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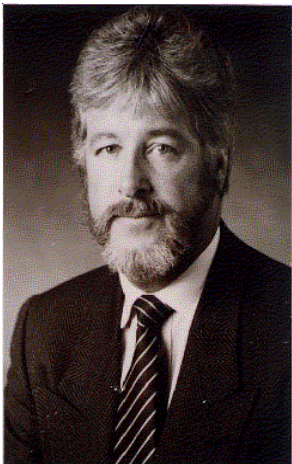
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AMERICA

HP Misses Targets; Cut Jobs

For the first time since its merger with Compaq Computer 15 months ago, Hewlett-Packard on Tuesday reported quarterly earnings and sales that missed targets. The company also said it was cutting 1,300 additional jobs to get back on track. The Palo Alto computer and printer maker reported fiscal third-quarter earnings of \$297 million, or 10 cents a share, compared with a loss of \$2 billion, or 67 cents a share, a year earlier.



**Daniel W. Roberts
President**

Revenues were \$17.35 billion for the quarter ended July 31, up 5 percent from \$16.54 billion a year earlier. Excluding one-time charges, HP's earnings were \$700 million, or 23 cents a share.

Analysts had expected earnings of 26 cents a share, excluding charges, and revenues of \$17.46 billion, according to Thompson First Call.

Chief Executive Carly Fiorina said in a conference call that the results were worse than expected for the normally slow summer quarter, largely because HP made deeper price cuts on computers at a time when costs for components such as memory chips began to rise. HP also cut prices more deeply on its printing and imaging products to clear store shelves in advance of "Big Bang 2," which was the company's announcement last week of 158 new consumer products.

HP had a tough time balancing the decline in sales of aging product lines such as its mid-range Unix servers with the onset of sales of new products such as blade servers, notebook computers and managed services. In addition, competition with Dell and IBM remains fierce. Fiorina also said HP executed inconsistently during the quarter, making mistakes

like ordering too few computer monitors and then resorting to expensive air freight to get adequate supplies.

The personal systems group, which made \$21 million in the prior quarter, swung to a \$56 million loss in the quarter, while the enterprise systems group, which lost \$7 million in the prior quarter, lost \$70 million. Both divisions reduced their losses from a year earlier.

Despite the generally disappointing earnings report, there were some potential bright spots. HP said it expects all major divisions — including the currently unprofitable enterprise systems and personal systems groups — to report profits in the fourth fiscal quarter. Total revenues for the fourth quarter are expected to grow 8 percent to 10 percent from the third quarter as a result of improving sales during the back-to-school season, said Bob Wayman, chief financial officer. HP said it expects earnings per share to grow in the fourth quarter to 34 to 36 cents a share.

Certain product lines grew well in the latest quarter, such as notebook computers, industry standard servers and HP's Superdome supercomputers. But desktop computers suffered because of HP's own overly aggressive pricing strategy, Fiorina said, and sales of mid-range Unix servers were weak.

HP continues to experience significant churn in its workforce. Before the Compaq merger, HP had 153,500 employees worldwide. HP now has 139,800 employees, down from 141,400 three months ago. The company was in the process of laying off 3,500 employees, and with Tuesday's announcement an additional 1,300 will be let go. But HP continues to hire new employees, particularly through outsourcing deals where it acquires the computer administrators who work for its services customers. "We acted more aggressively to reduce head count than originally planned," Fiorina said.

Most of the new cuts will come from HP's enterprise systems group and its consulting businesses. The company didn't say how many jobs would be lost in Silicon Valley, but Wayman noted that HP's services businesses would build up their workforces in low-cost areas such as Poland, Costa Rica, the Philippines, China and India. Wayman noted that HP already has 8,000 employees in India.

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Fiorina said that European markets remained weak, but that technology spending in the United States has stabilized. She added: "We don't see a rapid upturn in IT spending. IT spending will continue to lag the overall economy."

EUROPE

Ericsson Eyes Increased China Orders After Deal

Wireless equipment maker Ericsson said it has signed a \$600 million contract to expand and upgrade the mobile network in China's Guangdong province. The deal will help Chinese operator Guangdong Mobile Communication Corp. expand its network to include 36 million subscribers, Stockholm-based Ericsson said.

Sometime in the next year, China is expected to issue third-generation network licenses to the country's telecom operators, said Jan Malm, the head of Ericsson's Chinese operations. It could also see the emergence of new Chinese mobile operators. That, on top of the increase in mobile customer subscriptions and traffic seen recently, should spark further orders for Ericsson's network equipment.

China, alongside the United States, stands as one of Ericsson's largest markets. The rise in mobile traffic in China has been quicker than expected as operators become more competitive and reduce tariffs, which has spurred a rise in new subscriptions.

