MARPLE'S
Northwest Business Letter
INSIDE THE PACIFIC NORTHWEST ECONOMY
*Washington • Oregon • Idaho • Montana • Alaska*



**RANDOM LENGTHS**

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*In this issue:*



## New projects will help the region's rail lines absorb the coming rise in demand

Expect to see more work on and around the railroads across the Pacific Northwest in 2012. And more trains, too, as the economic recovery continues to muddle along.

Some of the highlights: Work on a new facility in northern Montana to load and unload unit container trains, and progress on streamlining a key chokepoint in the Portland/Vancouver area.

The work can't come soon enough, as shippers place new demands on the region's rail delivery systems and volumes inch upward thanks to more traffic coming from and going to the Northwest's ports.

The tiny Port of Northern Montana in Shelby will soon become the first port in the state with the ability to load and unload intermodal unit trains that carry the ubiquitous shipping containers that transfer easily among ships, special rail cars, and trucks.

A $10 million federal Transportation Investment Generating Economic Recovery (TIGER) grant, combined with $7.3 million in matching funds from local tax revenues, will pay for new rail sidings that can hold the long, unit container trains, and a storage yard for oversized cargo such as wind turbine blades and tower parts. The current track arrangement in Shelby snarls freight and passenger trains when containers need to be unloaded.

More importantly to the local economy, the project is expected to pave the way for nine businesses, five of which have already committed to spending more than $254.5 million on their facilities, that will employ an estimated 320 people. Examples of commodities these operations will handle include hay for export to Japan and pork for export to China. Other operations will import special sand used in hydraulic fracturing ("fracking") in the Bakken Formation in Montana and North Dakota, as well as Canada.

In the future, the site is expected to serve as a staging area for the massive wind turbine blades and tower sections from trains that originate at Washington ports. The turbines are destined for 11 major wind farm projects around Montana and Wyoming that are in the late stages of development.

The Port of Quincy, Wash., also applied for, but did not receive, federal TIGER grant money that would have added more rail sidings, containers, and storage space for the express, intermodal Cold Train.

The train whisks Northwest produce from Quincy to Chicago five days a week using refrigerated intermodal containers whose temperatures are monitored and adjusted via satellite. The journey takes just less than four days, or roughly a third of the time the trip takes for a typical lower-priority train operated by BNSF.

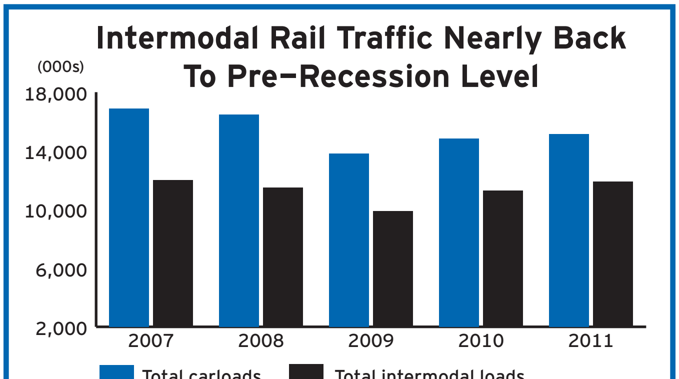
The service began in April 2010, and the grant application was a pre-emptive move to add more sidings and storage before demand outgrows capacity. Steven Lawson, the president of Kansas-based Cold Train, said the cargo hauled in September was roughly three times greater than the year-ago period.

The train ships apples, potatoes, onions, carrots, cherries, and frozen veggies and french fries grown or processed within a roughly 100-mile radius of Quincy. It brings back frozen pizza and waffles, dairy and meat products, and canned goods.

It speaks to the demand east of the Mississippi River for our region's fruits and vegetables that the Cold Train is the second such service based out of central Washington. Railex has been running a train of refrigerated boxcars via Union Pacific and CSX from the Port of Walla Walla to a distribution center a couple hours north of New York City since 2006.

