

## At a software powerhouse, the good life is under siege

A TOUR of its carefully tended, 300-acre corporate campus here leaves little doubt why surveys, year after year, rate the SAS Institute, the world's largest private software company, among the best places to work.

There is the subsidized day care and preschool. There are the four company doctors and the dozen nurses who provide free primary care.

The recreational amenities include basketball and racquetball courts, a swimming pool, exercise rooms and 40 miles of running and biking trails. There is a meditation garden, as well as on-site haircuts, manicures, and jewelry repair. Employees are encouraged to work 35-hour weeks.

Academics have studied the company's benefit-enhanced corporate culture as a model for nurturing creativity and loyalty among engineers and other workers. Six years ago, in a report on "60 Minutes," Morley Safer called working at SAS "the good life."

But that good life is under threat today as never before. SAS's specialty, a lucrative niche called business intelligence software, is becoming mainstream.

Free, open-source alternatives to some of the company's products are increasingly popular.

On the other end of the spectrum, the heavyweights of the software industry — Oracle, SAP, Microsoft and, especially, I.B.M. — are plunging in and investing billions of dollars.

"It will be a dogfight," says Bill Hostmann, an analyst at Gartner. "SAS has never faced a competitor like I.B.M. And I do think I.B.M. sees SAS as a big, fatted cow."

The term "business intelligence software" applies to a wide range of products and services, but all the technology is aimed at helping businesses mine nuggets of insight from mountains of data.

SAS has traditionally specialized in advanced software to analyze huge data sets and to generate predictive statistical models for large corporations and government agencies.

(Source: The NYT)

## FTSE ends week lower after positive start

LONDON (AFP) — London's FTSE 100 index closed lower on Friday, ending a week which started with the index of leading shares striking a 2009 high. The FTSE shed 0.31 percent to close at 5,251.41 points.

The week had started positively, with the index hitting 5,363.39 points — a level last seen in September 2008.

However, concerns about the strength of the economy's ability to pull free of recession saw the index pull back from its initial rally to close lower for four consecutive sessions.

In Friday's session, the most traded stock was Vodafone, which saw 140 million units change hands, followed by Royal Bank of Scotland, which 130 million shares switch owners.

Four operators Thomas Cook and TUI Travel were the biggest casualties of the day, dragged down by negative broker comment about the state of the travel market. Thomas Cook slid 4.26 percent — or 9.3 pence — to close at 209.2, while TUI lost 10.2 pence — or 4.0 percent — to end at 245.

# American Express takes aim at PayPal with Revolution



WASHINGTON (AFP) — With its deal to buy Revolution Money, American Express is taking aim at the growing market for online and alternative payments, in a challenge to recognized leader PayPal, analysts say.

The financial services giant announced plans Wednesday to buy the Web payments firm started in 2005 by Internet firm AOL founder Steve Case, with the purchase price set at 300 million dollars.

Analysts say AmEx is most interested in the so-called peer-to-peer services of Revolution, which enables low-cost money transfers among individuals and businesses.

"I think it's a challenge to PayPal, but it's more than that," said Ed Kountz, an analyst who follows financial technologies at Forrester Research. "AmEx is positioning themselves for more effective innovation, and for the next generation customer."

Kountz said a variety of new technologies are emerging for person-to-person and alternative payments, but that few companies have been able to get the critical mass with both consumers and merchants to gain a foothold.

PayPal, a unit of eBay, has been able to dominate in this area but Google Checkout has struggled, say analysts.

Kountz said the market is growing with younger customers looking for convenient ways to make person-to-person transactions without cash, and with credit card usage hurt by the financial crisis.

"People are feeling greater comfort with cashless transactions,"

said Kountz. Revolution also aims to compete against traditional credit card firms by handling payments at a lower fee.

Joe Weisenthal at the online analysis site Business Insider said Revolution is "frequently described as a PayPal killer," but has been unable to grow during the financial crisis.

The action by AmEx comes with PayPal expanding its offerings with new ways to transfer money using mobile phones or social networks like Facebook. Revolution "offers a unique card that seems to blend the idea of traditional credit and debit cards with Internet-based payments along the lines of PayPal and Google's service," said Jim Kim of the financial technology website FierceFinanceIT. "We'll see how the other big boys react." Kountz said AmEx and Revolution "looks like a good marriage, but the proof will be in the delivery."

Florida-based Revolution Money sprung from the venture capital group led by Case, with the mission "to drive transformative change by shifting power to consumers," according to the group.

American Express hopes to close the deal in early 2010 subject to regulatory approval.

