

BUSINESS

MATTHEW SAUER, BUSINESS EDITOR, 361-4670, matthew.sauer@heraldtribune.com Saturday, May 15, 2010 SECTION D

YESTERDAY'S MARKET

| | | | | | | | |
|--------------|-----------|---|--------|-------------------------|------------|---|------|
| DOW JONES | 10,820.16 | ▼ | 162.79 | GOLD | \$1,227.40 | ▼ | 1.40 |
| S&P 500 | 1,135.68 | ▼ | 21.76 | SILVER | \$19.202 | ▼ | .274 |
| NYSE | 7,077.64 | ▼ | 156.73 | CRUDE OIL | \$71.61 | ▼ | 2.79 |
| NASDAQ | 2,346.85 | ▼ | 47.51 | ORANGE JUICE | 142.60 | ▼ | .35 |
| AMEX | 1,848.68 | ▼ | 36.23 | CATTLE | 93.25 | ▼ | 2.32 |
| RUSSELL 2000 | 693.98 | ▼ | 15.87 | TREASURY NOTE (2-YEAR) | 0.79 | ▼ | 0.05 |
| TOTAL MARKET | 11,876.34 | ▼ | 238.48 | TREASURY NOTE (10-YEAR) | 3.46 | ▼ | 0.07 |

MARKETPLACE

WASHINGTON

Spending rises for seventh month

Retail sales rose in April for the seventh straight month, offering hope that consumer spending will keep supporting the economy in the months ahead. The Commerce Department said that retail sales rose 0.4 percent last month, better than the 0.2 percent increase economists had expected. The gain was less than the 2.1 percent growth in March. Excluding autos, retail sales climbed 0.4 percent in April, matching expectations.

WASHINGTON

Industrial output is fueling recovery

Industrial production logged a stronger-than-expected gain in April, more evidence that manufacturing is playing a lead role in powering the economic recovery. The 0.8 percent increase in output at the nation's factories, mines and utilities reported by the Federal Reserve marked an improvement from the 0.2 percent rise registered in March. It marked the best showing since a 1.2 percent jump in January.

WASHINGTON

Inventories show boost in confidence

Businesses boosted their inventories for a third straight month in March, a further sign that they are gaining confidence in the strength of the recovery. Businesses increased inventories by 0.4 percent in March, matching expectations. Total business sales rose 2.3 percent, the best showing in four months and the sixth straight gain in sales.

WASHINGTON

Fed policymakers defend rate pledge

Two Federal Reserve policy makers defended the central bank's pledge to keep interest rates low for an "extended period," saying it could be altered to account for improvements in the economy. "Commitments to maintain interest rates at a given level must be properly conditioned on the evolution of the economy," Fed Vice Chairman Donald Kohn said. Narayana Kocherlakota, president of the Minneapolis Fed, said the pledge does not stop the Fed from raising rates "if economic conditions change appropriately, whether that's in three weeks, three months or three years."

ANCHORAGE, Alaska

Shell clears hurdle on Arctic drilling

Shell Oil won a court victory in its quest to drill exploratory wells in Arctic waters this summer but still faces several regulatory hurdles. The company is awaiting appeals of required federal air permits before it can send its drilling ship north to the Chukchi and Beaufort seas off Alaska's northwest and north coast. The company also needs a final Interior Department blessing and authorizations on several wildlife issues.

MARKET REPORT

Waddell & Reed pegged in drop

Shares of money manager Waddell & Reed Financial Inc. fell after it was identified as the stock trader that sold off a large number of index futures contracts during the May 6 market collapse. Waddell's sale of 75,000 e-mini futures contracts in a 20-minute span drew the attention of regulators. E-minis are tied to the value of the S&P 500 index. They are traded electronically on the Chicago Mercantile Exchange. Kansas-based Waddell & Reed, which provides mutual funds and asset management services, said its trading was part of its effort to protect fund investors. Shares were \$32.25, down \$1.81, or about 5 percent.

Phoning without wires, or strings

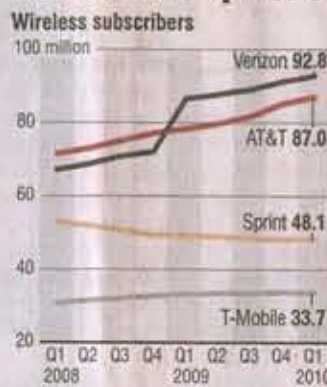
By PETER SVENSSON
AP Technology Writer

NEW YORK — For wireless subscribers, commitment is out and short-term relationships are in.

This year, customers have been making a big shift away from two-year contracts toward "prepaid" cell phone service, which often costs less and does not require contracts. This is happening even though contracts are needed to get popular phones such as the iPhone and the Droid.

Now prepaid service looks

New subscriptions



NOTE: Verizon figures jumped in the first quarter of 2009, largely due to the purchase of Alltel.

