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Roberts & Ryan Investments Inc.

Based in San Francisco, we provide "value added" information to our global asset managing clients.

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We thank our readers for their support of our research efforts. Via this newsletter to our clients, we publish the smallest voices from Silicone Valley, California. Our contribution is to refute or confirm what is being publicly asserted by the covered companies. Thanks again.

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(Pan European only)
Cheuvreux

(Asia only)
HSBC

(Australia only)
Deutsche Bank

(Lehman Brothers has
withdrawn from Business.
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China

Intel to offer low-cost laptops

After all the buzz surrounding the low-cost Classmate PC laptop it designed for school kids in other countries, Intel is talking to computer manufacturers about offering an updated retail version in this country within months for less than \$500.

We're expecting to see Classmate PC in the U.S. by the end of this year," said Agnes Kwan, a spokeswoman with Santa Clara chip maker. "In the past 18 months, we've been getting a really good response from customers... as well as from consumers asking about the product. We realized there was a big interest out there."

Although the second-generation laptop is expected to cost from \$250 to \$350 to make, it would be priced higher for retail sale after it's loaded with various software applications, Kwan said.

The first prototype for the Classmate PC, which contains Intel's Celeron processor, was unveiled in May 2006. It was designed to be an inexpensive machine for schoolchildren in parts of the world where computer technology remains relatively inaccessible.

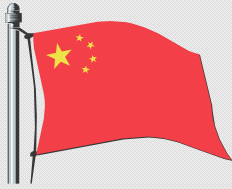
The first-generation Classmate PC is being tested in schools in California, Texas and Oregon, as well as in a number of other countries. The ones being tested in the United States are made by Taiwanese manufacturer Elitegroup Computer Systems. Others are made and sold by companies in Pakistan, Brazil, Nigeria, Mexico and Libya, Kwan said.



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China



“This year, we plan to introduce 50 percent more notebook platforms than we introduced last year, including exciting new products aimed exactly at Chinese customer needs,” Dell said at a news conference.”

Before Olympics begin, Net’s already a winner

The first javelin has yet to be tossed at the Beijing Summer Olympics, but Bill Barney already knows the biggest winner: the Internet.

“This is going to be the Internet Olympics,” said Barney, chief executive of Pacnet, a Hong Kong deep-sea fiber-optic cable network operator.

He should know. Barney, who announced this week that his company is the largest investor in a consortium that includes Google to build a new trans-Pacific cable, keeps a

close eye on the increasing traffic jams caused by Internet users.

“It’s the new killer app, which is video,” he said. He expects Olympic history to be captured on video cameras - or even cell phones. And sports fans will be sending those images to friends and family across the globe.

Barney figures he’ll be able to know which countries are scoring gold medals simply by monitoring traffic. If Team Romania does well in gymnas-

tics, he expects to see a spike in activity between Beijing and Eastern Europe.

Chinese authorities, who are also grappling with a domestic Internet boom, are gearing up. China, with some 210 million Internet users, is expected to have the world’s largest online community this year. “They’ve been ramping up for the last four months,” Barney said. “We can’t install capacity fast enough for the Chinese. They are just chewing through bandwidth.”

Dell looks to improve sales in China

Dell, the world’s No. 2 PC maker, is developing new models aimed at Chinese and Indian consumers to drive sales in fast growing Asian markets, CEO Michael Dell said Thursday. Personal computer makers increasingly are designing products with Chinese buyers in mind. Both Dell and China’s Lenovo group unveiled low-cost PCs last year for rural and novice users. “This year, we plan to introduce 50 percent more notebook platforms than we introduced last year, including exciting new products aimed exactly at Chinese customer needs,” Dell said at a news conference. New models are meant to meet “specifically the requirements that we see in countries like China and India,” he said.

Dell says its customer sales in China grew by 54 percent last year, more than three times the industry average of 17 percent. “When we look at the potential for expansion, we do see enormous opportunity ahead,” Dell said. “As far as the U.S. goes, I think the U.S. will be OK, but not the fastest-growing. We expect more growth in Asia.” The company last month reported its fourth quarter profit fell 6.4 percent and cautioned that more cautious spending by U.S. customers could hurt its business.

