

M A R P L E ' S

Northwest Business Letter

INSIDE THE PACIFIC NORTHWEST ECONOMY

Washington • Oregon • Idaho • Montana • Alaska



IMPORTANT

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In this issue:

- PNW Snapshot:** A look at how the Northwest's largest companies' stock prices fared last quarter. Page 2
- Leader of the pack:** The Port of Grays Harbor has parlayed its strengths into eye-popping growth. Pages 2-4
- Fast company:** An automaker near Tri-Cities may make the world's fastest production car. Page 4

Wet weather crimps volume and quality of Northwest hay harvest

The hay crop was finally in the barn at some Pacific Northwest farms, while harvests of third and fourth cuttings were still under way in mid-August at other operations. Strong demand is pushing hay prices upward regionally and nationally, leaving most farmers feeling good about this year's market prospects — except for those whose harvests were caught by late-spring/early summer rains.

Weather was more of a crapshoot than usual for hay farmers' first cuttings this year, with rain pushing back harvests an average of three weeks across the region. Even with the delay, some farmers were slammed by unseasonal mid-July showers that turned high-quality feed for horses or dairy cattle into marginal filler and bedding material for other livestock.

Rain damage on first cuttings was extensive. In the Columbia Basin, analysts said 80% or more of cut hay was rained on. Yields were average to above average, but quality was off. Tight supplies, however, allowed some farmers to sell fair-quality, rain-damaged hay at better-than-expected prices.

In Oregon's Klamath Basin, many farmers waited out the rain in early July, with cool weather keeping the crop from getting over-mature. Demand was strong from both in-state and out-of-state buyers.

Harvests ordinarily require five days or more of dry weather for fields to be cut, raked into windrows, turned for further drying, baled, and picked up. Rain at any point in that process can diminish the value of the crop.

The delayed harvest means many farmers in the Northwest expect to get one less cutting this year. That shortfall could be made up by higher volumes and better quality in later cuttings if the late-summer weather is advantageous. However, some analysts warn that a late first harvest often leads to reduced yields in subsequent cuttings.

This year's wet start tightened availability and boosted prices of premium orchard grass, timothy, and alfalfa to \$250-300 per ton. That compares with prices below \$200 a year ago. In early August, supreme alfalfa in California's Central Valley reached \$290 per ton.

Also pushing prices upward were the drought and sweltering temperatures across the South and Midwest, and a shift by many farmers from hay to corn for ethanol fuel.

Hay Prices Up 146% Over Last Year in Idaho, 72% in Washington and Oregon

| | 2011 | | | 2010 | | | 2010 avg. |
|--------------------------|-------|-------|-------|------|------|------|-----------|
| | May | June | July | May | June | July | |
| Idaho | \$175 | \$204 | \$216 | \$84 | \$88 | \$88 | \$89 |
| Washington/Oregon | 185 | 213 | 223 | 110 | 124 | 130 | 121 |
| National Average | 186 | 180 | 189 | 121 | 119 | 117 | 118 |

Prices are per ton of good alfalfa hay.
 Source: U.S. Department of Agriculture

Hay farmers in the Northwest stand to benefit from strong prices for their crops, but some worry about losing market share. Dairies and beef cattle producers may choose to reduce their herds instead of paying hay prices that push them into the red.

That happened in 2008 when hay hit \$250 and higher per ton. And it's happening again in the drought-stricken Southwest, where farmers are selling their animals to feedlots earlier than usual because parched pastures can't carry them.

