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THE NEWSPAPER OF SILICON VALLEY

Governor toughens his talk on sports drugs

SCHWARZENEGGER PROMISES TO CLEAN UP BODYBUILDING

By Ann E. Marimow

Mercury News Sacramento Bureau

COLUMBUS, Ohio — In his strongest comments on drug use in bodybuilding, Gov. Arnold Schwarzenegger vowed Saturday to clean up the sport that first made him famous.

"Even though every sport is struggling with the drug issue, we have to do even more in order to get rid of drugs from our sport once and for all," the seven-time Mr. Olympia and former steroid user said before crowning the winner of the 2005 Arnold Classic, the bodybuilding finale of his fitness festival. "We have to do everything from A to Z."

Schwarzenegger directed his remarks to the sport's most hard-core competitors and biggest fans. They were met with polite applause from the 4,000 gathered to watch the bodybuilding finals and awards program.

Taking on the sport that is at the core of his philosophy and image is tricky for the governor, who has remained close to the industry. Schwarzenegger is also executive editor of the magazines Flex and Mus-

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VETERANS' FIGHT AT HOME: FIRST IN A TWO-PART SERIES



BRIAN TIETZ — KNIGHT RIDDER

Alfred Brown died before his case before the Department of Veterans Affairs was resolved.

WAGING A BATTLE FOR CARE

Inconsistent, error-prone system limits disability payments for many

By Chris Adams and Alison Young

Knight Ridder

Like thousands of his fellow veterans of America's wars, Alfred Brown died waiting.

In 1945, when he was a 19-year-old soldier fighting in Italy, shrapnel from an enemy shell ripped into his abdomen. But when Brown came home, the government that had promised to care for its wounded veterans instead shorted him.

Not until 1981, however, did Brown realize that the monthly disability check he'd been receiving since his discharge wasn't covering all his injuries. That's when he launched what would become a 21-year battle to get all the benefits he was owed. But Brown died before his case could be resolved.

Tens of thousands of veterans have returned from war only to find that they have to fight their own government to win the full disability payments

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THE DOT-COM BOOM
AUGUST 9, 1995 - MARCH 10, 2000
After the Bubble:
A Mercury News Special Report

FIRST IN A FIVE-PART SERIES

Five years later, still mourning

Silicon Valley rode the tech bubble like a kid on a roller coaster: The excess, the good times — we ate it up. But now, a deep slump poses a grim test for our famous optimism.

By Chris O'Brien and K. Oanh Ha
Mercury News

Lynn Gold isn't ashamed to admit it: She misses the dot-com bubble.

These days, she works part-time as a radio traffic reporter. And she gets by only thanks to money she has left from cashing out \$100,000 in stock options during the boom.

Her job is less stressful than the 60-hour weeks she worked at Netscape Communications, where she once collapsed at her desk. But she quickly becomes nostalgic for the days when she could afford long vacations to Australia or \$12,000 for her dog to have brain surgery.

Somehow, the future just doesn't seem as exciting as it did back then.

"I don't care if people called it an artificially inflated economy," Gold said. "It wasn't artificial to me. I was

INSIDE

Sky-high housing: There was a slowdown, but it was short-lived. PAGE 18A

Bye-bye, gridlock: A sea of brake lights is now nearly clear sailing. PAGE 18A

in it. I was living it."

Gold hasn't moved on. And neither has Silicon Valley.

Five years after the dot-com bust began, the valley is still haunted by the reminders of its recent past. The vacant offices. The relentless job cuts. The exodus of the unemployed. The bitter investors who lost billions. The exorbitant housing prices.

Silicon Valley has had boom-and-bust cycles before. But this one was

See BUBBLE, Page 19A

The days of silicon envy are over

Face it: The outside world is just not that into us anymore.

Yes, Silicon Valley was a pop-culture icon, back when the Nasdaq was peaking and the good balsamic was \$1,500 a bottle at Draeger's. And like any icon, everybody wanted a piece.

"There was Silicon Prairie, Silicon Forest, Silicon Glen, Silicon Alley, Silicon Everything," says Andrew Levine, president of DCI, a New York marketing company that helps regions sell themselves.

Levine could have gone on: Silicon Dominion, Silicon Gulch, Silicon Mesa. Or Silicon Swamp, which is what this place is beginning to feel like.

At the peak of silicon envy, 51 Silicon-something labels were in use around the world, says the Siliconia

Web site (www.tbtf.com/siliconia.html).

And now?

"I think communities and states that were pushing these silicon titles," Levine says, "have sort of, casually, sort of dropped them."

Sort of? Think hot potato. Nuclear waste. Ten-foot pole and not touching. "The mystique of Silicon Valley, as if it's some magical place where we are creating exciting new things that are changing the world? I'm not so sure they feel that way," says Howard

See CASSIDY, Page 18A



mikecassidy

COMING UP

MONDAY: VALLEY STILL WEALTHY
TUESDAY: CAULDRON OF CREATIVITY

WEDNESDAY: A VC FIRM ADAPTS
THURSDAY: INVESTOR DISTRUST

mercurynews.com How did the bubble affect you?

