The Washington Post

BUSINESS

D
Stocks

Wednesday, December 14, 2005

MARKETS

DOW 10,823.72
UP 55.95, 0.5%

NASDAQ 2265.00
UP 4.05, 0.2%

S&P 500 1267.43
UP 7.00, 0.6%

POST-BLOOMBERG REGIONAL 264.10
UP 0.52, 0.2%

10-YEAR TREASURY
UP $1.88 PER $1,000
4.52% YIELD

Details, D3

CURRENCIES
119.90 YEN=$1
EURO=$1.1962

Also Today

Index

Fed Keeps Rate on Rise

Statement Hints That Series of Increases Might End Soon

By Nell Henderson
Washington Post Staff Writer

Federal Reserve officials, expressing concern that strong economic growth may fan inflationary pressures, raised their benchmark short-term interest rate again yesterday and indicated that they will lift it again next year to keep the lid on price increases.

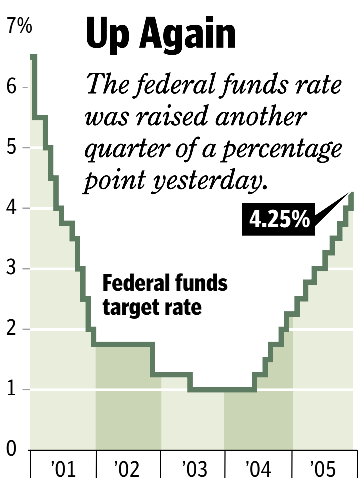
Fed policymakers have raised the rate steadily over 19 months and suggested that they may do so again at their next meeting Jan. 31, which is also Fed Chairman Alan Greenspan's last day on the job. They indicated, though, that they might be nearing the end of this series of rate increases.

But they did not foreclose the possibility of more rate increases after Greenspan steps down, leaving the options open for his likely successor, Ben S. Bernanke.

"Some further measured policy firming is likely to be needed," the policymakers' Federal Open Market Committee said in a statement after its meeting yesterday, referring to the likelihood of one or more small rate increases to come.

The committee unanimously agreed to raise its federal funds rate to 4.25 percent from 4 percent. It was the 13th consecutive

See **FED**, *D2, Col. 1*



SOURCE: Federal Reserve
THE WASHINGTON POST

PowerPoint Slides: the New Puppy-Dog Eyes

Kids Increasingly Use Tech Savvy To Sell Their Holiday Wish Lists


BY KATHERINE FREY — THE WASHINGTON POST
Eleven-year-olds Charlotte Sullivan, left, and Katie Johnsen created a PowerPoint presentation of Katie's Christmas wish list to show her parents. At the top of the list is a dog, preferably a golden retriever or a yellow lab.

By Ylan Q. Mui
Washington Post Staff Writer

Sometimes, when children want something badly enough, miracles start to happen.

Promises of spotless rooms and perfect report cards are made. Letters to Santa are neatly typed and spellchecked. Sullen teenagers take the headphones from their ears to shower their parents with compliments.

But kids today don't stop there. They are employing their high-tech savvy to wow their parents into fulfilling their Christmas wish lists.

Take 11-year-old Katie Johnsen of the District, who wants a virtual snowboarding game and a chocolate fondue fountain. She turned her list into a PowerPoint presentation with red and green backgrounds, a picture of Santa and links to the Web sites where the items can be bought.

"They are big operators," said Ellen Yui of Takoma Park, who has two sons. "They know how to work the system. They know how to work us big time."

This is the generation that has never known a world without the Internet. They rush home from school to talk to their friends online and flirt over text messages. They have mastered the latest communication technologies and added them to their holiday arsenal.

"Kids have figured out what to do to . . . get what they need and want. That's nothing new," said William Strauss, co-author of the forthcoming book "Millennials and Pop Culture." "What's different is kids' capabilities, the tools they have and what will work with their parents."

Yui's kids, 11-year-old Yoshi and 13-year-old Zen, changed the screensaver on her computer one Christmas to read "I love you" over and over again — and end with a request for a video game.

