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ALLEN TRIES OLD-SCHOOL STRATEGY (Instead of opening a checkbook, a billionaire toughens his tactics)

Paul Allen poured untold billions over the past decade into a sexy mix of dot-coms, cable and telecom companies, convinced that he could help change the world, just as he and Microsoft co-founder Bill Gates had jump-started the PC revolution. But when the overheated stock market tanked, investors fled this idealistic "Wired World" and Allen took a beating. While the stock market has recovered, Allen's empire of companies still contains significant problems, as illustrated by Friday's bankruptcy of Oregon Arena Corp., which owns the Rose Garden, home of Allen's Trail Blazers basketball team.

Another, more painful bankruptcy may be imminent. Princeton, N.J.-based RCN Corp., a once-promising Internet and telecom operation, said earlier this month that it would file for Chapter 11 bankruptcy. Allen, who owned about a quarter of RCN's stock, has already lost much of the \$1.6 billion he plowed into the company and could lose the rest if it does file.

The restructurings mark a significant transition in Allen's management style, according to officials in his organization. Rather than throw good money after bad to chase visionary technology and prop up "hobby" investments in sports teams and museums, Allen is now exercising tough love. He has sent his lieutenants a clear message to get profitable, said Steve Patterson, president of Oregon Arena Corp. and its sister company, Trail Blazer Inc. "The key is to not continue what some people have suggested that Paul do -- just write another check," Patterson said. "The charge I got was to fix the image and make it self-sustaining."

Any overhaul of Allen's financial empire promises to be long and arduous. Creditors and lenders are reluctant to make concessions to multibillionaires, an instinct illustrated by Oregon Arena's unsuccessful effort to restructure its debt. But Allen and his fellow executives at Vulcan Inc., the company that manages most of his investments, already have made progress.

Vulcan has pared back its portfolio, from more than 100 companies at the peak of the tech boom to between 40 and 50 today, said Vulcan spokesman Michael Nank. [Nathan Troutman](#), a senior Vulcan executive, led a team of investment bankers through much of Allen's financial empire over the past year, perusing the companies' books and informing local executives that headquarters' expectations were about to get more vigorous.

Bill Savoy, who for years served as Allen's chief investment strategist, left Vulcan in September. Also last year, Bob Whitsitt, the unpopular former Trail Blazer president, was reassigned to work full time for the Seattle Seahawks, Allen's NFL team. Whitsitt was replaced in June by Patterson, who has been remaking the Blazers' roster and income statement since his arrival.

Changes start in 2001

Vulcan was restructured in 2001 "with a goal of improving operational efficiency and effectiveness, being even more disciplined in all of our business ventures, focusing on our strengths as an organization and identifying where we could do better," Nank said. The new era at Vulcan perhaps was punctuated February 19 when it announced its latest investment -- a controlling stake in a decidedly low-tech Houston oil company called Plains Resources.

Allen and Troutman still have their work cut out for them.

Since 1998, Allen has poured \$7.5 billion into Charter Communications, a St. Louis-based cable company. Even by Allen's standards, it is an enormous investment, on par with his stake in

Microsoft. The company is unprofitable, growing slowly if at all, and is laden with \$18 billion in debt, more than \$700 million of which comes due in 2005 and 2006.

Much of Allen's empire is privately held, making an accurate estimate of his wealth impossible. Forbes Magazine, which compiles a widely followed annual list of the world's wealthiest people, last week ranked him the fifth with a fortune of about \$21 billion. But that's some \$9 billion less than the magazine's estimate in 2001 -- made just before the speculative bubble of tech investing burst.

Stung by market collapse

Both the cable and telecom industries were hit hard in the crash. Charter, which had borrowed aggressively to buy up competitors, was particularly vulnerable. Fears about Charter's debt and a federal criminal investigation into accounting improprieties sent its stock as low as 76 cents in October 2002. The company showed steady recovery through much of 2003 even as the investigation continued. Still, two stock analysts downgraded Charter's stock in February. "In our opinion, Charter is a bomb waiting to go off," said Morningstar analyst Todd Bernier in an October 2003 report.

RCN's story is similar to Charter's. Allen invested \$1.6 billion in the promising telecom company, which offers bundled Internet, telephone and cable services on the East Coast. But RCN borrowed heavily to grow and eventually was swamped with more than a billion dollars in debt. Twice this month, most recently Tuesday, company officials have said RCN would file Chapter 11 bankruptcy to try to restructure its debt. Vulcan sold off a considerable chunk of Allen's RCN stock late last year taking a \$600 million loss, according to published reports. This month, Vulcan has sold off an additional 500,000 shares, according to documents filed with the Securities and Exchange Commission. If RCN goes ahead with the Chapter 11, Allen could well lose the rest of his stake.

Allen's get-tough approach has already taken a significant human toll. The Blazers and Oregon Arena laid off nearly 90 employees last summer. Vulcan slashed more than a hundred jobs. The Experience Music Project, a rock 'n' roll museum in Seattle, laid off 129 workers in January. Some were bitter at their treatment. Former Vulcan workers noted that as they were shown the door, Allen was taking delivery of a new 412-foot yacht, the largest in the world. Even last week, with both Oregon Arena and RCN teetering on the edge of a financial cliff, Allen was celebrating Carnival in the streets of Rio de Janeiro with his Hollywood pal Dan Ackroyd.

By Jeff Manning