# Business

STEVEN SYRE

**BOSTON CAPITAL**

## Stock pickers need years to regain trust

Nobody loves them.

The stock pickers of the mutual fund world — once the rock stars of finance — couldn't sell popcorn at the circus today.

In fact, that's been the case for years now, and investors have pulled hundreds of billions of dollars out of domestic stock mutual funds since 2006. This trend has gone on for so long — and built up such a big cumulative financial punch — you have to wonder what it would take to reverse the pattern.

It would be easy to blame the fate of the active US stock fund manager on a perfect storm of terrible equity markets and aging demographics that favor more conservative investments. Those are legitimate factors behind the shareholder exodus. Big money moved into bond funds while stock pickers fell out of favor.

But investors don't simply have an aversion to US stocks. They are more likely to entrust any new money earmarked for domestic equities to passive index funds rather than active managers who rely on skill and research to select investments. The dismal big picture on customer cash flow in and out of all domestic stock funds – a collection of weekly industry reports – actually masks even worse trends among active managers.

Consider the direction of net flows – the balance of investor money sloshing in and out of funds – so far this year. All domestic stock funds saw a net outflow of about $34.1 billion during the first five months of this year, according to Morningstar Inc.

Now look closer at the numbers. Outflows for active managers actually totaled $40.2 billion, while index funds attracted $6.2 billion of net customer money. This pattern of big money leaving actively managed domestic stock funds as more modest amounts moved to index funds has held true since 2006.

In that time domestic stock index funds have pulled in about $150 billion of customer cash, while actively managed funds in the same category have lost $516 billion — yes, a half-trillion dollars!

The growing advantage of passive US equity investments over active managers would appear even worse when you add exchange traded funds, or ETFs. They are investments that trade throughout the day, much as a stock does. But most own fixed portfolios based on market benchmarks, just like passive index mutual funds.

I've kept most ETFs out of the calculations because a large chunk of those shares is sold to hedge fund managers and other pros who would never consider buying actively managed mutual funds. One exception: Vanguard Group's $200 billion ETF business is counted among index mutual fund assets.

So, what would it take to make stock fund managers win back investors? Certainly they need a shift in the stock market itself, and that means two things.

First, investors need to see markets that give them some confidence stocks will produce steadier gains. The stock market of the past 12 years has paid shareholders about 1 percent annually to endure a volatile and sometimes harrowing ride. Individual investors need a good reason to buy stock funds.

"We've got a lot of damage to repair as active managers," notes Geoff Bobroff, a fund industry consultant.

Also, stock markets need to move in ways that make a manager's judgment worth something. In recent times, stocks have moved up or down almost unilaterally. Nearly all climb or fall together — for days or weeks — based on a consensus opinion about economic risk. The value of a manager's selecting individual stocks becomes negligible when the vast majority of shares move in tandem —regardless of the relative values of companies. That has to change.

This prescription is easy to write but more challenging to pull off. It relies on an economy that continues to recover and lift most companies. It needs investors who believe they can pick companies and industries that will benefit most in a complicated global market.

It would take several years to make a real difference. Bobroff thinks it might require at least three years of better times.

"That's a long time," he points out.

But that's what it is going to take.

**The red herring**

The Securities and Exchange Commission has temporarily suspended the trading of shares of Apogee Technology Inc., citing the Norwood biotechnology company's apparent failure to file routine public financial reports. The SEC said Monday that Apogee has not filed quarterly financial reports since June 30, 2011. Apogee officials could not be reached for comment yesterday.

*Steven Syre is a Globe columnist. He can be reached at syre@globe.com.*

## Avid selling two divisions, will trim workforce by 350

### Consumer line fell short for audio-video firm

**Avid Technology Inc.**

- LOCATION: Burlington
- WHAT IT DOES: Since 1987, maker of equipment for recording and editing music and video
- CLAIM TO FAME: Long dominant in the professional market, Avid's editing tools were used last year on seven of the nine Best Picture nominees
- EMPLOYEES: Approximately 1,750 worldwide, 600 in Massachusetts
- WORKFORCE REDUCTION: About 350 worldwide
- 2011 REVENUE: $677 million

**By D.C. Denison**

GLOBE STAFF

Avid Technology Inc., a Burlington company that makes equipment for recording music and video, said Monday that it will shed 350 jobs, or 20 percent of its workforce, as it abandons consumer product lines that have performed poorly in recent years.