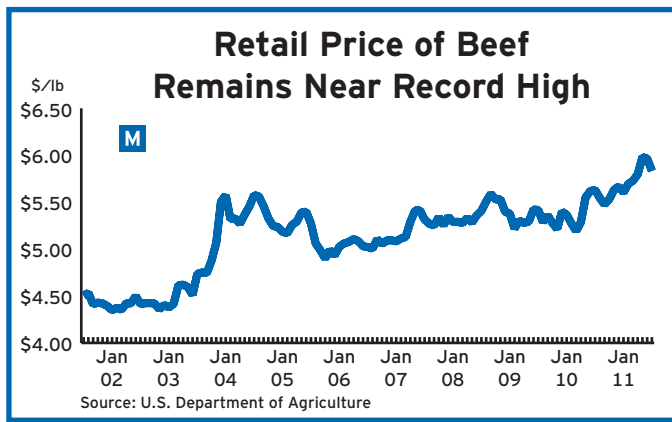
The shift to feedlots has other impacts, such as increasing demand for corn used as a primary feed. Corn prices are already high, in part due to flooding earlier this year across parts of the Corn Belt in the East and Midwest. In the West, some analysts said acreage planted in hay is down 10-15% this year as growers seek higher returns with corn or wheat.

A few analysts predict that corn prices could reach a record \$8 per bushel if the hot weather in the Midwest continues. The U.S. Department of Agriculture projected an average farm price at \$6 to \$7 per bushel, still a record. USDA reported in June that for the first time ever, more corn was grown to produce fuel than animal feed.

Lower numbers of beef cattle are expected to keep beef prices high at the supermarket. USDA forecast that retail meat prices could jump as much as 7% this year. Northwest Farm Credit Services reports that cattle supply is expected to remain tight in 2011 and into 2012, with the fewest beef cow numbers since 1963.

"Although record-high cattle prices signal the need for expanding herds, adverse weather, increased input costs, a lethargic economy, political concerns, and continued high feedlot placements continue to limit growth," Farm Credit reported.

Hay figures prominently in the ag revenue picture for all the states on our masthead except Alaska. Rated by cash



26% from February and 35% from March 2010. Exports to Japan from the Northwest were up 19% in March compared to March 2010, and exports to other countries were up 58%.

Tight supplies and strong prices aren't likely to change soon for domestic or overseas buyers of Pacific Northwest hay. And while the higher-valued crop is bringing more money back to the farm, growers remain mindful that they could be pricing themselves out of some markets. **M**

Tiny Port of Grays Harbor setting the pace among Washington's ports

Relative proximity to the globe's fastest-growing economies (especially China, India, and Indonesia) and their beefy appetites for U.S. raw materials have helped turn Pacific Northwest seaports into bright spots in an otherwise gloomy, slow-growth recovery.

This is especially true at the tiny Port of Grays Harbor, Washington's only truly coastal deep-water port. Since 1995, it has had a 167% increase in tonnage. That tonnage may double over the next two years based on projects under way.

About a decade ago, Grays Harbor was like most other coastal ports in Washington and Oregon in facing a decline in the export of logs and other cargo. As recently as 2003, only eight vessels called at the port; only 19 called in 2006. A sharp rebound became apparent last year, when 65 ships tied up along Grays Harbor's docks. More than 1.4 million metric tons passed through the port in 2010, an increase of 84% from 2009 and more than four times 2006's tonnage. Only Olympia has had a larger increase by percentage (185%) since 1996.

Two keys have powered the Port of Grays Harbor's growth: Its proximity to the ocean — a day closer to Asia than Puget

receipts for agricultural commodities, Idaho is the nation's second-largest producer of hay, behind California. In 2009, the most recent year for data, USDA showed Idaho selling hay valued at \$420.4 million. The crop was Idaho's fifth-largest revenue producer in agriculture, trailing dairy products, cattle and calves, potatoes, and wheat.

Washington was the nation's fourth-largest hay producer in 2009, with a crop valued at \$295.4 million. Oregon was close behind, ranked fifth nationally with a crop valued at \$282.9 million. Montana's hay crop valued at \$116.4 million ranked that state 18th in the country.

