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BUSINESS

COMING SATURDAY

- In our weekly Q&A, Southland Hardware owner Marty O'Brien talks about how his 75-year-old family business has endured.

DIGEST

IPOs

KKR shares drop in trading debut

Shares of KKR & Co. LP dropped in their market debut on the New York Stock Exchange.

The parent of private equity firm Kohlberg Kravis Roberts has had a long journey toward a U.S. listing.

It initially filed plans for an IPO three years ago, before the financial crisis began.

KKR shares opened Thursday at $10.50, trading under the symbol "KKR." They fell 30 cents, or 2.9 percent, to close at $10.20, after earlier rising as high as $11.08 and slipping as low as $10.20. Broad market indexes fell less than 1 percent.

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AIRLINERS

New Boeing 787 delay possible

The first delivery of Boeing's new 787 jetliner may slip into early 2011 because of inspections and instrument changes on the flight test aircraft, the head of the program said Thursday.

Scott Fancher, general manager of the program for Boeing Commercial Airplanes, said Boeing still intends to deliver its first 787 to Japan's ANA by the end of the year.

He said that "as a cautionary note," Boeing is warning that the delivery might be extended a few weeks into 2011.

If so, it would be another in a long series of delays on the 787 program.

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401(k)s

Rules to require statement of fees

Workers with a 401(k) retirement account will soon know exactly how much they're paying in fees.

The Department of Labor released new rules on Thursday designed to force companies that provide 401(k) plans and services to employers to spell out all the fees charged.

Most people don't know that more than a half a dozen fees may be charged against their 401(k) account for record-keeping, administration, investment advisory, brokerage and management services.

In addition, at least eight kinds of indirect fees and expenses could be charged to accounts.

These are often shaved off the top of the account's investment gains.

ASSOCIATED PRESS

DISASTER IN THE GULF

House deal crafts offshore-drilling bill

■ Panel approves measure to boost well safeguards

By **JENNIFER A. DLOUHY**
WASHINGTON BUREAU

WASHINGTON — A House committee on Thursday unanimously approved a plan for stiffer safeguards at drilling operations in an effort to avoid future well blowouts such as the Deepwater Horizon disaster.

The measure, approved 48-0 by the House Energy and Commerce Committee, would set new minimum standards for well designs, with requirements for redundant barriers and third-party certification of the blowout preventers that are designed as a last resort against any surge of oil or natural gas.

Decrying the oil spill in the Gulf of Mexico as a tragedy that "can be termed an

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Goldman settlement to cost $550 million

■ Record fine in mortgage case a win for both firm and regulators

LOS ANGELES TIMES

WASHINGTON — The $550-million deal between Goldman Sachs Group and federal regulators to settle the highest-profile fraud case stemming from the financial crisis gave each side a measure of what it desperately needed.

The government finally has an answer for critics who say Washington has been too soft on Wall Street. And Goldman Sachs could get on with making money, paying a fine that it can easily afford.

Thursday's settlement with the Securities and Exchange Commission came as Congress passed the most significant financial reform in decades — legislation designed to prevent the type of abuses Goldman was accused of in a civil case.

Goldman agreed to pay $550 million to resolve allegations that the company misled investors who bought subprime mortgage-related securities created by Goldman.

Although Goldman neither admitted nor denied wrongdoing, it made a rare concession that its marketing materials for the securities had been "incomplete," which it acknowledged was a "mistake."

"It is a major victory for the SEC because you don't find other settlements in which the defendant admits it made materially misleading disclosure," said John Coffee, a Columbia University securities-law professor.

Still, the penalty equals 4 percent of Goldman's $13.4 billion profit last year. Moreover, investors concluded the settlement was worth much more to Goldman than it would pay.

The deal sent the investment bank's stock price up nearly 10 percent in a surge that began on rumors late in Wall Street's regular trading session Thursday and continued in the after-hours market after the settlement was announced. The combined increase added more than $6 billion to the company's stock market value.

In a statement, Goldman called the settlement "the right outcome for our firm, our shareholders and our clients."

The company also sought to assure investors that it wasn't facing a cascade of

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EDUCATION

JOHN JILES PHOTOS : CHRONICLE

EYES ON A CAREER: Larry Wiseman, 14, is designing a game at the iD tech summer computer camp at the University of Houston. It's the third weeklong session for the Houston teen, who says he's been playing video games since he was 3 years old.

MORE THAN JUST FUN

Tech camps teach kids to create video games

By **SALVADOR RODRIGUEZ**
HOUSTON CHRONICLE

THEY laugh and giggle as they make their characters jump from platform to platform, avoid traps and shoot bad guys, but don't mistake what these kids are doing for play time.