Avid's digital editing software suites have become the tools of choice for Hollywood productions, but its efforts to provide similar tools for consumers making videos and audio recordings have proved disappointing, company executives said in a conference call with reporters and analysts. As a result, Avid will sell two consumer products divisions, both based in California, to companies in Rhode Island and Canada.

An undisclosed number of workers would keep their jobs with the new owners, but the rest would be laid off, Avid said. In addition, the company's chief operating officer, Kirk E. Arnold, and principal accounting officer, Jason G. Burke, are leaving the company.

AVID, Page B7

MICHELE MCDONALD FOR THE BOSTON GLOBE

**Paul Schwenk, senior vice president of engineering for the Web travel site Kayak, opened the door to the company's offices in Concord, where visitors use a call button to get buzzed in.**

## BYPASSING THE RECEPTIONIST

### Firms with a high-tech bent or shoestring budget are rethinking the traditional way visitors are welcomed

**By D.C. Denison**

GLOBE STAFF

Many start-ups are deciding it's not smart business to station a friendly employee in the lobby to greet visitors.

Some fledgling companies would rather apply the salary to a position they consider more important, while others figure a reception area is poor use of expensive real estate. In a shaky economy, they say, projecting an image of frugality is crucial and a traditional front desk receptionist sends the wrong message.

That thinking is creating challenges for architects who are being asked to design office entrances modest in size and unmanned, but still welcoming.

"It's now a big question for nearly every young company: Do we want or need a receptionist?" said architect Vince Pan, whose South Boston firm, Analogue Studio, was commissioned to design spaces for two companies that don't employ receptionists. "In the start-up world, you don't want to look like you're wasting money."

Thomas White, a principal with ACTWO Architects in Wayland, was hired to configure the new Concord office of the travel site Kayak.com without a receptionist.

Paul English, Kayak's chief technology officer and cofounder, said receptionists "serve as a buffer. They make the organization seem too formal." English prefers for employees and guests to meet "on equal terms," in the company's comfortable lounge

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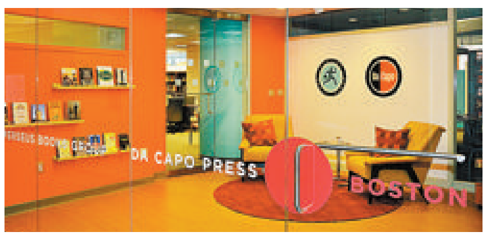
**Greetings**

How some companies are doing away with a traditional front-desk receptionist:

**▶ LOW-TECH ALTERNATIVE**

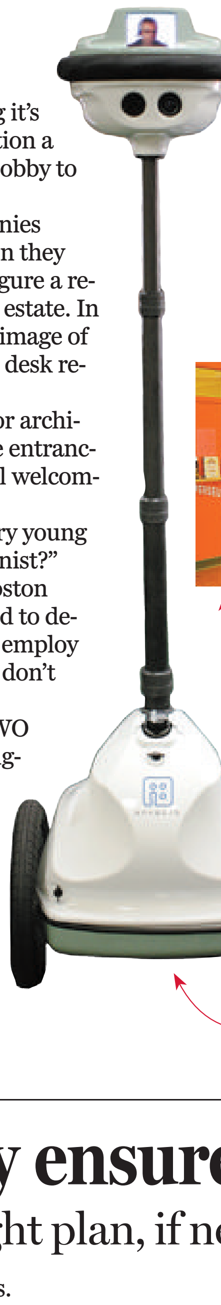
**Kayak**, CONCORD

Visitors are buzzed in via intercom to a hallway configured to represent Kayak's business. On one wall, orange-tinted glass offers a view of a cluster of computer servers. Overhead projectors splash graphical information on the opposite wall.