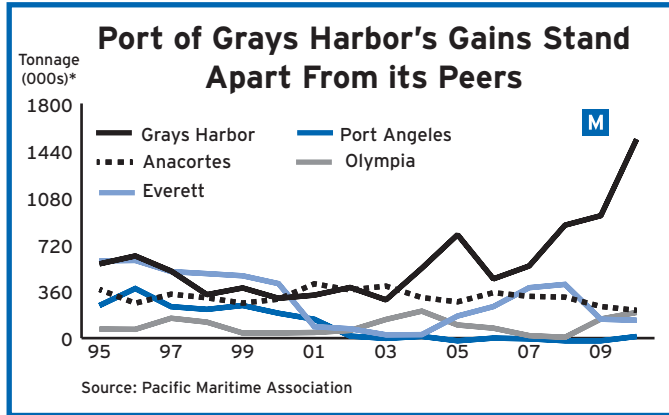
Export markets are seeing consequences from the late harvest and higher values of hay. Exporters are approaching the market with caution, leery of repeating the experience of 2008 when prices drove overseas customers to other feed sources. Some exporters sitting on inventory that year took a hit of \$100 per ton. Reports that U.S. hay is twice as costly as Spain's have circulated in the ag press.

Nevertheless, Farm Credit reports that the overseas market for hay from the West Coast remained strong early in the year. Hay exports from the Northwest in March were up

| PNW Snapshot | | | | | | | | | | | |
|---|----------------------------------|--------|--------------------------|---------|--------|----------------------------|-----------------|----------------|-----------------------------------|-------------------|-----------------------------|
| Performance of Region's 10 Largest Companies Last Quarter | | | | | | | | | | | |
| Past 12 months ¹ | Market Capitalization (billions) | Symbol | Name | 52-week | | Current Price ² | Annual Dividend | Dividend Yield | Price/earnings ratio ³ | Forward P/E ratio | Analyst Rating ⁴ |
| | | | | High | Low | | | | | | |
| | \$209.59 | MSFT | Microsoft | 29.46 | 22.73 | 25.51 | 0.64 | 2.50% | 9.29 | 7.88 | 2.1 |
| | 88.89 | AMZN | Amazon.com | 227.45 | 122.25 | 202.95 | n.a. | n.a. | 86.38 | 58.81 | 2.3 |
| | 44.90 | BA | Boeing | 80.65 | 59.48 | 62.70 | 1.68 | 2.70% | 12.81 | 11.52 | 2.0 |
| | 38.18 | NKE | Nike | 94.23 | 68.32 | 85.13 | 1.24 | 1.50% | 18.31 | 14.31 | 1.8 |
| | 32.00 | COST | Costco | 83.95 | 54.05 | 74.08 | 0.96 | 1.30% | 22.83 | 18.98 | 2.3 |
| | 26.45 | SBUX | Starbucks | 41.11 | 22.50 | 38.42 | 0.52 | 1.40% | 23.20 | 19.39 | 2.1 |
| | 20.70 | PCP | Precision Castparts | 171.43 | 111.16 | 152.54 | 0.12 | 0.10% | 19.52 | 13.82 | 1.9 |
| | 13.57 | PCAR | PACCAR | 58.75 | 36.88 | 38.08 | 0.72 | 1.80% | 18.84 | 10.11 | 2.1 |
| | 9.30 | WY | Weyerhaeuser | 25.33 | 15.06 | 17.22 | 0.60 | 3.40% | 6.02 | 23.66 | 2.9 |
| | 9.06 | EXPD | Expeditors International | 57.15 | 39.21 | 44.50 | 0.50 | 1.10% | 24.42 | 19.88 | 2.5 |

Source: Yahoo Finance. 1 - Y-axis on different scales. 2 - As of Aug. 15. 3 - Trailing 12 months 4 - 1 = Strong buy 5 = Sell

Sound and Columbia River ports — and its infrastructure. The port boasts a rail link to the main north-south line and access to the Union Pacific and BNSF railroads that the port has built and heavily promoted. With Asia's insatiable appetite for U.S. goods, crops, and raw materials on the rise, coupled with a weak dollar, Grays Harbor was perfectly positioned to benefit.



The dollar's relative weakness makes U.S. exports more competitive, and as Port of Grays Harbor Executive Director Gary Nelson puts it, "95% of what we do is exports."