ILLUSTRATION BY STEPHANIE GRACE LIM AND KEVIN WENDT — MERCURY NEWS

Weather High: 46-50 Low: 68-72 Mostly sunny Complete forecast, 8B

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FIVE YEARS AFTER THE BUBBLE | A MERCURY NEWS SPECIAL REPORT



RICHARD KOCI HERNANDEZ — MERCURY NEWS ARCHIVES



RICHARD KOCI HERNANDEZ — MERCURY NEWS ARCHIVES



TOM VAN DYKE — MERCURY NEWS ARCHIVES

E-COLOR: Dot-com firm hosts a party at Glas Kat in San Francisco in 2000, the peak of the dot-com boom.

BEENZ.COM: Money flowed easily, and parties for a dot-com's first-year anniversary were common.

ULTRAVIBE: The MP3 dot-com's launch was the occasion for a 1999 blow-out at The Edge in Palo Alto.

WHERE ARE THEY NOW?



PETS.COM SOCK PUPPET

Claim to fame: Effervescent mascot for Pets.com was one of the most recognizable icons of the dot-com era.

Where he is now: Got a pink slip after the online pets supply retailer went bust in November 2000. Hakan Enterprises of Kansas bought licensing rights to the puppet for \$125,000 in 2001 during Pets.com's liquidation. Pooch now employed by Pleasanton-based Bar None, provider of car loans for people with bad credit. Has been appearing in Bar None TV ads since July 2002 and is a fixture on the company's Web site, www.barnone.com/default.htm, and reachable through e-mail.

Lessons learned: As the sock puppet notes in its Bar None advertising gig: "Everyone deserves a second chance." Or was it, "Let's hope history doesn't repeat itself?"

BUBBLE | Silicon Valley feels downturn's lingering impact

Continued from Page 1A

bigger, far wider in its scope and far more traumatic in its collapse.

The numbers alone don't capture the lingering impact on Silicon Valley's psyche. The region's image, the way it sees itself and the way others see it, has been bruised. The credibility it once had with investors and customers has turned to distrust. And the culture of risk-taking is now tempered with caution.

Valley residents are still wealthy on average, earning far more than people in other parts of the country. And so far, the valley hasn't lost its famous sense of optimism, its faith that technology — and stock options — will lead to a better future.

But that faith is being tested by a downturn far more grim than anyone could have predicted.

"I don't think we'll ever have quite the boom we had," Gold said. "It's sad."

Sense of betrayal

Investors felt burned by dot-com fever

On Aug. 9, 1995, Netscape, the Mountain View maker of Web browsers, went public. Its stock rocketed 108 percent on the first day. Dot-com mania had begun.

Silicon Valley seemed infallible. The apostates who dared question the utterances of tech gods like Scott McNealy and John Chambers were simply told, "You don't get it. It's a New Economy. The old rules no longer apply." Things were moving so fast, and no one wanted to miss out.

Investors who didn't understand a company's business model bought the stock anyway. Remember VA Linux? The tiny Sunnyvale computer maker had the hottest initial public offering in history, rising more than 700 percent to \$299 a share on the first day. Today, the company, now called VA Software, trades at less than \$2.

Customers accepted fantastic claims about how fast Internet use would grow. (According to one study, the telecom industry so overbuilt during the boom that today only 10 percent of the 39 million miles of fiber-optic cable buried underground in the United States is being used.)

On March 10, 2000, the fever reached its pinnacle: a high of 5,048.62 on the Nasdaq composite index, the bellwether of the tech industry. In the following months, tech stocks plunged, and then business models crumbled.

Today, the Nasdaq is at 2070.61. Shares in valley public companies are worth two-thirds less — \$2 trillion less — than at the peak.

Although dot-com stocks have shown signs of life recently, investors are still mistrustful. Last year, the largest 150 companies in Silicon Valley posted record profits and revenues. Yet as a group, their stocks were down 1.9 percent.

"I think it's pretty clear that the Silicon Valley brand has been tarnished," said Steve Cochrane, an economist at Economy.com. "And I don't know if it'll ever come back. And maybe that's not a



JUDITH CALSON — MERCURY NEWS

JUST GETTING BY: Lynn Gold prepares a traffic report for a radio broadcast in a job that pays far less than what she earned at Netscape Communications.

bad thing."

From 2000 to 2004, investors filed 1,081 lawsuits alleging they were misled by corporate executives, most of them from tech. And that figure doesn't include 303 filed against investment banks for manipulating IPO markets.

Many customers are feeling just as burned. They look around and see rooms full of hardware and software that never delivered the efficiencies promised by zealous salespeople preaching about Y2K and the dot-com revolution.