Dell says it has about 18 percent of China’s market by revenue and 10 percent by number of units sold. Worldwide, it has a 16.1 percent mar-

ket share, according to consulting firm Gartner Group. In a bid for a bigger share of China’s market, Dell broke with its Internet sales model and struck a deal in September to sell PCs through the country’s biggest electronics retailer, Gome Group.

Dell’s retail presence in China will expand to 1,200 cities by the end of this year, up from just 45 in 2007, said Amid Midha, Dell Greater China president, who appeared with Dell. “By this summer, we will have more unique products coming to China,” Midha said.

The Round Rock, Texas-based company has two factories in Xiamen, a southeastern Chinese city, and a design center in Shanghai that the company says is its biggest outside of the United States. Dell said the company expects its purchases of components and other products in China to rise by 27 percent this year to \$23 billion. The company is undergoing a restructuring that Dell said has made growth in China “dramatically better” than a year ago.

Still, Midha said, “We have a lot of things to do before we can consider ourselves to be successful in China.” Dell also said it will donate \$210,000 to build six education centers in China to teach computer skills to the children of migrant workers.

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Europe

Media companies embrace peer-to-peer technology



“A number of start-ups are embracing so-called peer-to-peer technology and have persuaded some big-name media companies to use them to deliver legal content.”

The technology best known for pirating movies, music and software online is increasingly being adopted by businesses as a cheap way to get video content to customers. A number of start-ups are embracing so-called peer-to-peer technology and have persuaded some big-name media companies to use them to deliver legal content. “In 2005 when we met with content owners, ‘peer-to-peer’ was a dirty word,” said Robert Levitan, chief executive of file-sharing company Pando Networks. “In 2007, finally, content owners came and said ‘Yeah, we think there’s a role P2P.’”

Levitan was speaking at the first P2P Market Conference of the Distributed Computing Industry Association, a trade group with more than 100 members. Pando is prime example of mainstream acceptance: It’s providing the means for NBC to provide DVD-quality downloads of its shows, including “The Tonight Show” with Jay Leno. But 90 percent of P2P downloads are still illegally copied content, according to David Hahn, vice president of product management at SafeNet, which tracks the networks.

Hahn said 12 million to 15 million people are file-sharing across the world at any one time, mainly on the BitTorrent and eDonkey networks. The attraction of file-sharing is not just that it’s free – there’s also content available that can’t be had by legal means, like TV

shows that haven’t aired in Europe.

The BitTorrent software was invented and set free on the Net in 2002 by Bram Cohen. He later started a company to profit from the technology. In 2005, BitTorrent stopped proving links to copyright content and now helps studios distribute movies.

Overall, acceptance of P2P technology is higher in Western Europe, where piracy using the technology also happens to especially rampant, according to SafeNet. The British Broadcasting Corp. uses P2P technology from Mountain View VeriSign for its iPlayer, which streams some of its most popular shows. French TV channels are using software from 1-Click Media, which claims 1 million users a day. The Norwegian public broadcasting service recently started using BitTorrent software to get its shows out. Media companies don’t need P2P technology to provide video over the Internet. They can hire so-called content delivery networks, or CDNs, to get the media to their customers, at a cost about 25 to 35 cents per gigabyte. Doug Walker, chief executive of BitTorrent, put the size of this market at \$680 million this year.

But P2P technology can offload much of the work of the CND’s by having subscribers who have downloaded the data already send it to subscribers who haven’t. That cuts the cost of delivery by 50

to 90 percent, according to several of the companies presenting at the conference. The P2P programs used by Pando and VeriSign are quite different from BitTorrent and eDonkey. They don’t let customers distribute their own content. What comes down the pipe is strictly from the media companies that contract with the P2P companies. The consumers may not even know they’re using P2P software – all they know is that they have installed video player software on the computer.

So far, Internet service providers have been left out of the equation even though they’re saddled with the burden of conveying all the extra traffic. Some of them have partially blocked or slowed down P2P traffic to keep it from swamping their networks. But the adversarial relationship is changing: At the conference, Verizon Communications presented results of a test that showed that by sharing information on its network with Pando so it could optimize downloads, the companies were able to speed downloads and reduce Verizon’s cost of carrying the traffic.