This year, Zen wants a cell phone — specifically, the sleek Sony Ericsson V600i. But it isn't sold in the United States yet, so anything that works will make him happy. He has dragged his father to a phone store "just to

See **WISH LIST**, *D3, Col. 1*

■ **Retail sales rose slightly in November.** | *D3*

STEVEN PEARLSTEIN

When Breaking Up Is Not Hard to Do

My, how things have changed.

We have Steve Case acknowledging in The Washington Post (not Time or Fortune, mind you) that the $112 billion merger between his AOL and Time Warner was a good idea in theory, but not in practice. Now Mr. Synergy is recommending that the whole thing be broken up again, not just in two parts, but four.

And we have cagey Sumner Redstone, who, having overpaid for Blockbuster, Paramount, CBS and Simon & Schuster on the theory that the whole would be greater than the sum of its parts, has now decided that parts are the way to go. He's splitting Viacom in two.

"Sometimes divorce is better than marriage," explained Redstone, whose $1 billion-plus settlement with his first wife may have set the indoor Olympic record.

The first question that springs to mind: Given the steep decline in their

See **PEARLSTEIN**, *D4, Col. 1*

■ **Icahn wants 'sunlight' from Time Warner.** | *D4*

Carlyle to Help Johnson Launch Buyout Fund

By Terence O'Hara
Washington Post Staff Writer

Media entrepreneur Robert L. Johnson is starting a private equity fund to invest in corporate buyouts, with a crucial assist from Washington's Carlyle Group, the largest private equity firm in the United States.


BET founder Robert L. Johnson is now building an equity fund.

Johnson's Bethesda-based RLJ Cos. will start a new firm, 20 percent owned by Carlyle, to buy and provide expansion capital to privately owned growth companies in the media, financial services and business services industries, the two companies said yesterday.

The fund is the latest effort in Johnson's drive to create the country's largest black-owned asset-management firm, a business overwhelmingly dominated by major Wall Street firms and white-owned private partnerships. In recent years Johnson's real estate investment company has amassed an $800 million portfolio of hotels, and last month he launched a hedge fund investment company in a venture with Deutsche Bank AG. The corporate buyout fund, like his other ventures, will seek to raise money — a goal of $500 million initially — from pension funds, wealthy individuals and endowments comfortable with the higher risk-reward of investing in private companies.

The partnership with Carlyle is

See **JOHNSON**, *D4, Col. 2*

DirecTV, Marketers Settle Charges

Do-Not-Call Rules Violated, FTC Says

By Jonathan Krim
Washington Post Staff Writer

Satellite television operator DirecTV Group Inc. agreed to pay $5.3 million to settle charges it repeatedly violated rules against telemarketing to consumers whose names were on a national do-not-call registry, the Federal Trade Commission announced yesterday.

The settlement, which must be approved by a judge, is nearly 10 times larger than the biggest previous penalty under the rules, which took effect in October 2003.

Also settling were two telemarketing firms — and their top officers — used by DirecTV for campaigns to generate new customers. Three other firms remain subject to a complaint filed by the Justice Department in connection with the case.

The agency said it had logged numerous complaints against DirecTV, which is in a pitched battle with both its rival satellite provider, Dish Network, and cable companies for new customers. Like Dish, DirecTV sells its service and equipment directly and through retailers.

FTC officials said that in addition to the size of the penalty, the settlement is notable for holding a product or service provider responsible for the actions of marketers or retailers working on its behalf.

"This multimillion-dollar penalty drives home a simple point: Sellers are on the hook for calls placed on their behalf," FTC Chairwoman Deborah Platt Majoras said in a statement. "The Do Not Call Rule applies to all players in the marketing chain, including retailers and their telemarketers."

DirecTV said in a statement that many of the offending calls were made by independent retail-

See **DIRECTV**, *D2, Col. 1*

Software Thief Admits To Crimes

$20 Million Lost, Prosecutors Say

By Jerry Markon
Washington Post Staff Writer

Nathan Peterson took on some of the world's largest computer software companies, and for a while, he won.