Railex ships much of the same goods, as well as wine, from as far south as Northern California that it loads into refrigerated cars that are staged inside a chilled warehouse. The cars, whose temperatures also are monitored and controlled remotely, take less than five days to reach New York.

Work continues on the $15 million bypass project that will eliminate a chokepoint on BNSF tracks in Vancouver. The area is the convergence for trains going to and coming from the busy Columbia River Gorge mainline, as well as the north-south corridor. The rails are expected to get



Source: Association of American Railroads even busier as the Port of Vancouver generates more traffic from trains loaded with grain bound for Asia. The bypass is scheduled to be completed this summer.

## *Ports will be source of growing rail traffic*

An updated report commissioned by the Washington Public Ports Association and Washington State Department of Transportation roughly triples the projected growth rate of marine-related rail traffic in Washington.

The report is published every five years by Washington-based BST Associates and Kansas-based Mainline Management. When the last version of the report was published in 2009, the nation was in the midst of the recession. Its authors projected 2009's 59.2 million tons of marine-related rail traffic to increase 1.4% annually between 2010 and 2030, totaling 78.5 million tons.

But then cargo volumes rebounded in 2010 and rail traffic was back in the neighborhood of its pre-recession levels. The report's updated version forecasts 151.2 million tons of marine-related rail traffic by 2030 under the moderate-growth scenario at an annual growth rate of 4.8%. The high-growth scenario, at 7.1% annually, would put 232.8 million tons on the region's rails by the end of the forecast period.

Most of the increase is projected to come from growing trade involving Washington coastal and lower Columbia River ports, including Portland.

**Traffic trending up:** Rail traffic nationwide was up in December compared to a year ago: 9.4% for intermodal/container traffic, and 7.3% for other types of railcars, according to the Association of American Railroads. As the AAR points out, no one ships a carload of anything just for fun, making rail traffic a reliable economic indicator.

Railroads just wrapped up their second year of growth after bottoming out in 2009. Total carload traffic in 2011 was up 2.2% over 2010, and 9.7% from 2009. Intermodal traffic was even stronger: up 5.4% from 2010, and up 20.4% from 2009. The AAR notes U.S. railroads still have a ways to go before they recover all they lost in the recession. In 2011, however, they were moving in the right direction, and the economy was going along for the ride.

## Organic dairy farms push for price hikes to cover rising costs

Double-digit annual growth in demand is a problem that producers in many industries would like to have, particularly during this tenuous economic recovery. At organic dairies, however, production costs have risen even faster than demand, eroding profit margins and limiting growth potential.

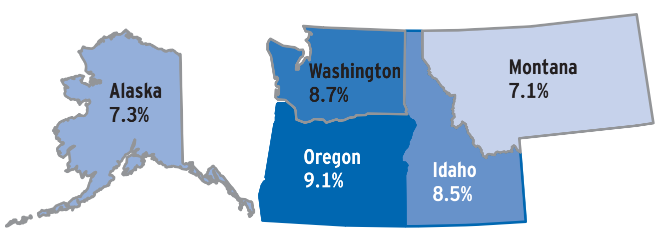
The issue caught national attention with a December 29 report in The New York Times warning that sharp hikes in organic milk prices lie ahead. That report noted that farmers are seeking higher payments from milk processors to alleviate cost pressures.

A coalition of farmers, The Western Organic Dairy Producers Alliance, has asked processors to increase their payments to farmers by $5 for every hundred pounds of milk ("hundredweight" in industry jargon), or about 20%. Such an increase, if passed along to consumers, would lead to a retail price increase of about 50 to 70 cents per gallon.

Tony Azevedo, president of the alliance and an organic dairy farmer from Stevinson, Calif., said he hopes that retailers absorb most of the price increase instead of passing it along to their customers.