They're actually working — testing each other's video game designs.

Thirty-seven children ages 7 to 17 are in a weeklong session at the University of Houston learning to make websites and create and modify video games at a technology camp put on by InternalDrive, a California company that hosts similar summer computer camps around the country.

"Instead of just being at home all summer playing video games, the kids are able to create their own video games," said Olympia Thomas, the Houston camp director.

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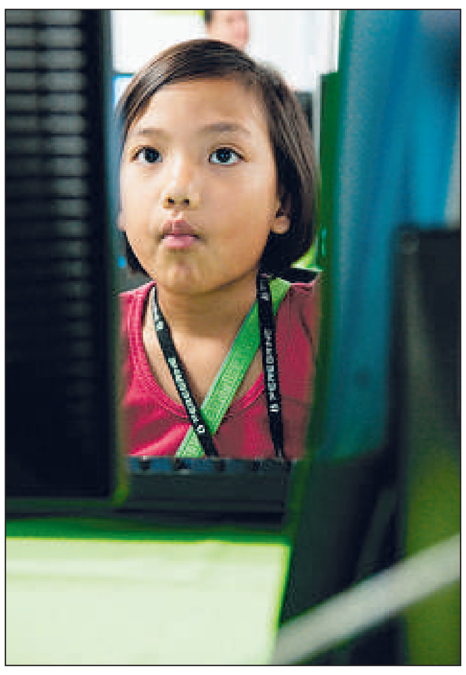

INTENSITY: Eight-year-old Camille Abaya of Houston likes making games for people, especially if "it puts a smile on their face."

Stock buyback bodes ill

A stock buyback from Exxon Mobil may seem mundane, but it may send a disturbing message about the oil business and the Houston economy.

Exxon repurchasing its shares is, of course, as routine as Lindsay Lohan missing a court date. The company has spent billions buying its own stock in the open market for more than a decade, and last week it told investors it would repurchase another $3 billion, which at current prices would equal about 51 million shares.

With more than 5 billion shares outstanding, the buyback represents only about 1 percent of Exxon's stock. It's the timing, though, that should be cause for concern.

"There's a big warning about Houston in all of this," said Rick Kaplan,

LOREN STEFFY

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TECHNOLOGY

Early warning on antenna tuned out?

A source says a senior antenna expert for Apple expressed concerns about the design of the iPhone 4.0. **PAGE D3**

MARKETS AT A GLANCE

Dow	Nasdaq	S&P	Oil	Natural gas
10,359.31	2,249.08	1,096.48	$76.62	$4.586
-7.41, -0.1%	-0.76, -0.0%	+1.31, +0.1%	-42 cents, -0.5%	+28 cents, +6.5%

DRILLING: Balancing safety, production

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accident in name only," Rep. Henry Waxman, D-Calif., said the legislation would ensure that "neither BP nor any other company would be able to make these same mistakes again."

When Waxman introduced the legislation two weeks ago, oil and gas industry officials complained it was too tough. But Waxman spent days huddling with oil-patch and Gulf Coast lawmakers negotiating changes to some of the measure's most controversial provisions.

The final deal that was struck Thursday morning paved the way for the unanimous vote.

The result, said Rep. Joe Barton, R-Texas, is a compromise that strikes a delicate balance between aggressively tightening drilling practices and still allowing offshore energy production.

"The requirements in this bill are tough," Barton said, adding that the new standards would help ensure no one will again have to deal with a disaster of the proportion now in the Gulf.

Controversial measures

But the fate of the drilling proposal could be tied to more controversial measures related to the oil spill, including broad legislation the House Natural Resources Committee approved Thursday on a near party-line vote of 27-21. That measure would overhaul the way the nation oversees drilling on federal property, hike royalty rates for energy production and bar companies with poor safety records from getting drilling permits.

A third bill would require that offshore drilling vessels be built and flagged in the U.S. — a major shake-up for an industry that relies heavily on foreign-produced drill ships often registered in other countries.

House Speaker Nancy Pelosi, D-Calif., and other congressional leaders met Thursday to hash out a plan for advancing all spill-related legislation. It appears likely the measures will be combined into a single bill and debated by the House by the end of the month.

Facets of the bill

Rep. Gene Green, D-Houston, warned that the compromise on the drilling safety bill — which could win bipartisan support and easily pass the House — would be jeopardized if it is combined with more polarizing proposals that would be detrimental to domestic production.