"New payments products and platforms are evolving rapidly and it's important for us to keep identifying cutting edge technologies that can extend our leadership beyond the traditional payments arena," said Kenneth Chenault, chairman and chief executive officer of American Express in announcing the deal.

"While Revolution Money is a young and relatively small company, we believe it has big potential," Chenault said.

## Hershey pushes \$17b Cadbury offer, WSJ reports

Hershey Co.'s controlling trust wants the candy company to make a \$17 billion bid for British confectioner Cadbury Plc, the Wall Street Journal reported, citing unidentified people familiar with the matter.

The offer would trump Kraft Foods Inc.'s bid for Cadbury and have a higher cash component, the newspaper reported. In one scenario under discussion, Hershey would contribute at least \$10 billion in cash and \$2 billion in new Hershey shares, the Journal said. The bid wouldn't be ready for at least two weeks, the paper said.

Cadbury, which makes Creme Eggs and Dairy Milk chocolate, would bring buyers a better platform to bolster its brands in the UK and to break into developing markets including India. Ferrero SpA, the Italian maker Nutella, also said this week it's interested.

Kraft was first to make an approach. It made a hostile bid for Cadbury more than two months ago, totaling 10.4 billion pounds (\$17 billion) based on yesterday's closing stock prices. The cash-and-share offer values Cadbury at 726 pence a share. The London-based company, which closed at 801 pence yesterday, has traded above the bid price since the offer was made.

Ferrero's controlling family and Hershey executives may meet "soon" in Italy to discuss a possible joint bid, daily Il Sole 24 Ore reported today, without saying where it got the information. Hershey may seek support from a private-equity fund, probably KKR & Co., if Ferrero decides not to take part in an offer for the U.K. confectioner, the newspaper said. The possibility that Nestle SA would challenge a Hershey bid and Kraft Foods Inc.'s offer is becoming "increasingly concrete," Sole said, citing financial executives.

Ferrero and Hershey may split up Cadbury, with the Italian company interested in the candy and chewing gum businesses, Sole said. Ferrero may value the assets it wants at as much as 8 billion euros (\$11.9 billion), Sole said.

## Walker tells bank investors to be more involved

A pressing need for much higher levels of shareholder engagement with banks and other financial services companies will be a major theme of this week's Walker review of corporate governance.

Sir David Walker, the report's author, is likely to highlight the growing influence of Government and regulators on banks and urge that institutional shareholders win back ground lost to the state since the financial crisis began.

If shareholders fail in this then the cost and availability of banking services will worsen, making banks less attractive investments.

Sir David is understood to be concerned at the way taxpayers have been shown to have unlimited liability when it comes



Banks may provide 5 billion euros and the Ferrero family the remaining, the daily said.

Ferrero plants to meet next week with Italian banks Intesa Sanpaolo SpA and UniCredit SpA about financing an offer, Sole said.

Hershey, which makes and sells Cadbury brands in the U.S., is controlled by a charitable trust, which funds a

Pennsylvania boarding school. The trust canceled an auction for Hershey in 2002. It rejected a joint Cadbury-Nestle SA bid and another offer from Wm. Wrigley Jr. Co. following opposition in the company's home state.

The only way Hershey could finance a bid is if the trust decided to move to a single-class share structure, relinquishing its control and making it easier to sell new stock, said Pablo Zuanic, an analyst at JPMorgan in London.

Former Goldman Sachs Group Inc. banker Byron Trott is talking to investors about supplying an additional \$3 billion to \$5 billion in cash to help with the purchase, according to the newspaper. The trust would sell assets, though it would try to maintain control of Hershey, the Journal said.

Hershey and the trust are working with JPMorgan Chase & Co. and Bank of America Corp., according to the Journal.

Representatives of Hershey Co., Hershey Trust, JPMorgan and Bank of America declined to comment.

Ferrero, based in Pino Torinese, Italy, is privately held. London's Times newspaper said the controlling family's founder is at odds with his sons about whether to make a bid. A spokesman for Ferrero declined to comment.

Northfield, Illinois-based Kraft, the maker of Oreo cookies, rose 20 cents to \$27.17 yesterday on the New York Stock Exchange, while Hershey, the Hershey, Pennsylvania-based chocolatier, added 4 cents to \$37.18.

(Source: Bloomberg)

to their exposure to the banks and other financial services companies whereas major shareholders only have limited liability.

He believes this trade-off is unfair and shareholders should be expected to undertake a much higher degree of engagement with banks as responsible long-term owners.

A key area for more involvement by shareholders should be in regulating pay for senior bankers, not just at board level but among senior executives across an organization's activities. This would include trading and other investment banking activities. Sir David is understood to believe that shareholder involvement in this area so far represents a "serious failing".