**Perseus Books Group**, SOUTH BOSTON

Visitors use a phone outside the locked front door to call employees they are meeting. The reception area is simply an alcove and two comfortable chairs.



**▶ HIGH-TECH OPTION**

**WinTech LLC** in Las Vegas sells a "virtual receptionist" named ALICE, that is based on an interactive, touchscreen video panel. California-based **Anybots** Inc. makes the $10,000 QB Robot, a free-standing, mobile robot that some companies are using as a receptionist.

## Drug maker to pay $35m to state

### GlaxoSmithKline accord part of $3b US fraud settlement

**By Robert Weisman**

GLOBE STAFF

The pharmaceutical giant GlaxoSmithKline has agreed to pay more than $35 million to Massachusetts' Medicaid program as part of a $3 billion settlement with federal and state authorities, the largest health care fraud payment in US history.

The massive settlement, disclosed Monday by the Department of Justice, includes a guilty plea to three criminal charges by London-based GlaxoSmithKline, which has its US headquarters in Philadelphia.

The company, which bought the Cambridge biotechnology company Sirtris Pharmaceuticals Inc. in 2008, runs a molecular discovery research lab in Waltham.

GlaxoSmithKline has admitted to illegally promoting its antidepressant drugs Paxil and Wellbutrin between 1998 and 2003 for uses not approved by the Food and Drug Administration. Although doctors may prescribe drugs for off-label treatments, drug makers are required to confine their marketing to approved uses. The British company also acknowledged that it failed to report safety data from its Avandia diabetes drug to the FDA.

> 'This action constitutes the largest health care fraud settlement in United States history.'
>
> JAMES M. COLE, *deputy US attorney general*

"These were drugs that are very well known," said the attorney general of Massachusetts, Martha Coakley, whose office led a five-state delegation that teamed up with Justice Department prosecutors in the settlement negotiations with GlaxoSmithKline. "Widespread marketing, with misrepresentations about the safety and efficacy of these drugs, can give doctors a false sense of security. And this ultimately has an impact on consumer safety."

Money from the settlements will reimburse Massachusetts and most other states for Medicaid payments made to GlaxoSmithKline, allowing the states to reduce their new outlays for Medicaid, the federally sub-

GLAXO, Page B9

## Signatures may ensure a vote on right-to-repair bill

### Carmakers gear up to fight plan, if needed

**By Erin Ailworth**

GLOBE STAFF

Voters may have the chance to approve legislation that would require auto manufacturers to give independent auto mechanics access to repair data and diagnostic codes currently available only to dealerships.

Supporters of the proposed legislation, known as "Right to Repair," said Monday that they had submitted 16,000 signatures — about 5,000 more than required —to Secretary of State William Galvin to place the issue on the November ballot if the Legislature does not act before then.

A right-to-repair bill was passed by the Senate in May, but the House of Representatives has yet to take action on it. Supporters say the legislation would make it easier for drivers to fix cars themselves or use an independent auto mechanic and avoid higher-priced dealerships.

"Although we are still willing to come to a legislative compromise, delivering these signatures today ensures that, one way or another, Massachusetts consumers will soon be able to take their vehicle where they want for repair and maintenance," said Art Kinsman, a spokesman for the Right to Repair Coali-

RIGHT TO REPAIR, Page B7

KAMRAN JEBREILI/ASSOCIATED PRESS

**The former Cunard Line Queen Elizabeth 2 is now owned by Istithmar World, a Dubai state investment company.**

# QE2 liner to be transformed into hotel

## Dubai-docked cruise ship to retain features

**By Adam Schreck**
ASSOCIATED PRESS

DUBAI, United Arab Emirates — The Queen Elizabeth 2's Dubai owners on Monday outlined plans to turn the storied cruise liner into a dockside hotel that will keep many existing furnishings intact, ending years of speculation about the fate of the $100 million throwback.

