



Seattle Post-Intelligencer

# BUSINESS

AND TECHNOLOGY

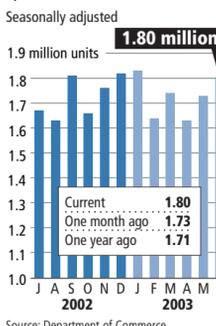
FRIDAY, JULY 18, 2003 SECTION C

## THE ECONOMY

**Construction:** The Commerce Department reported yesterday that the number of housing projects builders broke ground on rose 3.7 percent in June from May to a seasonally adjusted annual rate of 1.8 million units, the strongest showing since January. The increase came despite wet weather in some parts of the country and followed a sizable 6.8 percent advance registered in May. **SEE C6**

### Housing starts

Here is a look at the construction rate of new homes and apartments.



## BIGGEST LOSS IN FOUR MONTHS ON NASDAQ

Yesterday's closes

- Dow Jones 43.77
- Nasdaq 49.95
- S&P 500 12.27
- Wash.100 38.90

**9,050.82**  
**1,698.02**  
**981.73**  
**1,589.35**

**Major markets:** The Nasdaq composite index suffered its biggest point loss in four months yesterday as investors, irked by a cautious outlook from IBM and a profit warning from Nokia, quickly sold off stocks. The Nasdaq dropped nearly 50 points in Wall Street's third straight day of declines. The tech-dominated Nasdaq slid 2.9 percent. While IBM was the Dow Jones industrial average's biggest loser, the blue chips' loss was a modest 0.5 percent.

**The Harris Washington 100:** Shares of aQuantive Inc. fell \$1, or 10.15 percent, to \$8.85. On Tuesday, the marketing company's stock fell \$1.75, or 15 percent, to \$9.63, after it was announced that a unit lost some business of AT&T Wireless and it lowered its earnings forecast.

## COMING UP

**The former Seattle Garden Center space at Pike Place Market has sat vacant for nearly a year. Now two new businesses are getting ready to move in.**

## TOMORROW

## Linkup may signal emerging trend

VENTURE CAPITAL  
**JOHN COOK**



WITH THE VENTURE CAPITAL industry mired in a prolonged slump, Jon Stenberg knew it would be tough to raise a new fund this year. So the Seattle venture capitalist, who has backed nearly three dozen companies over the past decade, did the next best thing. Stenberg dropped plans for his own fund and linked up with Rustic Canyon Ventures, a Santa Monica, Calif., firm with more than \$550 million under management, half a dozen partners and a branch office in Silicon Valley.

Together, Stenberg and Rustic Canyon have already raised \$130 million from individuals, institutional investors and the federal government. They plan to close the new fund, dubbed Rustic Canyon Ventures SBIC, this summer at \$175 million. Stenberg, who will become a partner in Rustic Canyon's new Seattle office, admits that he could not have raised that much money on his own.

"Let's just say that it would have been challenging," said Stenberg, a former Microsoft manager who currently manages \$100 million. "I didn't even want to go down that path."

Combining forces to raise a new fund is somewhat unusual in the venture capital industry. Seattle area firms Encompass Ventures and Digital Partners merged last year, but they have yet to announce a new fund.

John Taylor, vice president of research at the National Venture Capital Association, was unaware of any other examples.

SEE VENTURE, C2

## BRIEFS

### Seattle apartment rents among highest in West

Seattle, with an average rent of \$861, ranked as the West's most expensive apartment market outside California, according to a study released yesterday by the research firm RealFacts. Novato, Calif.-based RealFacts surveyed 9,200 apartment complexes in 26 major markets in the West and Southwest.

### City Bank of Lynnwood posts 3% profit growth

City Bank of Lynnwood said its second-quarter net income rose 3 percent from a year ago. The company earned \$5 million, or 50 cents a share, up from \$4.9 million or 49 cents a share.

The bank said net interest income fell as the average yield on loans dropped faster than rates paid on deposits. But that was more than made up by an increase in premiums on mortgages sold. City Bank operates eight branches and has \$662 million in assets.

## NEW TOP OFFICER

► **Seattle Genetics Inc.** has hired Douglas Williams as chief scientific officer and executive vice president for research and development. Williams previously worked for Immunex Corp. as executive vice president and chief technology officer.

This report includes information from P-I staff, The Associated Press and Bloomberg News.

# Microsoft reserve at \$49 billion

## 25 percent growth in quarter, but no jump in dividend

BY TODD BISHOP  
P-I reporter

Another strong quarter of earnings helped push Microsoft Corp.'s legendary cash stockpile to more than \$49 billion, but the company resisted pressure to give more of that money back to its shareholders in the form of a larger dividend.

Microsoft yesterday reported net in-

come of \$1.92 billion, or 18 cents a share, for its fourth fiscal quarter ended June 30. That was an increase of more than 25 percent compared with its net income of \$1.53 billion, or 14 cents a share, in the same quarter last year.

But the Redmond software company did not boost its annual dividend beyond the 8 cents a share it announced earlier this year. That possibility received wide-

spread attention leading up to the earnings release, including a Barron's magazine cover urging Microsoft Chairman Bill Gates — drawn clutching a bag of money — to "share the wealth."

John Connors, the company's chief financial officer, yesterday said Microsoft needs to maintain "significant funds" to allow for future acquisitions and to cover its "considerable legal and business

risks." He cited, in particular, unsettled European Commission allegations and an antitrust suit filed by Sun Microsystems.

"We don't feel it would be prudent to commit to a long-term program until we see our way through those," Connors said in a conference call with analysts.

In the meantime, the company's results continue to improve. Microsoft reported sales of \$8.07 billion in the fourth

SEE MICROSOFT, C2



Tony Gioia, president and chief executive at Tully's Coffee Corp., is partially obscured by the steam as he takes in the smell of roasted coffee beans yesterday at the plant in Seattle. The company has introduced coupon books and expanded the availability of ice cream to more stores.