These customers are now in a position to exact their revenge. Tech companies are desperate for sales, giving customers far more leverage to drive tough deals.

"There was a lot of overspending during the bubble," said Bob Joss, dean of Stanford University's Graduate School of Business. "And Silicon Valley is still paying for it."

Innovation goes on

Legacy of tech pioneers survives bankruptcies

With so many hard feelings still simmering, Silicon Valley may not be getting its due for the genuine innovation and good ideas spawned during the bubble.

"The Internet will transform the world," said Carl Haacke, author of "Frenzy: Bubbles, Bust, and How to Come Out Ahead." However, "what investors get wrong, time and time again, is that they have an exaggerated idea of how quickly that vision will become reality."

During the peak of the boom, Excite@Home was the leading high-speed Internet access service, with more than 4 million subscribers to its cable modem business and a market value of \$13 billion.

But the Redwood City company, formally known as At Home, went bankrupt in 2001 thanks to a series of bad deals and strategic decisions, costing 1,300 employees their jobs.

The bitter coda is that the service

sold by At Home is more popular than ever: The number of cable modem customers has more than doubled since 2002 to 17.3 million.

Despite the hundreds of companies like At Home that died, many others endured. Today, almost one-third of valley residents work at a company that was started between 1998 and 2002, according to Joint Venture: Silicon Valley.

This decidedly mixed record hasn't stopped entrepreneurs from creating new companies or venture capitalists from funding them. The valley's innovative spark is undimmed.

But the atmosphere has become increasingly cautious — a surprising turn for a region that has historically rewarded failures almost as much as successes.

When tech legend Judy Estrin left her job as chief technical officer for Cisco Systems in April 2000, she wanted to return to her roots as an entrepreneur who had previously started three companies. Her new idea was Packet Design, an incubator for communications technology that would be spun out into start-ups.

But Estrin was forced to adjust to the new economic realities. Rather than create more companies, her focus shifted to nurturing the first three spinoffs. She found her venture capital backers had become far more risk-averse and adversarial.

"VCs want customers to validate a new technology before they'll put money in," Estrin said. "It's too late for the entrepreneur at that point because the big companies have probably already discovered the opportunity."

The amount of venture capital, the lifeblood for young companies, has shrunk dramatically since the bubble. SVK raised just \$17 billion in new funds from investors in 2004, down from \$106 billion in 2000.

However, money is once again beginning to flow into start-ups. In 2004, total venture capital invested rose for the first time in three years, to \$20.9 billion from \$18.9 billion. But the amount being invested in the risky, early-stage companies continues to lag.

Diminished faith

Strong belief in future a casualty of layoffs

More distressing has been the effect of the bust on the valley's legendary optimism. Faith in a better future has long been a cornerstone of Silicon Valley culture. It is, after all, why stock options have long remained popular — workers believe that their company will prosper and make them rich.

But this particular downturn has been far longer and deeper than anyone expected. Santa Clara County had 842,400 jobs at the end of 2004, down about 200,000 from the March 2001 peak and even below the level of 1995, before the boom began.

Mark Swanson, 46, has had no luck finding a job since he was laid off from Redback Networks in 2001. It's his first extended out-of-work period since coming to Silicon Valley in 1981.

His wife's job at IBM supports them while he tries to explore other opportunities, like franchising. But mentally, unemployment has taken its toll. At times, Swanson didn't want to get out bed.

"There are days when I think I'm worthless and I'll never get a job," he said. "And there are days when I think I'm good at what I do."

After years of fruitless job searches, many other people have simply left the area.

Those who remain worry they'll be the next casualties.

The valley's declining confidence is reflected in the quarterly surveys conducted during the past several years by the Survey & Policy Research Institute at San Jose State University.

After an initial increase in early 2004, the survey's Index of Consumer Expectations dropped dramatically late last year.

The result is a new pragmatism among many employees who once willingly worked insane hours while dreaming of IPO riches. At game software maker Electronic Arts, employees recently filed a lawsuit demanding to be paid overtime for their long hours.

"On the one hand, they're concerned about losing their jobs," said Todd Tollefson, vice president of the Washington Alliance of Technology Workers, a union active in the tech industry. "And on the other hand, since they're treated like they're disposable, they're not willing to put in the extra hours."

Although the tech economy is slowly recovering, it's unclear whether the valley's optimism will return. Fears about offshoring and other threats to the valley's onetime supremacy compete with hopes for a new boom based on another wave of innovation in nanotechnology, wireless communications, biotech or a field yet unknown.

"If you're honest, you have to be schizophrenic," said John Seely Brown, former director of Xerox's Palo Alto Research Center, which has gone through its own boom and bust. "There are some incredible opportunities. But there is some hubris out there overshadowing those possibilities that may erode the valley's advantage."

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