The port has poured millions of dollars into expanding and upgrading rail lines and sidings in and around its property. An \$18.6 million project that will add nearly seven miles of track is scheduled for completion later this year.

While the port still exports logs, they represented only 6% of its total tonnage in 2010. Instead, as that commodity has declined, the port has hitched its wagon to the booming agricultural export market to Asia (see graph).

Last year, bulk goods, mostly soybean meal, represented 76% of the port's tonnage. The port has quickly become the largest exporter of that commodity on the U.S. West Coast, and the volume stands to grow. Ag Processing, a Midwest-based, farmer-owned co-operative that began exporting grain and animal feed in 2003, is expanding its facility with plans to triple export volumes over the next three years.

Westway Terminals opened a \$20 million liquid bulk storage and distribution facility at the port last year that also will contribute to bulk good exports.

In two years, auto exports have grown to 16% of Grays Harbor's business. The port is not only the third-largest auto exporter on the U.S. West Coast, but it also serves as Chrysler's West Coast export gateway after the Pasha Group and Siem Car Carriers won the contract for the work in 2009. Case-New Holland and Caterpillar also send farm equipment and heavy machinery overseas from Grays Harbor. The tide is beginning to flow both ways: Kia vehicles were imported through Grays Harbor earlier this year.

Imperium Renewables, a biofuel processor, built the largest biofuel processing facility in North America in 2007 at the port, and began exporting fuel that year. Imperium has hit a couple bumps since then. Export volumes declined steadily

on sagging demand, and an explosion closed the plant for three months in 2010. Industry chatter has Seattle-based Imperium considering expansion at the Grays Harbor plant.

Cosmo Specialty Fibers in late July shipped its first load of pulp to China from the port. Cosmo reopened a formerly shuttered Weyerhaeuser Co. plant in nearby Cosmopolis in May, bringing about 200 jobs to the area.

Grays Harbor also makes the list of possible sites for a coal export terminal on the U.S. West Coast. Nelson said the port has been approached by a developer looking for a bulk-goods export terminal, which could include coal. "We're pretty open," Nelson said. "We'll sit down and listen."

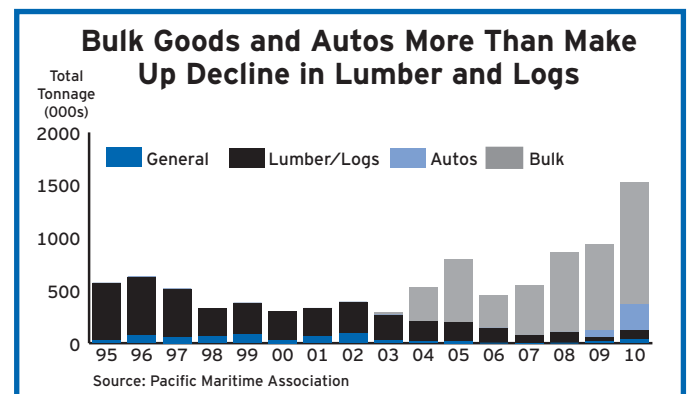
RailAmerica, owner of the shortline Puget Sound & Pacific Railroad that serves the port, is connected to a plan that would lease a former log yard at the port for a coal terminal.

The port is forecasting expansion by Westway Terminals. Informally, it anticipates growth in auto exports, as well as some increase in import activity from today's relatively low volumes. Including infrastructure projects under way, private investments since 2003 will total \$200 million by year's end.

Based on expansion plans of which the port is aware, it projects that its operating revenue, a mere \$6.0 million as recently as 2006, will reach \$33.4 million by 2015, compound annual growth of 21%.

Other businesses have sprouted up around the port. New-Wood in June restarted a shuttered Boise Cascade plant at nearby Elma, hiring roughly 150 people to make a wood/plastic composite. In Aberdeen, not far from the port, Washington's Department of Transportation is building a huge casting basin where pontoons for the replacement of the Highway 520 bridge across Lake Washington will be made. The effort will employ nearly 300 workers, although many of the union workers on the job live outside the area, muting the project's local economic impact.