## PNW Snapshot

### Unemployment Rates




| | Dec '11 | Dec '10 |
|---|---|---|
| U.S. Average | 8.5 | 9.4 |
| | Nov '11 | Nov '10 |
| Alaska | 7.3 | 7.9 |
| Idaho | 8.5 | 9.6 |
| Montana | 7.1 | 7.4 |
| Oregon | 9.1 | 10.6 |
| Washington | 8.7 | 9.3 |

| Metropolitan Statistical Areas | Nov '11 | Nov '10 |
|---|---|---|
| Anchorage | 6.1 | 6.9 |
| Bellingham | 7.5 | 8.2 |
| Bend | 11.2 | 14.3 |
| Billings | 4.7 | 5.4 |
| Boise–Nampa | 8.5 | 9.9 |
| Bremerton–Silverdale | 7.2 | 7.4 |
| Coeur d'Alene | 9.8 | 11.3 |
| Corvallis | 5.4 | 6.9 |
| Eugene–Springfield | 8.3 | 10.7 |
| Fairbanks | 6.3 | 6.8 |
| Great Falls | 5.6 | 6.2 |
| Idaho Falls | 7.0 | 7.4 |
| Kennewick–Pasco–Richland | 8.4 | 7.2 |
| Lewiston | 7.0 | 7.9 |
| Longview | 10.7 | 12.1 |
| Medford | 9.4 | 11.9 |
| Missoula | 6.9 | 7.5 |
| Mount Vernon–Anacortes | 9.2 | 10.2 |
| Olympia | 7.5 | 7.8 |
| Pocatello | 8.0 | 8.7 |
| Portland–Vancouver–Hillsboro | 7.8 | 10.1 |
| Salem | 8.8 | 10.8 |
| Seattle–Tacoma–Bellevue | 8.0 | 9.3 |
| Spokane | 8.1 | 8.8 |
| Wenatchee–East Wenatchee | 7.7 | 8.3 |
| Yakima | 9.6 | 9.4 |

Source: Bureau of Labor Statistics. Seasonally adjusted rates not available for MSAs. State rates are seasonally adjusted.

"Most retailers are getting paid as much for organic milk as the farmers are," he said. "We appreciate what retailers do by putting our product on their shelves. But in these difficult times, we can't be asking the consumer for more."

Organic milk already sells at a significant premium to conventional milk, and some industry observers expect that premium to grow. Higher feed costs associated with using certified organic hay and grain account for much of the price premium, and some of those costs jumped 50% in the last year. Further, more corn was planted for ethanol production in 2011, cutting into the acreage used for organic corn.

Because of those higher costs, organic farmers are feeding their animals less. This doesn't hurt the cows, but it does reduce milk production.

Many organic dairy farmers in the states on our masthead have an advantage over their eastern counterparts in that they can grow most of their own feed, limiting the need to purchase from outside sources. More moderate temperatures also allow them to keep their herds out on pasture longer than farmers in the East.

The U.S. Department of Agriculture defines organic milk as milk from cows that have been exclusively fed organic feed, and have not been treated with synthetic hormones, antibiotics, or medications. Animals that become sick and must be treated with medications are removed from organic production.

Dairy industry sources claim that there is no difference in terms of quality and safety between regular milk and organic. Proponents of the organic product, however, claim that chemicals in regular milk increase the risk of allergies, cancers, and other ailments. They also note that organic farms are managed to minimize pollution.

Judging by the increasing demand of recent years, those arguments are resonating with consumers. Before the recession hit in 2008, the organic milk industry saw annual growth rates approaching 20%.

That growth ground to a halt with the collapse of commodity prices in 2008. Prices of non-organic milk plummeted from $20 per hundredweight to $10, and this product dropped below $2 a gallon at some stores in 2009. Organic milk prices experienced a smaller decline. Prices, and demand, came back to life in 2010 and 2011.