However, not all Internet service providers are likely to get on board with that solution. It may work well for the phone companies, but cable companies have different structure to their networks, and it may not address their concerns.

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Middle East

Israel-valley ties grow

Four years ago, when Silicon Valley Bank opened its first branches overseas, it began with SVB Europe in London and SVB India in Bangalore and Mumbai. Two years later, it opened SVB Business Partners in Shanghai. Collectively, China, India and Europe have a population of more than 3 billion. Now the bank has planted its flag in a small country with about 1/200th the population of China. And it's surrounded enemies.

But hostile surroundings, many say, has helped make little Israel one of the world's tech heavyweights. "We know that in order to survive we have to outsmart our enemies," explained Lili Naveh, business development director for Silicom Ventures, a group of angel investors rooted in the Bay Area's Israeli community. (Yes, it's Silicom Ventures, not Silicon.) That community, including children, is said to number more than 40,000. Tech history buffs may recognize the land where Jesus was born as also the birthplace of Intel's Pentium Chip and AOL's ICQ instant-messaging service. As technology transforms the 21st century, the relationship between the valley and Israel is intensifying, creating a rich two-way flow of highly skilled workers, intellectual property, finance and commerce. Before Silicon Bank set up shop there in January, several valley venture capital firms opened offices in Israel. The country, which has a long roster of listings on Nasdaq, is also a popular shopping destination for acquisitive tech giants like Cisco Systems, Hewlett-Packard and Microsoft. Cisco alone has acquired nine Israeli companies since 2005, according to Shuly Galili, executive director of the California Israel Chamber of Commerce (CICC).

Today, it's common for Israeli start-ups to establish "front office" operations in Silicon Valley, both to access potential partnerships and the world's biggest consumer market. Galili says Israeli entrepreneurs already based in the valley – including two former Mercury Interactive executives – are launching businesses here, while maintaining "back room" technology in Israel. In recent years, CICC has staged "road shows" for groups of Israeli companies seeking financing and connections with Silicon Valley. Globe-trotting observers such as Silicon Valley Bank executive Ash Lilani suggest that Israel

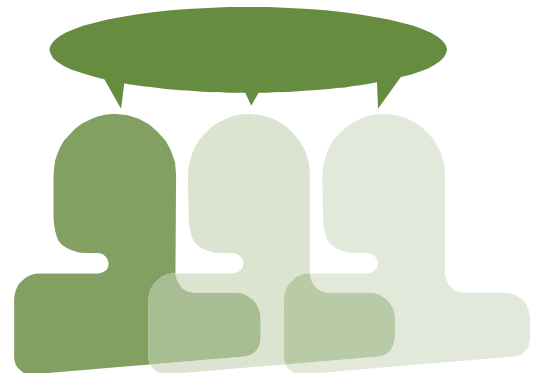
may be the world's closest parallel to Silicon Valley. Lilani, who is of Indian ancestry, is a member of the California Israel chamber's board of directors.

With 7.1 million people, including many immigrants, it is roughly comparable in size to the nine-county Bay Area. More important, Lilani said, is its risk taking entrepreneurial culture. But risk is relative, given that many neighboring Islamic nations oppose Israel's right to exist. The intellectual tradition of Judaism is cited as one of the reasons for Israel's success. In the Los Gatos ranch home that serves as headquarters of Silicom Ventures, and in the group's monthly seminar and start-up showcase, several Israelis described the roots of their country's tech success.

One cited the stereotype of the Jewish mothers who want their sons to become doctors. Education is a priority in family life. And within Israel, it's a national priority to put the brightest students in its premier universities, such as the Technion Institute. And because military service is compulsory, many top students are assigned to elite units that focus on security technologies. Israel recognizes that many security technologies can be commercialized to enhance Israel's economic clout. Young techies, once they complete military duty, often team up with military cohorts to launch start-ups. The Jewish entrepreneurial tradition, said Dr. Eran Geller of the Stanford University School of Medicine, grew from a history of persecution. Israel itself, some say, is an expression of that entrepreneurial spirit – a kind of sovereign start-up, now approaching its 60th anniversary.



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