A rare tour given to the Associated Press showed that while there is still work to be done, the conversion may convince future guests they have been transported back in time.

From books stacked neatly on a quarterdeck library shelf to the spiral staircase leading to the intimate champagne bar, little appears changed since the vessel's final voyage in 2008.

Glass doorways, wall clocks, and even trash cans still carry the logo of the Cunard Line, which operated the QE2 for nearly four decades.

Boxy guest room televisions and ashtrays built snugly into corridor walls harken back to earlier eras. So do many of the color schemes in public areas like the Yacht Club lounge, with its wood-paneled walls and baby blue chairs.

Even the onboard slot machines remain in place — an incongruous site in a Muslim country where gambling is forbidden. Leili Gerami, the QE2 project director, said one idea is to turn the casino into a game center with machines that spit out prize tickets rather than cash.

The latest renovation effort is a comedown from a previous proposal to significantly overhaul the ship and convert it into a luxury hotel docked alongside one of the sheikdom's man-made palm-shaped islands. Developers shelved those more ambitious plans when Dubai's economy tumbled into crisis.

Sultan Ahmed bin Sulayem, chairman of Istithmar World, the Dubai state investment company that owns the ship, said the aim now is to open about 300 existing cabins as guest rooms. The company realized visitors want to see the QE2 as it originally looked, he added.

# GlaxoSmithKline to pay state over $35m

▶GLAXO
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sidized state health insurance program for low-income residents.

Under the US deal, Glaxo will plead guilty to two counts of introducing a pair of misbranded drugs, Paxil and Wellbutrin, into interstate commerce, and one count of failing to apprise FDA officials of safety data about vandia, a diabetes treatment.

GlaxoSmithKline will pay a total of $1 billion to resolve the criminal allegations, including a fine of $956.8 million and a forfeiture of $43.2 million.

The settlement still needs approval from a federal court.

Separately, the drug maker will pay $2 billion to resolve civil liabilities with the federal government and the states under the False Claims Act. The civil settlement resolves unlawful promotion and pricing fraud charges relating to Paxil, Wellbutrin, and Avandia.

"This action constitutes the largest health care fraud settlement in United States history," Deputy US Attorney General James M. Cole said at a Washington, D.C., news conference.

The parties last year disclosed preliminary terms of the GlaxoSmithKline settlement, which tops the previous largest health care fraud payment of $2.3 billion by New York-based drug maker Pfizer Inc. in 2009.

In a statement, GlaxoSmithKline said it has set aside cash to fund the deal and taken steps to change its compliance and marketing procedures in the United States.

"Today brings to resolution difficult, long-standing matters," GlaxoSmithKline's chief executive, Andrew Witty, said in a company statement. "Whilst these originate in a different era for the company, they can not and will not be ignored. On behalf of GSK, I want to express our regret and reiterate that we have [learned] from the mistakes that were made."

The settlement grew out of an investigation by the Department of Health and Human Services' Office of Inspector General, working with the FDA and the Federal Bureau of Investigation.

According to the settlement's criminal plea agreement:

■ GlaxoSmithKline unlawfully marketed Paxil for treating depression in patients under 18, even though the FDA has never approved the drug for pediatric use. Among other things, the drug maker helped prepare a misleading medical journal article that wrongly said a clinical trial demonstrated the treatment was effective for combating depression in children, and did not make available data from two studies that found Paxil failed to demonstrate benefits for that group.

The company also sponsored dinner, lunch, and spa programs and other activities aimed at promoting the use of Paxil in children and adolescents, paying a speaker to talk to audiences at the programs.

■ GlaxoSmithKline promoted Wellbutrin, at the time approved only to treat depression, to combat weight loss, sexual dysfunction, substance addiction, and attention deficit hyperactivity disorder. The company paid millions of dollars to doctors to speak at and attend meetings, sometimes at resorts, at which such off-label uses were encouraged.

■ The drug maker failed to include safety data about the diabetes drug Avandia in reports designed to help FDA officials determine whether the treatment continued to be safe for its approved uses and to spot safety trends. Missing data included included cardiovascular studies undertaken in response to the concerns of European regulators.