Nationwide, organic milk is a small but growing part of the dairy industry. Among all dairy products (cheese, butter, powdered products), the organic segment comprises about 2% of production. Organic milk comprises about 10% of the milk for drinking (termed "fluid" milk) market.

Washington ranked second in the nation in total milk production per cow (organic and non-organic) in 2009, and 10th in total milk production. The average Washington cow produced 23,171 pounds or 2,688 gallons of milk in 2009. Forty-one certified organic dairies operated in the state that year, with about 16,000 cows (or 6.5% of the state herd). Organic milk represents 10.5% of all milk sales in Seattle, the second-highest consumption level after New York City.

While Idaho's dairy industry ranked fifth nationwide in milk production in 2009, and is the state's most valuable agricultural commodity, organic milk plays a relatively small role.

Observers worry that costs are a growing barrier to entry into the organic dairy business. Converting from conventional dairy production to organic takes three years, and those making the conversion must follow strict guidelines. A spokesman for a farmers group in the Northeast said the number of organic farmers choosing early retirement or returning to conventional milk production is at its highest level ever, and that profitability for organic dairy farms is at its lowest level since 2006. M

## Intellectual property is the new gold rush, but beware of fool's gold

We are in the midst of a modern-day gold rush. The gold in this case, however, is intellectual property. Companies big and small are vying to acquire patents that they can use to make money in many ways. Meanwhile, inventors and entrepreneurs are staking their own claims by applying for patents they hope will turn into big bucks down the road.

It's a sometimes controversial business that is worth billions of dollars, and you will be hearing more about it for at least the next few years. Plus, there is a heightened awareness around this niche that is part of the fast-growing information- and data-based economy.

"People are creating more intellectual property assets, and getting more creative about how to deal with those assets," said professor Bob Gomulkiewicz, who directs the law, technology and arts group at the University of Washington School of Law.

One current trend has industry giants buying companies almost solely for their patent portfolios. Sometimes it's to prevent a competitor from buying the portfolio.

Increasingly, corporate giants such as Google, Microsoft, and Apple amass patent arsenals to defend against patent-infringement claims. In the past, such moves were usually to defend against claims from other giants. But now that small inventors and patent holders have become aware of the patent gold rush, corporate Goliaths are now having to defend against these new patent Davids.

And yet other companies buy or hold onto patent portfolios so they can generate revenue by licensing their patents to others, or sue those who they think are infringing.

There also are companies such as Bellevue-based Intellectual Ventures, started by Microsoft alum Nathan Myhrvold and three others in 2000. IV holds more than 35,000 patents. Some were invented in the company's own labs, but many were acquired from individual inventors and companies of all sizes.

Detractors say IV has a reputation of going to companies and claiming they are infringing on one of its patents and demanding license fees. IV says it helps inventors profit from their ideas by defending patents and garnering royalties and/or fees.

A startup that helps business owners and inventors determine whether their ideas infringe on patents or are patentable launched earlier this year: Spokane-based IP Street. But Gomulkiewicz said not to expect many more Intellectual Venture-type companies to come along. "To do something on that scale will be really hard to replicate, except maybe on a smaller scale in niche areas."

The tech world is divided on the patent gold rush. Some say the rising tide of patent claims and litigation stifles the creation of new products and services. Others say the system is needed to protect valuable ideas.

Gomulkiewicz said Oracle, the hardware and software giant, provides a great illustration of the mixed feelings in the tech world about patents. Oracle used to have a notice high on its Web site about its hard stance against patents. Now it has a patent portfolio.

The portfolios in rare cases are worth billions. A consortium of companies that included Microsoft and Apple outbid Google and others in June for Nortel's 6,000 patents. The price tag: $4.5 billion, five times the opening bid, and the largest patent auction in history. In August, Google acquired Motorola Mobility — Motorola's mobile devices division — for $12.5 billion, ostensibly for its patents, we are told. Earlier this month, Google bought 187 patents from IBM — the largest patent holder in the U.S. — according to the BBC, adding to the 1,000 it purchased last fall for an undisclosed sum.