Selling their copyrighted products at a huge discount on his Web site, Peterson caused companies such as Microsoft Corp. and Adobe Systems Inc. to lose nearly $20 million, prosecutors said. He evaded law enforcement and frustrated the industry by moving his Internet servers around the country, and he spent much of his $5.4 million profit on homes, boats and cars, including a Lamborghini, a Mercedes and a restored 1949 Mercury Coupe purchased for his wife.

Yesterday, the man who once advertised his services on Google admitted that it had all been a fraud. Peterson, 26, pleaded guilty in U.S. District Court in Alexandria to two counts of copyright infringement. Justice Department and industry officials called it one of the largest cases of Internet software piracy ever prosecuted.

"This guy was a serious player," said John Wolfe of the Business Software Alliance, one of several trade associations that began investigating Peterson in 2003 before referring the case to the FBI. "Here was a single individual doing enormous damage. As far as I know, this

See **SOFTWARE**, *D3, Col. 1*

HGS Plans To Spin Off New-Drug Developer

By Michael S. Rosenwald
Washington Post Staff Write

Human Genome Sciences Inc. said yesterday that it will spin off its early-stage drug development division as an independent company, to be run by two of its top-ranking executives.

Officials from the Rockville biotech firm said the spinoff will allow them to focus more manpower and money on bringing several late-stage products to market while maintaining a financial interest in more speculative projects pursued by the spin-off company, which is to be called CoGenesys.

HGS will turn over an unspecified number of potential gene-based products to the new company, whose focus will be to take those potential products into or near human testing, then form partnerships with other larger biotech or pharmaceutical companies.

Craig A. Rosen, president of Human Genome Sciences and one of the 13-year-old firm's co-founders, will resign and take over as executive chairman of the new company. Steven C. Mayer, the chief financial officer, will also leave and become the CoGenesys chief executive. About 60 of the company's roughly 860 employees are joining the new firm.

As part of the arrangement, HGS will have a right of first refusal to take back some products that show progress. Otherwise, the company will receive undisclosed royalty or milestone payments. Human Genome Sciences, which is lending the new venture $10 million to get started, will also have an equity stake.

Human Genome Sciences chief executive H. Thomas Watkins said in an interview that the spinoff is "have your cake and eat it too" strategy, which allows HGS to focus resources on expensive advanced human testing on products to treat lupus and cancer while continuing to develop new products.

"Moving all of our clinical compounds forward is a costly priority for us, a challenge that requires every ounce of funding and energy we have," he said.

Rosen said the new company has no intention of becoming big.

"This is a unique model," he said. "We want to take some of these early-stage assets, add value, and put that value into pharmaceutical companies that can move them quickly into the market."



Carlyle executives David M. Rubenstein, left, and William E. Kennard helped initiate the deal.

Johnson to Create Buyout Fund

JOHNSON, From D1

vintage Johnson: Come up with a business plan that includes his minority status and business skills as a main selling point, find a well-heeled and established partner, and hire experienced managers to run the business. That was the strategy that built Black Entertainment Television, which Johnson founded in 1980 and sold to Viacom Inc. for more than $3 billion in 2000, making him a billionaire.

"This is a clear continuation of our effort to become a major player in all aspects of financial management," Johnson said yesterday from Charlotte, where he was attending a game of the Bobcats, the National Basketball Association team that he owns. "Carlyle and I have the same vision for it. If you find a very talented African-American-led team who wants to get into the private equity business, and match it up with Carlyle, it represents a model of what can be done throughout this industry to build minority-owned management firms."

Johnson said he will hire a team of seven to 10 corporate buyout professionals to manage the fund.

"There's an abundance of minority talent at major-ity-owned firms," he said. The buyout fund team will share offices with the hedge fund business and the hotel investment business, creating different asset-class "silos" under one umbrella, similar to the diversification strategies employed by Carlyle and a host of other major private equity firms.

The buyout fund, like the hedge fund investment firm Johnson formed last month with Deutsche, is designed to capitalize on the fact that state pension funds, university endowments and other institutional investors are trying to increase the amount of money placed with minority- and women-owned businesses, and are also willing to invest more money in private-equity investments.

Managers of corporate buyout funds charge investors a yearly management fee, typically about 2 percent of the total amount of the capital invested. In addition, buyout fund managers usually claim about 20 percent of any realized gains on the fund's investments, with the other 80 percent going to the investors.