The growth at and around the port is sorely needed by Grays Harbor County, whose 13.8% unemployment rate in June was highest in the state, and up 1 percentage point from May. The closure of the Grays Harbor Paper mill last spring put 240 people out of work, adding to the county's woes. Even when the state economy has grown, the unemployment rate in Grays Harbor County, like most counties whose economy was timber-based, has been high.



The jobs directly and indirectly related to the port's growth likely wouldn't even fill one floor of a building at Microsoft. And they may not make a big dent in the unemployment rate. But there are numerous communities along the coast who would gladly take the jobs the Port of Grays Harbor has helped generate. **M**

World's fastest car ... in the Tri-Cities?

A small Washington-based automaker's latest creation may very well be the world's fastest production car. The privately owned shop near the Tri-Cities seeks to reclaim the title it held for nearly three years.

Shelby SuperCars has to date produced only two models: the Ultimate Aero and now the Tuatara, which debuted in July. The Ultimate Aero became the world's fastest production car in 2007 when it reached 256 mph on a farm road southwest of the Tri-Cities. But in June 2010 a Bugatti

Veyron Super Sport hit 268 mph on Volkswagen's test track in northern Germany, reclaiming the title Bugatti had held from 2005-07.

Jerod Shelby started Shelby SuperCars in his hometown in 1999, and has more than 30 engineers working on the Tuatara. (No relation to Carroll Shelby, best known for the Shelby Cobra and work on Ford's Shelby Mustangs.)

Shelby told Classic Driver that the Tuatara — with a 1,350-horsepower engine — is capable of reaching 275 mph. Alan Leverett, Shelby's chief administrative officer, said the company will wait for the right time to make an attempt at reclaiming the speed record.

You better act fast if you want one. Shelby is expected to make only 14-16 Tuataras annually. And dig out your checkbook. The company hasn't announced the Tuatara's price, but one of these hot rods is reported to cost between \$800,000 and \$900,000. **M**

Selected open-market transactions reported Jul. 29-Aug. 12 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

Barrett Business Services Thomas J. Carley, director, 4,500 Aug. 10 at \$13.22, total 22,028. **Boeing** Susan C. Schwab, director, 346 Aug. 11 at \$57.96, total 1,493. **Boise** Alexander Toeldte, director, president & CEO, 14,000 Aug. 5 at \$5.30, total 54,000. **Concur Technologies** Randall H. Talbot, director, 5,000 Aug. 1 at \$43.89, total 15,189. **Glacier Bancorp** Michael J. Blodnick, president and CEO, 14,374 Aug. 2-9 at \$12.50, total 404,063. Dallas I. Herron, director, 12,000 Aug. 4-9 at \$11.38, total 32,450. Everit A. Sliter, director, 7,000 Aug. 5 at \$12.60, total 392,203. John W. Murdoch, director, 5,500 Aug. 5-9 at \$12.09, total 19,002. **Greenbrier Companies** William A. Furman, president and CEO, 100,000 Aug. 8-11 at \$13.99, total 3,635,191. Donald A. Washburn, director, 2,500 Aug. 10 at \$13.74, total 38,902.

Lacrosse Footwear Joseph P. Schneider, president and CEO, 3,344 July 27-Aug. 9 at \$13.42, total 314,820. **Northwest Pipe** Robin A. Gantt, CFO, 1,500 Aug. 10 at \$26.07, total 1,900. **Oncogenex Pharmaceuticals** Stewart H. Parker, director, 3,000 Aug. 9 at \$10.09, total 3,000. **Pacific Financial** Randy W. Rognlin, director, 17,580 July 29-Aug. 2 at \$4.06, total 412,881. **Pixelworks** Steven L. Moore, vp, CFO and treasurer, 43,000 July 29-Aug. 8 at \$2.14, total 122,291. James R. Fiebigler, director, 20,000 Aug. 5 at \$2.19, total 93,000.

