

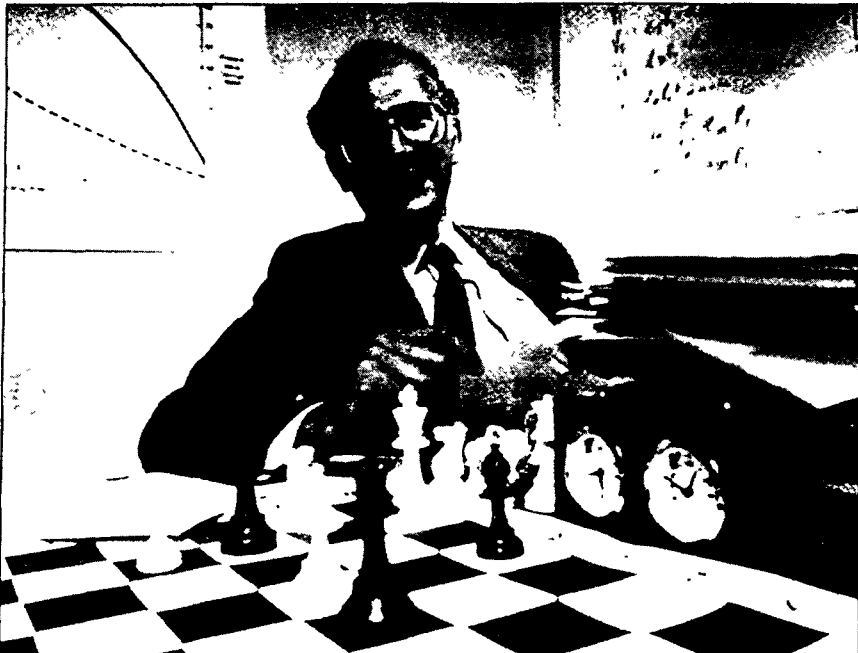
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Faces Behind the Figures

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Making debt pay



Salomon Brothers' Andrew Kalotay
"Pick a topic, become an expert."

Michael Gluck

Andrew Kalotay may be bad news for bondholders, but he has made millions for companies that issue bonds and, in the process, millions more for his employer, Salomon Brothers Inc. Kalotay is the inventor of Debtcost, a sophisticated computer program that factors in interest rates and other variables to help companies figure out just when to buy back their bonds. With Kalotay a director and manager of its special studies group, Salomon Brothers has won a dominant share of the \$70 billion market through which issuers redeem high-coupon bonds and reissue lower-interest debt for underwriting fees. Kalotay's research has paid off especially handsomely in the electrical utilities business, where Salomon refinanced

\$4.2 billion of debt last year.

Kalotay, a 47-year-old Hungarian who grew up in Canada, earned a Ph.D. in statistics from the University of Toronto in 1968. He has been interested in debt refunding ever since he joined AT&T's finance department in 1974. Kalotay was ready when the next debt crisis hit, having moved to Salomon Brothers in 1981 when long-term corporate rates reached a postwar peak of over 17%.

Lately, with interest rates fairly stable, the rate of bond refunding has been decelerating, from \$31 billion in 1987 to an estimated \$12 billion for 1988. But the uses for Kalotay's computer program keep multiplying. This year he is using the computer program to manage currency risk. Large com-

panies in Europe have more currency risk than interest-rate risk because their borrowing needs force them to go beyond their relatively small domestic markets. The World Bank, too, which has \$86.2 billion of debt outstanding in over a dozen currencies, is now exploring ways to use Kalotay's program.

Kalotay's success stems in part from his own experience as a chess master. Representing Canada in the 1966 World Chess Olympics in Cuba, he recalls being awed by the competitors' dedication. Says he, "I soon realized that these people only did one thing—chess. That's how it is in business today. Pick a topic and become an expert."—Jack Willoughby