Other minority-managed corporate buyout funds exist, including those that have partnered with major private equity firms, but none has been so ambitious in their launch. Carlyle's first buyout fund in the early 1990s raised only $100 million. Today, Carlyle manages more than $31 billion in investments in a range of corporate, specialty finance and real estate assets.

Also, in contrast to many minority-managed funds, Johnson's fund will not focus on minority-owned companies or companies serving ethnic markets.

Johnson said he will back any business with growth potential and a good management team, making investments of between $10 million and $40 million to help mid-sized companies pay for acquisitions or otherwise expand.

The Carlyle deal began earlier this year when Carlyle executives David M. Rubenstein and William E. Kennard, who both have ties with Johnson, proposed that Johnson join the firm as an adviser.

Johnson is on the board of Johns Hopkins University with Carlyle co-founder Rubenstein. Kennard, a former Federal Communications Commission chairman, was Black Entertainment Television's outside counsel in the 1980s when he was in private practice.

"I told him [Rubenstein] I'm not used to working for someone else," Johnson said, and proposed a separate partnership.

Kennard said there was a strategic reason for Carlyle's investment in Johnson's firm. "It helps meet a need in this business to increase the number of minority-owned managers," he said.

General Dynamics to Buy FC Systems

By Renae Merle
Washington Post Staff Writer

General Dynamics Corp. announced yesterday that it would buy FC Business Systems Inc., its fourth acquisition this year of a small information technology firm.

The deal continues Falls Church-based General Dynamics' efforts to take advantage of an expected increase in government technology spending, as potential cuts to the Pentagon's budget could threaten some of its largest weapons programs. Terms of the acquisition were not disclosed.

Fairfax-based FC expects sales of about $150 million this year, according to General Dynamics, and gets about 75 percent of its revenue from the Defense Department. FC was recently was awarded a contract, for example, to provide technical support for a radar system used by the Navy and Drug Enforcement Administration to detect and track drug trafficking.

No layoffs are expected among the company's 1,000 employees, which include about 700 in the Washington region. "We're anxious for their employees to join our organization," said General Dynamics spokesman Rob Doolittle. About 50 percent of the FC's employees have security clearances.

With the help of two acquisitions, FC has more than doubled in size in the past three years, Kamlesh Chainani, president and chief executive, said in an interview yesterday. Chainani, 64, who founded the company in 1984 as a computer reseller, said he was selling because it was time to retire. "I am sad" to be leaving, he said. "My work has been my life."

The two companies expect to close the deal by the end of 2006's first quarter.

LOCAL BRIEFING

EXECUTIVES

Mobley Leaving as Convention Center CEO

Thomas M. Mobley Jr., right, said he will step down in January as general manager and chief executive of the Washington Convention Center Authority, which oversees operation of the District's 2.3-million-square-foot convention center, to take a job in the private sector.

Mobley, 59, was hired two years ago to run the convention center. He is taking a job at Global Spectrum, a Philadelphia-based company that manages stadiums, convention centers and arenas and is owned by cable giant Comcast. Mobley will work in the District and be a senior vice president at Global Spectrum, where he will oversee the 14 convention centers the company manages. The convention center board said it will work to find Mobley's successor quickly.

AIRLINES

Maxjet to Offer Dulles-to-London Flights

Maxjet Airways said it will offer five flights a week between Dulles International Airport and London Stansted Airport, beginning in late February. The Dulles-based low-fare carrier began service Nov. 1 with flights between New York's John F. Kennedy International Airport and London Stansted. Maxjet also said it will launch a frequent-flier program in February.

EARNINGS

■ **Gladstone Capital**, a McLean lender to mid-size companies, said its fiscal-year profit rose 47 percent as its lending activity rose substantially. Profit, which includes unrealized losses on investments of $1.8 million, was $15.5 million ($1.33 a share) in the year ended Sept. 30, compared with a profit of $10.6 million ($1.02) in fiscal 2004. Gladstone had total investment income, consisting of interest on its loans and fees charged to its portfolio companies, of $23.9 million, compared with $20.4 million. Gladstone had total investments of $200.8 million on Sept. 30 in a variety of manufacturing and service businesses, up from $146.4 million a year earlier.