"This case demonstrates our continuing commitment to ensuring that the messages provided by drug manufacturers to physicians and patients are true and accurate and that decisions as to what drugs are prescribed to sick patients are based on best medical judgments, not false and misleading claims or improper financial inducements," said Carmen Ortiz, the US attorney for Massachusetts, whose office participated in the investigation.

*Robert Weisman can be reached at weisman@globe.com.*

# Some offices forgo the traditional receptionist

▶RECEPTIONIST
*Continued from Page B5*

area. So in the new office, visitors are buzzed in via intercom to a long hallway configured to represent Kayak's business.

On one wall, orange-tinted glass offers a view of a cluster of computer servers.

Overhead projectors splash graphical information on the opposite wall: up-to-the-minute Internet searches of Kayak.com or a real-time map of worldwide commercial flights.

At the end of the hallway, guests emerge into the company combination lounge and lunchroom.

"It's kind of do-it-yourself reception," White said.

At least two companies are already offering robotic substitutes. WinTech LLC in Las Vegas sells a "virtual receptionist" named ALICE that is based on an interactive, touchscreen video panel. And California-based Anybots Inc. makes the $10,000 QB Robot, a free-standing mobile robot that some companies are using as a receptionist.

Flesh-and-blood receptionists, understandably, are cool to the trend.

"I get why some companies don't want receptionists — it's cheaper," said Carrie Downing, 25, who greets visitors at the Partners+Simons Inc. advertising firm in Boston. Although technology companies may be able to get by without a receptionist, it wouldn't work for an ad agency, Downing said.

"I'm good at keeping clients at bay," she said. "I can talk to them and make them happy even if the person they want to talk to can't call them back for an hour."

That's why Downing was given the job title "director of first impressions."

"I've always thought that if you have a people business then your interface ought to be alive," said Tom Simons, chief executive at Partners+Simons.

But White Rhino, a Burlington advertising agency, says it can engage people without a human greeter. Katy Flammia, founder and principal of THEREdesign, an architecture and design firm in Allston, said she is in the process of "rethinking the greeting" for White Rhino. Because there's no receptionist at the agency's offices, Flammia's firm is creating a high-concept display that plays off a rhinocerous-hunter theme. She describes it cryptically as a "minimuseum of natural history" full of artifacts that will evoke the company's adventurous spirit.

"They wanted something to entertain visitors while they waited to meet someone from the firm." Flammia said.

"It's also designed to communicate an identity, to say you've arrived at the company."

While it might be true that prospective receptionists need not apply at White Rhino or to most tech start-ups in the region, that doesn't mean there aren't opportunities elsewhere.

According to the US Department of Labor's Bureau of Labor Statistics, overall employment for receptionists will increase 24 percent between 2010 and 2020, faster than the 14 percent average for all occupations. The health care industry — specifically medical and dental offices and community care facilities for the elderly — is expected to drive the demand, according to the Bureau of Labor Statistics. It's unlikely, however, that wages will grow significantly. According to a federal survey, the median annual salary for a receptionist in 2010 was $25,240.

At the Perseus Books Group office in South Boston, the reception area is basic, with an alcove and two comfortable chairs. No receptionist.

The space was created by Leslie Saul, president of Leslie Saul & Associates, an architecture and interior design firm in Cambridge. Visitors to Perseus use a phone outside the locked front door to call employees they are meeting. That might sound cold, but Saul said it works out well. "In the end, it's friendlier if the person who knows you comes out and greets you," she said.

*D.C. Denison can be reached at denison@globe.com*

## Merger roundup

# Computer maker Dell to buy Quest Software

ASSOCIATED PRESS

ROUND ROCK, Texas — Dell is buying Quest Software for $2.4 billion to expand its offerings as its personal computer business weakens in an era of smartphones and sleeker devices like the iPad.