# Sales warming up at Tully's

## Ariel Development closes deal on old Rainier Brewery

P-I STAFF

Ariel Development Inc. has bought the old Rainier Brewery from The Benaroya Co. for \$5.973 million, according to property records. The deal closed yesterday.

Tully's Coffee Corp., which still has several years left on its lease, will continue to be headquartered in the landmark building next to Interstate 5, said President and Chief Executive Officer Tony Gioia. The company

expects to receive a significant rent reduction within the year, he said.

The remaining 140,000 square feet that is not occupied by Tully's could become home to artist studios, rehearsal space, non-profit offices and other facilities, according to plans by Ariel Development.

The Benaroya Co., which was originally asking for \$6.5 million for the property, bought the building in 1999 from Stroh Brewery Co.

## CEO Tony Gioia is leading coffee firm toward profit

BY CHRISTINE FREY  
P-I reporter

Over the years, Tony Gioia has sold ice cream, doughnuts and gourmet foods, but since moving to Seattle about 14 months ago, it has been coffee.

He took over Tully's Coffee Corp. in May 2002 with the task of improving the company's operating performance. In that time, he has closed several unprofitable stores, reduced staff at its corporate headquarters

and gotten out of a costly baseball stadium sponsorship at Safeco Field.

Tully's, which has yet to post an annual profit in its 11-year history, reported last month another loss for fiscal 2003. And the company does not expect to be profitable this fiscal year.

But the company is showing some signs of improvement.

Tully's same-store sales — which measure sales at stores

SEE TULLY'S, C6

## A MOMENT WITH

### DIXIE AND GENE PORTER, OF DIXIE'S BBQ

Dixie's BBQ/Porter Automotive in Bellevue is hard to find, but barbecue lovers make the effort. They come not just for the food but also for the owners' vivid personalities and the funky atmosphere: a converted garage, with church pews for outdoor seating.

Dixie's sells bumper stickers promoting "The Man," a dark sauce so incendiary that Gene serves it on the tip of a toothpick. But the biggest draws are Dixie's brisket and pork ribs. The 9½-year-old restaurant serves about 6,000 pounds of meat a week.

Dixie, who says she's "over 64," was born in Franklinton, La. She met Gene, 64, who comes from Liberty, Miss., in New Orleans, where she was studying to become a nurse. She still works part time as an RN at a veterans hospital.

They have two children and five grandchildren.

► **Dixie, why is this place so popular?** Because we have good food, honey! And we give good service and a large portion. We serve 200 to 300 people a day.



Gene Porter, of Dixie's BBQ/Porter Automotive in Bellevue, doesn't work on cars.

We've never advertised. If people don't have money, I let them write an IOU and we feed 'em. Why not?

► **Do you eat other restaurants' BBQ?** No. They don't know how to cook it! It's too tough.

► **Gene, do you still fix cars here?** No. Don't touch cars.

► **The sign says "Dixie's BBQ/Porter Automotive."** I don't care what it says, I don't do it. I own the building, I don't have to take the sign down less'n I want to.

► **Has the restaurant business been good for you?** Ain't no problem at all.

► **Do you do most of the cooking?** I do all the meats. My wife do all the beans, the cornbread and the lemon cake.

► **How do you relax?** I work all the time. There's never no end.

► **What's in "The Man"?** Heat.

► **How many people actually like it?** Nobody like it. The record is 9 spoonfuls.

► **Do you like it?** Nope. I don't touch it. I ain't stupid.

—Dan Richman

# Amazon, retailers sued for royalties

BY PHAM-DUY NGUYEN  
Bloomberg News

Amazon.com Inc., Borders Group Inc. and other retailers are accused in a lawsuit of illegally using patented technology that uses shoppers' information to customize visits to their Web sites.

Pinpoint Inc. sued the retailers yesterday in U.S. District Court in Illinois, alleging that they have infringed four patents that cover personalization technology. The company, owned by Phonetel Patent Services Inc. in Fort Worth, Texas, is seeking royalties from Amazon and others.

Investment in personalization technology is expected to reach \$2.1 billion

SEE PINPOINT, C2

## INSIDE

A look at the past year for Microsoft's numerous business units

SEE C2

# Salaried Boeing workers face cuts

Bulk of next 4,000 to 5,000 layoffs will come from non-union ranks

BY PAUL NYHAN  
P-I reporter

The Boeing Co. will focus more on thinning its salaried work force, shifting the emphasis away from hourly union workers, in its ongoing struggle to cope with an unprecedented commercial aviation downturn.

As it begins its third round of layoffs in two years, the company plans to cut 4,000 to 5,000 more jobs this year, through layoffs and attrition. But local International Association of Machinists will absorb only 10 to 11 percent of those cuts.

Although Boeing has announced 40,000 potential job cuts in three stages, the company is simply trying to respond to an unparalleled financial crisis among U.S. carriers, according to academic and consulting experts.

"I think they are reacting as best they can. This is the worst revenue environment I have ever seen," said Darryl Jenkins, director of The Aviation Institute at George Washington University in Washington, D.C. "Just when you think you can breathe again, here is another plague."

Machinist Gary Grant, though, found little comfort in the news, worried

## UPDATE

**PREVIOUSLY** Boeing plans to cut 4,000 to 5,000 more jobs this year.

**THE LATEST** Boeing expects to cut more salaried workers in the new round.

**WHAT'S NEXT** Boeing plans to release its second-quarter earnings Wednesday.

**INSIDE** Senator wants data on tanker leasing from Air Force. **C6** Two ex-Boeing workers indicted in Lockheed case. **C6**

SEE BOEING, C6