The Government last week unveiled a new Financial Services Bill that will give the Financial Services Authority power to cancel employment contracts between banks and staff if inspectors deem them to include pay arrangements that might result in excessive risk taking.

"For the institutions to be leaving compensation to regulators is extraordinary," one person familiar with the details of the report said.

Sir David wants to see greater shareholder involvement channelled through a beefed up Institutional Shareholders Committee which itself last week published a new code of practice on how institutions should relate to the companies they own.

(Source: Telegraph)

## Wall St. finds profits again, now by reducing mortgages

As millions of Americans struggle to hold on to their homes, Wall Street has found a way to make money from the mortgage mess.

Investment funds are buying billions of dollars' worth of home loans, discounted from the loans' original value. Then, in what might seem an act of charity, the funds are helping homeowners by reducing the size of the loans.

But as part of these deals, the mortgages are being refinanced through lenders that work with government agencies like the Federal Housing Administration. This enables the funds to pocket sizable profits by reselling new, government-insured loans to other federal agencies, which then bundle the mortgages into securities for sale to investors.

While homeowners save money, the arrangement shifts nearly all the risk for the loans to the federal government — and, ultimately, taxpayers — at a time when Americans are falling behind on their mortgage payments in record numbers.

For instance, a fund might offer to pay \$40 million for a \$100 million block of mortgages from a bank in distress. Then the fund could arrange to have some of those loans refinanced into mortgages backed by an agency like the F.H.A. and then sold to an agency like Ginnie Mae. The trick is to persuade the homeowners to refinance those mortgages, by offering to reduce the amounts the homeowners owe.

The profit comes when the refinancings reach more than the \$40 million that the fund paid for the block of loans.

The strategy has created an unusual alliance between Wall Street funds that specialize in troubled investments — the industry calls them "vulture" funds — and American homeowners.

But the transactions also add to the potential burden on government agencies, particularly the F.H.A., which has lately taken on an outside role in the housing market and, some fear, may eventually need to be bailed out at taxpayer expense.

These new mortgage investors thrive in the shadows. Typically, the funds employ intermediaries to contact homeowners and arrange for mortgages to be refinanced. Homeowners often have no idea who their Wall Street benefactors are. Federal housing officials, too, are in the dark. Policymakers have encouraged investors and banks to put more consumers into government-backed loans. The total value of these transactions from hedge funds is small compared with the overall housing market.

Housing experts warn that the financial players involved — the investment funds, their intermediaries and certain F.H.A. approved lenders — have a financial incentive to put as many loans as possible into the government's hands.

"From the borrower's point of view, landing in a hedge fund or private equity fund that's willing to write down principal is a gift," said Howard Glaser, a financial industry consultant and former official at the Department of Housing and Urban Development.

He went on: "From the systemic point of view, there is something disturbing about investors that had substantial short-term profit in backing toxic loans now swooping down to make another profit on cleaning up that mess." Steven and Marisela Alva say they do not know who helped them with their mortgage. All they know is that they feel blessed.

Last December, the couple got a letter saying that a firm had purchased the mortgage on their home in Pico Rivera, Calif., from Chase Home Finance for less than its original value. "We want to share this discount with you," the letter said.

"I couldn't believe it," said Mr. Alva, a 62-year-old janitor and father of three. "I kept thinking to myself, 'Something is wrong, something is wrong. This sounds too good.'"

But it was true. The balance on the Alvas' mortgage was ultimately reduced to \$314,000 from \$440,000.

The firm behind the reduction remains a mystery. The Alvas' new loan, backed by the F.H.A., was made by Primary Residential Mortgage, a lender based in Utah. But the letter came from a company called MCM Capital Partners.

In the letter, MCM said the couple's loan was owned by something called MCMCap Homeowners' Advantage Trust III. But MCM's co-founders said in an interview that MCM does not own any mortgages. They would not reveal the investor that owned the Alvas' loan because they had agreed to keep that client's identity confidential.

Michael Niccolini, an MCM founder, said, "We are changing people's lives." In Washington, mortgage funds are lobbying for policies that favor their investments, particularly mortgages held in securitized bundles. They want more mortgage balances to be lowered, which might help mortgage bonds perform better. Big banks generally oppose such reductions, which lock in banks' losses on the loans. In April, about a dozen investment firms formed a group called the Mortgage Investors Coalition to press their case. One investor who is speaking out is Wilbur L. Ross, who runs a fund that buys mortgages and owns a large mortgage servicing company.

Mr. Ross said modifications that simply lower interest rates or lengthen the duration of a loan, as is typical in the government modification program, do not work well.

(Source: The NYT)