Red Lion Hotels Columbia Pacific Opportunity Fund, shareholder, 78,973 July 28-Aug. 5 at \$7.09, total 4,831,129. **Rentrak** William Paul Livek, CEO, 9,901 Aug. 9 at \$12.50, total 113,285. Christopher T. Wilson, president, 5,000 Aug. 9 at \$13.06, total 5,000. **Schnitzer Steel Industries** Wayland R. Hicks, director, 600 (via trust) Aug. 10 at \$41.51, total

10,328. **Sonosite** Paul V. Haack, director, 3,000 Aug. 10 at \$28.80, total 23,029. John W. Sparacio, COO, 2,000 July 29 at \$32.73, total 3,000.

INSIDER SELLING

Amazon.com Thomas J. Szkutak, sr vp and CFO, 20,000 Aug. 1 at \$223.12, leaving 32,442. Patricia Q. Stonesifer, director, 5,000 Aug. 1 at \$224.62, leaving 67,883. **American Ecology** Stephen A. Romano, director, 7,949 Aug. 5 at \$18.00, leaving 140,000. **Clearwater Paper** Thomas H. Carter, sr vp, human resources, 3,285 Aug. 9 at \$66.75, leaving 24,402. **Digimarc** Bruce L. Davis, chairman and CEO, 19,900 (via trust) July 28-Aug. 1 at \$40.23, leaving 57,254. Michael McConnell, treasurer and CFO, 3,000 Aug. 8 at \$38.00, leaving 55,267. **Electro Scientific Industries** Bing-fai Wong, vp, 21,750 July 29 at \$19.30, leaving 42,872.

F5 Networks Dan Matte, sr vp, 5,478 Aug. 1 at \$93.32, leaving 4,883. Mark Anderson, sr vp, 5,299 Aug. 1 at \$93.22, leaving 10,553. Karl D. Triebes, sr vp, 4,565 Aug. 1 at \$93.26, leaving 4,536. Jeffrey A. Christianson, sr vp and general counsel, 4,419 Aug. 1 at \$93.30, leaving 11,167. Andrew Reinland, sr vp and CFO, 3,424 Aug. 1 at \$93.26, leaving 8,357. John E. Rodriguez, sr vp and CAO, 3,225 Aug. 1 at \$93.24, leaving 12,299. Edward Julian Eames, sr vp, 2,721 Aug. 1 at \$93.26, leaving 13,153. **Lattice Semiconductor** Byron W. Milstead, vp and general counsel, 24,793 Aug. 5 at \$5.66, leaving 7,201.

Marchex Russell C. Horowitz, CEO, 90,000 Aug. 5 at \$9.24, leaving 552,250. John Keister, exec vice chairman, 25,000 Aug. 1-9 at \$9.56, leaving 631,743. **Microsoft** Bill Gates, director, 15,000,000 July 27-29 at \$27.63, leaving 540,977,585. Lisa E. Brummel, sr vp, 80,555 July 28 at \$27.97, leaving 244,051. Frank H. Brod, CAO, 7,000 July 27 at \$27.75, leaving 102,929. **MWI Veterinary Supply** James S. Hay, CIO, 1,500 Aug. 1 at \$89.08, leaving 4,002. Mary Patricia B. Thompson, sr vp, secretary and CFO, 1,000 Aug. 1 at \$89.09, leaving 37,694. John R. Ryan, vp, 1,000 Aug. 1 at \$89.03, leaving 10,055. **Starbucks** Mellody L. Hobson, director, 32,250 Aug. 1 at \$39.74, leaving 16,095.



Published by Random Lengths Publications, Inc.

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Subscription rates, one year (US\$). All prices in U.S. funds. Overseas rates for postal delivery include Airmail postage.

PDF by e-mail, U.S., Canada, and Overseas: \$135.00.

Postal delivery: U.S., \$135.00; Canada, \$147.00; Overseas, \$159.00.

Postal + PDF: U.S., \$147.00; Canada, \$159.00; Overseas, \$171.00.

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