Under the deal Thursday, the drilling safety bill would:

- Force energy companies to prove well designs are safe and blowout preventers have redundant systems and backup controls in case of an unforeseen surge of oil or gas or other problems.
- Require energy companies to have oil spill response plans and the capacity to promptly control and stop a runaway well.
- Require that companies be capable of drilling and completing work on a relief well quickly.
- Mandate the installation of independently tested mechanical and cement barriers at wells, ensuring that if one of the blockades fails, it doesn't cascade and jeopardize the others.

The CEOs of energy companies applying for drilling permits would have to certify — under penalty of jail time — that well designs are safe, blowout preventers have redundant systems and the firms are capable of halting a runaway well. Violations could be punished by fines of up to $10 million or 10 years in prison.

Industry officials, who have raised warnings about the criminal liability for CEOs, were cool to the changes and said more improvements are needed. The American Petroleum Institute said the bill remains problematic.

The Energy and Natural Resources Committee rejected a proposal by Rep. Bart Stupak, D-Mich., that would have forced companies to ensure they have 60 percent of the equipment cited in their response plans ready to deploy within 12 hours of a spill.

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Apache near purchase of BP's Alaskan assets

CHRONICLE NEWS SERVICES

BP may reach an agreement as soon as next week to sell assets including half its stake in Alaska's Prudhoe Bay field to Houston-based Apache Corp. for $10 billion to $11 billion, according to two people familiar with the matter.

The deal probably wold be an all-cash transaction, said one of the people, who asked not to be named because the negotiations remain private.

BP is pressing to get the deal done before July 27, when it reports second-quarter earnings, said one of the people.

Apache's progress in raising between $6 billion and $7 billion in financing has helped speed negotiations, one of the people said. Apache was able to raise money more quickly for the transaction because lenders saw potential for Apache to squeeze more production from Prudhoe Bay.

Meanwhile, the government says BP will be required to pay royalties for oil and gas collected from its blown-out well in the Gulf of Mexico.

BP has collected roughly 34.3 million gallons of oil and natural gas since May. The company also has sold some of the oil, which the government says should be subject to an 18.75 percent royalty.

The Interior Department' sent the British oil giant a letter Thursday saying that royalty payments are required immediately.

JACQUELYN MARTIN : ASSOCIATED PRESS

LESSON: Robert Khuzami, the SEC's enforcement director, called the settlement "a stark lesson to Wall Street firms."

GOLDMAN: Judge to have final say

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SEC cases related to other mortgage-securities deals the bank sold during the heyday of the housing boom.

The case dealt with Goldman's creation of a complex security whose value depended on the performance of bonds backed by subprime mortgages.

However, the bank did not tell the institutional investors who bought the security that the underlying bonds were selected with input from a coveted client — hedge fund Paulson & Co. — which was betting the subprime market would collapse and cause the bonds to plunge in value.

Paulson & Co. paid Goldman a $15 million fee but made $1 billion, the SEC said, while investors who bought the mortgage-related securities lost $1 billion. Their losses were almost immediate. Less than a year after the securities were issued, 99 percent had been downgraded by credit-rating companies.

For Goldman, the settlement extricated the company from an embarrassing imbroglio that had tarnished a once-sterling reputation that already had been sullied by the global financial crisis. It also allowed all of Goldman's high-ranking executives to retain their jobs.

"Goldman needed to put this behind them," said Robert Mintz, a former federal prosecutor who is now a partner with McCarter & English in Newark, N.J.

Although the settlement amount may seem low compared with Goldman's financial heft, securities lawyers noted that the deal must be approved by a federal judge, who will weigh the size of the penalty against the gravity of the case rather than against Goldman's earnings power.

"The judge has to approve that it's appropriate," said Pravin Rao, a former SEC enforcement branch chief and federal prosecutor who now is an attorney in Chicago.

What's more, Goldman might have balked at a larger penalty, and could have taken its chances by going to trial.

Given the extremely complex nature of the securities, "it's a tough case," Rao said. "The SEC could have gone to trial and lost, and got nothing."

"It's a hell of a settlement," said James Cox, a Duke University securities-law professor. "We clearly have the small David prevailing over the large Goliath."

The settlement amount is the largest ever for a Wall Street company in an SEC case, but ranks third among all SEC settlements with companies. The largest amount — $800 million — was paid by insurance giant American International Group in 2006 to settle allegations that the firm misstated its financial results.

TECHNOLOGY: Campers learn work skills

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"They're putting the skills they already have to use."

A weeklong session costs $779 for day students and $1,249 for students spending the night.

By learning to use software like Photoshop, Dreamweaver, Java, and programming languages such as C++, the kids are picking up skills valuable for all fields of work, Thomas said.