The deal, announced Monday, capped a bidding war that began last month when Quest revealed that a mystery suitor had made an offer trumping a $2 billion sale that had been worked out with Insight Venture Partners in March. The secret bidder turned out to be Dell Inc., the second-largest PC maker in the United States, behind Hewlett-Packard Co.

Dell prizes Quest primarily for its nearly 1,300 engineers and its stable of software designed for businesses and government agencies. In particular, Dell is counting on Quest to help it sell more servers, networking and storage products, and computing services, all of which are typically more profitable than PCs these days. Selling PCs is also getting more difficult as consumers rely on smartphones and tablets.

Quest is Dell's biggest acquisition since it bought the technology consulting firm Perot Systems for $3.9 billion in 2009.

The deal worked out well for Quest shareholders. The sale price translates to $28 per share, a 44 percent increase from Quest's stock price before the Aliso Viejo, Calif., company announced its initial agreement with Insight. Dell is paying close to Quest's 10-year trading peak of $28.10.

Buying Quest will more than double the size of Dell's software business. Dell expects to complete the acquisition this year.

# Micron Technology purchasing chip maker

ASSOCIATED PRESS

BOISE, Idaho — Memory-chip maker Micron Technology Inc. has agreed to buy Elpida Memory Inc. for about $750 million in a deal that would boost its wafer manufacturing capacity by about 50 percent.

Elpida specializes in dynamic random access memory chips used in mobile phones and computers. It has been developing a reorganization plan since filing the largest manufacturing bankruptcy case ever in Japan this year.

Micron and Elpida said Monday that the total value of their deal is about $2.5 billion, including about $1.75 billion in future annual installment payments that Micron would make through 2019.

Elpida's reorganization plan is expected to be submitted in August to Tokyo District Court.

The Micron deal requires approval from Elpida's creditors, the court, and antitrust regulators.

Micron also said Monday that it is buying Powerchip Technology Corp.'s 24 percent stake in Rexchip Electronics Corp. for approximately $334 million. Elpida has about a 65 percent stake in Rexchip. Combined, this will give Micron Technology an 89 percent stake in Rexchip.

The deals are expected to close during the first half of 2013.

# General Electric will sell commercial property lender

BLOOMBERG NEWS

NEW YORK — General Electric has agreed to sell a commercial property lender to EverBank Financial for $2.51 billion in cash, as chief executive Jeffrey Immelt shrinks GE's real estate operations.

The deal for Business Property Lending includes $2.44 billion in performing commercial real estate debt and servicing rights on $3.1 billion of loans securitized by GE Capital, the companies said Monday. The sale is expected to close next quarter.

Immelt has been working to get out of some businesses tied to real estate as he pares GE Capital's balance sheet after $32 billion of credit losses during the financial crisis.

The acquisition will immediately provide a "low double-digit'' boost to earnings per share, said EverBank.

The sale will reduce by $5 billion GE Capital's ending net investment, a measure of the unit's size that excludes cash and liabilities that do not bear interest, a spokesman said.

GE Capital sold its Irish mortgage unit last month to Pepper Home Loans Group, Australia's largest nonbank mortgage lender.

DANIEL ACKER/BLOOMBERG NEWS

**GE's diverse businesses include renewable energy.**

# Linde AG plans to buy US home care provider

ASSOCIATED PRESS

BERLIN — Linde AG, a German company that specializes in industrial and medical gases, including oxygen, said Monday that it is looking to get a bigger slice of the growing health care market with its purchase of the US home care company Lincare Holdings Inc.

Linde said it was buying Lincare in a cash deal worth $4.6 billion. Linde will make a tender offer of $41.50 per share in cash for all outstanding stock of Lincare, of Clearwater, Fla.

Lincare shares jumped $7.32, or 21.5 percent, to close at $41.34 Monday.

Linde's chief executive, Wolfgang Reitzle, said the deal would double sales for the company's North American gases division.

"Health care is one of our three growth pillars," he said. He called the health business "a global megatrend" due to aging populations and new treatments.

Lincare provides respiratory therapy to patients in the home in 48 US states and in Canada and has 11,000 employees.