SOURCE: The companies ASSOCIATED PRESS

like it will get even more attractive, with further price cuts. That is because wireless carriers have hit a wall when it comes to finding new customers who will sign contracts.

"I would love to have an iPhone. I just can't swallow the \$70 or more bill that would come with it," said Jeff Finlay, a 45-year-old stay-at-home dad in San Antonio who uses a prepaid plan.

See PHONES on 3D

DRYWALL MAKER IS SETTLING

DEAL WITH HOME BUILDER: KPT is by far the largest manufacturer defendant

By AARON KESSLER

aaron.kessler@heraldtribune.com

Chinese drywall maker Knauf Plasterboard Tianjin Co. Ltd. has reached an agreement to settle with Atlanta-based national home builder Beazer Homes, according to three people familiar with the matter.

As the Herald-Tribune report-

ed May 3, KPT has been negotiating with as many as 10 home builders recently.

Knauf Tianjin — commonly called KPT — declined to comment.

J. Kevin Buster, Beazer's attorney, said it was too soon to disclose any details.

"Nothing has been finalized, but we're hoping we'll have some-

See DRYWALL on 3D

ONLINE: To see documents and read past coverage, go to heraldtribune.com/chinesedrywall.



Behind actors Richard Coyle, above, and Jake Gyllenhaal, below, are leather hangings transformed into the wall art of ancient Persia by Sarasota company Digital Leather. The film "Prince of Persia" will be a widely seen advertisement for the firm when it hits theaters May 28. COURTESY IMAGES

It's a princely opportunity

KEY ROLE IN DISNEY FILM:

Sarasota company creates replica wall hangings

By MICHAEL BRAGA
michael.braga@heraldtribune.com

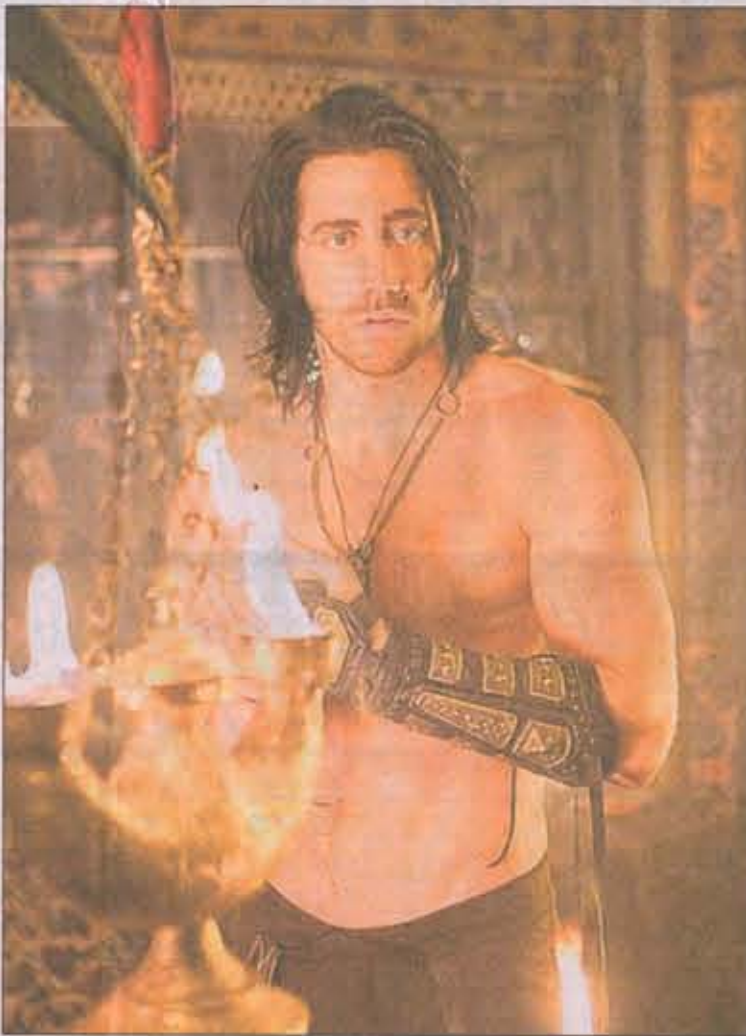
SARASOTA — Take your eyes off the actors in Disney's new movie "Prince of Persia: The Sands of Time" and you might catch a glimpse of full-length leather tapestries hanging from palace walls that only one company in the world could have created.

That is Sarasota's Digital Leather, a start-up enterprise whose founders believe they will revolutionize the hide-bound leather industry.

"The tapestries in Jerry Bruckheimer's movie represent what tapestries looked like back then," said Ron Simkins, Digital's Leather's chief executive. "But Disney didn't want to spend 30 years and \$30 million to replicate them. So they were directed to us because no one else in the world can create such big images on such large pieces of leather."

The timing could not have been better for Digital Leather.