"There has to be people who can develop these programs and software," she said. "If you can program, your job options I think are unlimited."

Rapid pace of change

Camille Abaya, 8, from Houston, said she has learned how to put tiles, platforms and traps in her 2-D game. She also has learned to make objects turn invisible. She thinks she might want to create video games when she grows up.

"It's kind of entertaining when you can make video games and stuff, and when people think it's fun, it puts a smile on their face," Camille said.

If she does decide to pursue a career as a video game developer, starting at such a young age will have proved fortuitous.

Jamie Belinne, assistant dean for business career services at UH, said starting early is important for developers, programmers and designers because technology changes rapidly. "It's so fast right now and if you're not really passionate about driving that change you'll just get left behind by it."

As programs used by developers become less expensive and easier to use, children will be introduced to more advanced computer development programs at younger ages, said Marc Nathan, vice president of strategy for ChaiONE.com, which focuses on Web and mobile applications.

"The cost of these things, especially with free and open-source software, is coming down to zero, which ultimately means there will be an ability for people that want to learn how to code or how to design — they have no barriers to entry to learn how to do it," Nathan said.

Early start can pay off

The skills taught at InternalDrive's camps are in high demand, Nathan said, and there's a decent living available for anybody who masters them.

"If these young kids get a leg up on these kinds of skills, get familiarity with the tools, they understand the design aesthetic, then their ability to get hired is going to be much, much higher," he said. "The more people that understand these tools better and at an earlier age, it's better for not just them individually but for our society."

Larry Wiseman, 14, who is in his third weeklong session at InternalDrive's camp, said he's been playing video games since he was 3 years old and started thinking about creating video games for a living after reading video game magazines and seeing advertisements for technology schools.

"It's the biggest entertainment industry out there, and I would really like to get into it," the Houston teen said.

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STEFFY: Houston could lose growth, jobs

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chief investment officer for Houston-based Legacy Asset Management, which owns about 10,000 Exxon shares.

Exxon's buyback comes just weeks after it completed its $25 billion purchase of XTO Energy.

The XTO deal was a long-term bet on natural gas prices. The Fort Worth-based company is one of the premier producers of gas from shale formations, the hottest onshore drilling play these days.

A foothold

Buying XTO not only gave Exxon a foothold in shale gas, it bolstered the company's reserves of the cleaner-burning fuel.

Now, Exxon is telling its shareholders that it can't deploy cash into XTO and earn a better return than investors can on their own. It's essentially saying: Take the cash and buy Treasuries, or heck, even Chevron, because we can't figure out what to do with the money.

I'm not a fan of buybacks in general. They tend to bolster management pay when share prices are falling, leaving investors in the cold.

What's more, buybacks during a time of declining share prices tend to be an investment in the decline, burning capital all the way down.

If a company has extra cash, dividends are the best way to pass it on to investors.

In this case, the buyback is little more than a token gesture to investors who have watched their returns fall by 13 percent this year. The stock it will sop up is far less than the additional shares Exxon issued to buy XTO.

'So much uncertainty'

The bigger problem for Houston is that Exxon isn't alone in its reluctance, the XTO deal aside, to invest beyond its own corporate treasury. Faced with a drilling moratorium in the Gulf of Mexico, the lingering threat of carbon emission legislation that would increase their costs and discussions in Congress to raise more than $36 billion by eliminating long-standing tax breaks for oil companies, few in the industry are willing to make large investments right now.

"They don't know what the playing field is, and they don't know what the regulatory environment will be," Kaplan said. "There's so much uncertainty, I don't think there's much going on in investments at all."

One exception may be Apache, which is reportedly eyeing some of BP's assets, a rare chance to buy prime properties at a discount.

Most companies, though, are sitting on cash rather than making bold moves, even though prices for reserves are attractive. Even Exxon is merely doling out a pittance to pacify its investors while it waits to see how the shifting regulatory landscape shapes up. It would rather keep most of the $14 billion in cash on its balance sheet in place.

"Companies would rather be flush with cash and have the ability to change with the environment," Kaplan said.

The result is a stagnation of capital. Fewer investments means less growth and fewer jobs for Houston's most vital economic engine.

Instead of buying additional assets — whether it's a bid for all or part of BP, or pumping additional cash into XTO's shale reserves — Exxon and its ilk are more likely to keep buying back stock, boost dividends before taxes on them rise at year's end and wait.

With the economic recovery struggling, Exxon's token buyback becomes a symbol of a much bigger problem — and a subtle warning for Houston that the tough times may linger.

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