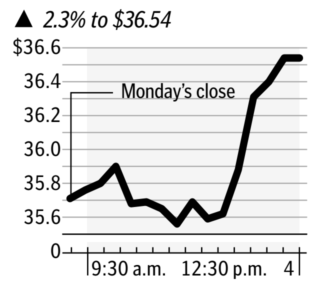
■ **Martek Biosciences** of Columbia had a profit of $4.9 million (15 cents a share) in its fiscal fourth quarter, down from $35.3 million ($1.16) in the comparable period a year earlier. Revenue fell 6 percent, to $56 million. For the year ended Oct. 31, the maker of nutritional supplements had a profit of $15.3 million (48 cents), down 67 percent from $47 million ($1.55) the previous year. Revenue grew 18 percent, to $217.9 million. The company said that customer stockpiles of its supplements appear to have diminished and that production problems from earlier in the year appear to be resolved.

Martek also announced that Henry "Pete" Linsert Jr. will retire as chief executive on June 30 but remain as chairman. Steve Dubin, Martek's president, will become chief executive.

Compiled from staff and news service reports.

OF NOTE

MedImmune Inc.
▲ 2.3% to $36.54



Analysts at CIBC World Markets upgraded the Gaithersburg biotechnology company to "sector perform" from "sector underperform," and on Monday it announced success in a large test of its FluMist nasal spray vaccine for young children.

WashTech

Icahn Demands 'Sunlight' on Time Warner Meetings

By David A. Vise
Washington Post Staff Writer

Corporate financier Carl C. Icahn yesterday demanded that Time Warner Inc. release the names of advisers it relied on to analyze the breakup value of the media giant, in addition to releasing the minutes of corporate board meetings where the matter was discussed.

Icahn's request, filed yesterday with the Securities and Exchange Commission, follows publication on Sunday of an opinion piece by former Time Warner Inc. director Steve Case, who wrote that he had pressed unsuccessfully in board meetings for the company to be broken up into four entities, including a stand-alone America Online. Case and Icahn agree that the company's stock would be worth more if Time Warner were dismantled, while incumbent management, led by chief executive Richard D. Parsons favors keeping the company's television, movie, magazine and Internet operations under one roof.

Although they are not working together, Icahn and Case have spoken about Time Warner in recent days, according to a source familiar with the situation.

In the SEC filing, Icahn said he was "shocked that Time Warner's shareholders have had to rely on The Washington Post, well after the fact, to learn that a member of the Time Warner Board proposed . . . that value would be enhanced by splitting the company into four separate entities."

"Investors need to understand what level of debate actually occurred at the Board, what type of analysis was conducted and who was responsible for the analysis, all of which go to the heart of shareholder accountability," he continued. "Sunlight must be shed on the Board's deliberations."

Icahn, who heads an investor group that owns 3 percent of Time Warner, has hired Lazard Freres & Co. and its merger specialist Bruce Wasserstein to produce his own analysis of the breakup value of Time Warner, whose stock price has been flat. Case, co-founder of Dulles-based AOL, said he owns $250 million worth of Time Warner stock.

Yesterday, Time Warner fired back at Icahn, as the rhetoric heated up between the aggressive investor and the company. With Icahn vowing to replace the board of directors at Time Warner's annual meeting in May, it appears likely that the first five months of 2006 will feature a battle royal over one of the world's biggest media companies.

"As Mr. Icahn should know by now, we have repeatedly said that our board and management have regularly explored multiple strategic options for the company's future," Time Warner spokesman Edward I. Adler said yesterday. "If and when we receive a formal request for company records from Mr. Icahn, we will respond to him as we would any other shareholder."

STEVEN PEARLSTEIN

PEARLSTEIN, From D1

companies' share prices since the height of the synergy bubble — in the middle of 2000 — why would anyone turn to these guys for strategic advice?

But the more important question is why so many otherwise intelligent people believe that what matters most in business is what you buy and sell, not how you run what you have. A cynic might conclude that the only people who reliably benefit from all this asset shuffling are the investment bankers who peddle the deals and the corporate executives who compensate themselves lavishly for pulling them off.