The company — created by Simkins and fellow Sarasota entrepreneurs Art Lambert and Bob Mabbott — has only recently perfected the technology for printing multi-color, digital images onto leather and is only just beginning to fill customer orders at its plant on U.S. 301 in Manatee County. Nevertheless, Simkins and his



partners remain optimistic about their company's prospects for selling into the multi-billion-dollar auto, footwear, fashion and upholstery industries.

The footwear industry alone uses 11 billion square feet of leather a year, while the auto industry uses 4 billion and the fashion and upholstery industries used 2.5 bil-

lion each, Simkins said. If Digital Leather only captures a small fraction of those markets, its revenues will grow to hundreds of millions of dollars in a matter of a few years.

And what could be better for a fledgling company with global aspirations than free advertising of their product in a major Hollywood motion picture?

"When we were contacted by Disney and Bruckheimer and asked to undertake this Digital Leather project for the movie, we jumped at the opportunity to show the world exactly what we could do to digitally beautify leather," said Bob Mabbott, the company's chief technology officer.

Digital Leather took digital images created by Disney's artists, printed them onto thin strips of film and bonded that film — called "shape memory polymer" — so tightly to 30-foot-long cow hides that the images essentially became part of the material. It is the same service is provides to all its customers.

"The process was simple for the movie set designers," Simkins said. "Via the Internet from Morocco, they sent us the digital images they wanted to test, and we created a sample for them at our facility in the United Kingdom. Once Disney approved the concept, Digital Leather samples were created. The process was repeated in a production environment using the movie's final graphics to create a 10-tapestry palace backdrop, which is prevalent in the movie." See FILM on 3D

I'm right: Gains not subject to 'washsale rule'

Readers — good for them — want to make sure I have my facts right.

Q: I'm not a tax consultant, but my understanding is that the IRS does not allow the strategy you wrote about to obtain tax-free capital gains (selling a mutual fund and buying it back the next day). You're not allowed to buy back the same investment.

A: Several readers said the same thing and asked that I run a correction.

But there is nothing to correct. These readers are probably thinking about the so-called "washsale rule" that says you cannot claim a capital loss if you sell a security and buy the same or a



HUMBERTO CRUZ
THE SAVINGS GAME

"substantially identical" security within 30 days, either before or after the sale.

The rule does not apply if you sell at a gain, however. This gives investors who qualify an easy way to secure tax-free gains under a 0 percent long-term capital gains rate still in effect through the end of 2010 for taxpayers in the 15-percent-and-under tax brackets.

My mail tells me many people still don't know this: If your taxable income for the year, includ-

ing any long-term capital gains, does not exceed the top of the 15 percent bracket (\$68,000 for joint filers and \$34,000 for singles in 2010), then your long-term gains are tax-free. (For a gain to be considered long-term, you must have held the security more than a year).

Therefore, if you are sitting on long-term paper gains on an investment you want to keep, and if realizing those gains won't push you beyond the 15 percent tax bracket, it probably makes sense to sell and buy back.

Some caveats: Make sure you have no net capital losses that would be offset by the gains, negating any tax benefit. Consider

any possible price change between the time you sell and buy back, and whether any commissions or trading restrictions apply.

On another topic, several readers wondered why I'm so insistent on wanting low fees for variable annuities that guarantee minimum lifetime withdrawals regardless of how the annuity investments perform.

Q: Why would I care about the fees if I'm getting my guaranteed payments for as long as I live, even after principal is depleted? Aren't the actual account balance and fees immaterial? What exactly am I missing here?

A: This reader — and others See CRUZ on 2D

Sarasota leather firm has unusual supporting role

FILM from 1D
lent throughout the movie."

Digital Leather, which was paid \$30,000 for its Disney work, has so far focused mainly on filling small orders at its Manatee plant.

"Our customers range from Punchtown, which makes fighting gloves for the UFC guys that brawl in the octagon, to companies that make ladies' purses," Simkins said, referring to Ultimate Fighting Championship. "We're capable of printing leather for a craft-type person who only wants 1 square foot, to someone who wants 10,000 square feet."

All told, Digital Leather is equipped to churn out 1 million square feet of leather each year from its Sarasota plant. But that is just a tiny percentage of output the company intends to sell by licensing its technology to plants that already fashion leather for companies such as Ford, Mercedes, Louis Vuitton, Nike and Rooms to Go.

Though he would not say whether he landed a big company

like that yet, Simkins said he expects to make some major announcements before the year is out.

He said his go-to-market strategy entails blitzing the auto industry in July, the footwear industry in August and the fashion industry in October.

"Each of these industries has different requirements," Simkins said. "They have slightly different field-testing requirements, and we expect to get the first results back in July. Once those are in, we will post a white paper. Then the hotels around Sarasota will begin to get very busy with industry representatives flying in from all over the country."

In the meantime, Digital Leather is busy adding highly skilled, highly paid chemical and computer engineers and technicians to prepare for an increase in orders and demands for testing.

"This will always be a material-sciences company," Simkins said. "We will have more scientists than sales people."