### *Patent battles, v1.0*

A similar scene first played out when personal computers were becoming more commonplace in the 1980s and '90s, said Gomulkiewicz. Back then, the patent battles were over computer hardware.

Now the front has shifted predominantly to the software industry, Gomulkiewicz said. He said the hardware companies eventually were able to determine the value of technology among themselves and licensed one another to use their intellectual property and avoid litigation. He expects the same thing to happen in the software industry.

But he said that if history is any guide, intellectual property will continue to play a role in business strategies, and its importance as a strategic asset isn't going to die down soon. "People will think of new and creative ways to deploy intellectual property."

He also offers a big dose of caution to anyone who thinks they are going to strike it rich with the next big intellectual property thing. Unearthing the gold nugget isn't going to bring a windfall of cash. That's just the start.

To commercialize that idea you need to develop a plan to design, produce, market, package, distribute, and sell your product. He notes that Apple wasn't the first company to develop a portable digital music player, it just was the first to put together the right package of things that were necessary for it to be successful.

Said Gomulkiewicz: "To get from that one invention to a successful product is a huge leap." M

Selected open-market transactions reported Dec. 23–Jan. 6 to the Securities and Exchange Commission on Forms 4 by officers, directors and shareholders of companies based in the Pacific Northwest. We summarize multiple trades and report average prices. Please note: Sellers reporting zero shares remaining may hold unexercised stock options.

## INSIDER BUYING

**Esterline Technologies** Richard Bradley Lawrence, president and CEO, 3,960 Dec. 30 at $56.03, total 5,351. **Fisher Communications** Towerview LLC, shareholder, 5,069 Dec. 28–Jan. 5 at $28.45, total 917,088. **Pixelworks** Becker Drapkin Management, shareholder, 128,785 Dec. 27–29 at $2.36, total 1,069,969. **Red Lion Hotels** Columbia Pacific Opportunity Fund, shareholder, 11,970 Dec. 27–Jan. 4 at $6.95, total 5,450,703.

## INSIDER SELLING

**Blue Nile** Diane M. Irvine, former CEO, 77,670 Dec. 21–30 at $39.84, leaving 48,489. **Cascade** Robert C. Warren Jr., president and CEO, 5,512 Dec. 22–28 at $47.13, leaving 84,344. **Concur Technologies** S. Steven Singh, Chairman and CEO, 10,000 Jan. 3 at $51.28, leaving 1,124,843. Rajeev Singh, president, 9,247 Jan. 3 at $51.29, leaving 105,795.

**Idacorp** Gary G. Michael, director, 3,000 Dec. 22 at $41.97, leaving 15,365. Robert A. Tinstman, director, 3,000 Dec. 21 at $41.85, leaving 13,072. **Intermec** Kemper Corp. Master Retirement Trust, shareholder, 224,818 Dec. 22–28 at $6.89, leaving 5,947,946.

**Marchex** Russell C. Horowitz, CEO, 45,000 Dec. 29 at $6.01, leaving 631,250. **Mentor Graphics** L. Don Maulsby, sr vp, 58,915 Dec. 22 at $13.25, leaving 19,357. **Nike** Donald W. Blair, vp and CFO, 64,300 Dec. 23–29 at $97.14, leaving 75,327. Mark G. Parker, president and CEO, 20,000 Dec. 27–Jan. 4 at $98.00, leaving 281,476. **Pope Resources** David L. Nunes, president and CEO, 7,300 Dec. 23–29 at $42.96, leaving 96,100. **Red Lion Hotels** Donald K. Barbieri, director, 61,400 Dec. 23–27 at $7.01, leaving 1,034,417. **Seattle Genetics** Clay B. Siegall, president and CEO, 15,000 Jan. 3 at $16.73, leaving 1,130,055.

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