates for starting a new business.

At 36 years old, Mr. Luck is part of a new generation of business-savvy seers turning the ancient art of astrology into big business. He's a prime-time fixture on Thai television for waving a red flag when he is 100% certain about his predictions (a

white flag goes up when he's less sure). He sells about 300,000 books a year, he says, thanks to a distribution deal with the local operator of the 7-Eleven convenience-store chain.

As Thailand comes to grips with two years of political unrest—including a coup, deadly riots and, last week, a court ruling forcing the prime minister to step down for hosting a television cooking show—the country has lapped up Mr. Luck's confident forecasts.

"Every time there's a crisis in Thailand, it's a glorious time for astrologers," Mr. Luck says.

It's all too much for some in the old guard, whose predictions tend to be vaguer and more in keeping with the ancient traditions of seers here. These astrologers

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Luck Rakhaniethes

## Disaster Victims Need Food, Shelter and Counseling. You Can Help.

Please help the victims of thousands of disasters across the country each year, disasters like the recent hurricanes, by making a financial gift to the American Red Cross Disaster Relief Fund.

This fund enables the Red Cross to provide shelter, food, counseling and other assistance to victims of disasters.

**GIVE TODAY:**  
**Call 1-800-RED CROSS**  
**Visit redcross.org**

The American Red Cross honors donor intent. If you wish to designate your donation to a specific disaster, call 1-800-RED CROSS.



**American Red Cross**

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