America Online co-founder Steve Case.

The sad truth is that executives often jump at these deals because they appear to offer a solution to a management problem they'd been unable to solve.

Time Warner, for example, saw AOL as the solution to its failed Internet strategy, while AOL executives looked to Time Warner's cable division as the catalyst for moving into the brave new world of broadband. There was nothing wrong with the theory, as Case argued in his Post essay. But in the end, both strategies were foiled by the same management failures that had created the problems in the first place.

The stubbornly turf-conscious division heads who, years before, had prevented Time from ever truly integrating with Warner, and had later thwarted Jerry Levin's effort to impose a corporate-wide Internet strategy at Time Warner, also stymied efforts to marry AOL's Internet service and Time Warner's cable broadband service.

Similarly, the same arrogance that originally blinded AOL to the looming broadband challenge to its dial-up monopoly would later infuriate the Time Warner folks and sour any collaboration.

Viacom is a different story, showing what happens when Wall Street fads drive corporate strategy. When investors were paying premium multiples for scale and synergy, Redstone moved aggressively into acquisition mode, spinning out theories about winning over customers with bundles of radio, TV and billboard advertising or luring top authors with combined book, movie and TV deals.

Although things never worked out that way, Viacom proved adept at running most of the businesses it had acquired. But now that Wall Street has become bored with media synergy, Redstone is arguing that size is overrated and that the benefits of synergy have already been realized. He proposes to "unlock" the higher value of faster-growing businesses (MTV, BET, Paramount and the music division) by separating them from the slower growing ones (CBS, Showtime, Infinity Broadcasting, books and billboards) that are dragging down Viacom's share price.

Even before the Viacom de-merger takes effect, however, one of the two "spin-offs" has already gotten back in the acquisition game. The first move came last week from the fast-growth Viacom, which paid $1.6 billion to acquire DreamWorks, another would-be media empire that never quite made it, even with Steven Spielberg as its owner-operator.

According to press accounts, Viacom is looking to DreamWorks to revive the fortunes of its Paramount movie studio, which has been stuck in a financial and creative rut as of late. One might ask why Viacom will be any more successful managing creative and financial risks at DreamWorks than it has been managing the creative and financial risks at the studio it already owns.

Steven Pearlstein will host a Web discussion today at 11 a.m. at washingtonpost.com. He can be reached at pearlsteins@washpost.com.

TECHNOLOGY BRIEFING

INTERNET

Security Efforts Fall Short, Group Warns

A group of leading technology companies yesterday chastised Congress and the Bush administration for what it characterized as a failure to support initiatives to fight online crime, saying a lack of leadership and accountability in this area is endangering U.S. economic and national security.

The Cyber Security Industry Alliance said the federal government has largely declined to act on recommendations the group outlined a year ago, goals that mirrored policies originally set forth in early 2003 by the White House in the "National Strategy to Secure Cyberspace."

For complete coverage, see the story online at *www.washingtonpost.com/technology*.

Google to Expand Dublin Office

Google said it will expand the workforce at its European headquarters by 600, or 75 percent, over the next two to three years.

The company's Dublin office, established in 2003, supports its European, Middle Eastern and African activities and is Google's largest base outside the United States.

Google said Ireland's low corporate tax rate influenced its decision.

STOCKS

Primus Telecommunications Faces Delisting

Primus Telecommunications Group of McLean said the Nasdaq Stock Market notified the company that it faces delisting because its stock has fallen below $1 a share.

The provider of phone and Internet services said it would request a hearing that would stay the delisting. Primus closed yesterday at 88 cents, down 7 cents.

MEDIA

MTV, Microsoft Plan Music Service

Viacom's MTV Networks subsidiary has formed a partnership with Microsoft to develop an online music service to be launched early in 2006.

The service, dubbed Urge, will be integrated into the next version of the software supplier's Windows Media Player and offer more than 2 million tracks for sale individually or as part of a subscription package.

Microsoft will build the technology behind Urge, which MTV Networks will own and operate.

Compiled from staff and news service reports.

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