Guangdong Mobile, a subsidiary of China Mobile HK LTD is the largest mobile provider in China's Guangdong province and had 25 million subscribers at the end of June.

ASIA

Eachnet Satisfies China's Crave to Trade

Dotcom success stories are hard to find these days, but Eachnet, China's version of online auction house eBay, is a notable exception. The Shanghai-based company has won a large slice of China's fledgling e-commerce sector by creating a unique mix of online and face-to-face transactions.

In a market where many buyers still prefer to see the commodity before paying for it in cash, Eachnet has adapted the strengths of Internet technology to create an electronic marketplace for Chinese who love to trade and love a bargain.

Typically, Eachnet users would agree on an auction deal online to buy, for example, an item of clothing. The two parties would then also use the site to agree a meeting place where the parties can meet, examine the goods and exchange payment. For the buyers, the advantage is usually a cheaper price. For the sellers, the Internet offers access to a far greater number of customers than a traditional shopfront.

Over the past four years, tech-savvy managers have turned Eachnet into China's premier e-commerce site, with five million users who trade everything from chopsticks to apartments.

And in an emphatic vote of confidence, U-S e-commerce giant eBay invested nearly \$150 million in the company. Shanghai-born and Harvard-educated Bo Shao, 30, is the company's co-founder and CEO.

Over \$8 million worth of products were exchanged via EachNet last month. And that is a very large number for developing e-commerce market like China.

"And I think as the market grows very quickly over the next few years, I think we will be able to continue to contribute to the growth and also benefit from that growth." Shao says Eachnet has managed to survive the collapse of the Internet bubble by a combination of the right mentality, hard work and teamwork.

Going into the business with a long-term plan, rather than an eye on quick dollars, also helped. Adapting the eBay model to China's specific needs is also a success factor.

And while the Chinese are not traditionally risk-takers, the flair for trading is a boon for Eachnet. To a certain extent, EachNet not only is encouraging employees to be entrepreneurs, but also encouraging millions of sellers and small businesses in China to be entrepreneurs online and creating their own destiny and changing their own lives.

PACIFIC BASIN

Malaysian Airline Launches Mobile Message Booking System

Malaysia's no-frills carrier AirAsia recently launched what it called the world's first flight booking system using short message services, or text messages, on cell phones. All users who subscribe to the network of Malaysian mobile phone company Maxis Communications can book their flights via SMS, said Tony Fernandes, AirAsia's chief executive officer.

AirAsia invested about \$800,000 to develop the technology provided by the local arm of Dutch computer networking company Getronics and was in negotiations with other cellphone operators to expand the service.

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Since its launch in January 2002, the privately operated carrier has enticed Malaysians with steeply discounted fares on domestic routes. The carrier is now trying to spread its wings to neighboring countries.

AMERICA

IBM Cuts Jobs and Gives Unpaid Leave to Many Others

In a move to cut costs, IBM said that it was trimming 600 workers from its semiconductor business. Another 3,000 employees in that division will be placed on furlough for one week without pay. The steps come after IBM's announcement last month of a \$111 million pretax loss for the second quarter in its technology group, which is primarily the semiconductor business.

Although the company as a whole was solidly profitable for the quarter, the loss in the chip-making operation was substantially more than Wall Street analysts and IBM management had anticipated.

The semiconductor business represents very little of IBM's revenue, about 3 percent, but the company regards it as strategically vital. IBM makes the microprocessors that power its larger computers, including mainframes, and IBM asserts that its chip-making expertise gives it an edge over its rivals. The company also makes chips under contract for other companies.

Though it is only a fraction of IBM's overall business, chip making is both cyclical and capital-intensive, so it can have a big impact on IBM's earnings when things go badly.

The cutbacks are one of the steps IBM is taking to make this business competitive. This is a business IBM has to be in and IBM has to be successful at. Semiconductors are the foundation of its future product designs.

IBM's cost cuts come as the semiconductor industry is gradually recovering. Sales for the industry worldwide will increase 10 percent or so this year.

IBM said the poor performance of its chip business last quarter was caused by lower-than-expected yields as it tried to increase production at its new plant in East Fishkill, N.Y., and lower-than-anticipated demand from some of the companies that buy two-thirds of IBM's chip production.

IBM's chip strategy has been to focus increasingly on the most advanced chips, which command higher prices but are also more difficult to produce. And the job cuts, analysts

say, appear to be a move further in that direction. Of the 600 jobs being eliminated, 500 will be at the company's larger, older plant in Burlington, Vt., while the rest will come from six other centers in the United States.

IBM and Intel are regarded as the American leaders in chip-making technology. But an older plant like the one in Vermont, analysts say, faces the stiffest competition from the contract chip producers in East Asia like Taiwan Semiconductor and United Microelectronics. IBM executives say that the yield problems at its East Fishkill plant are a short-term issue, related to gearing up production at a new site.

IBM's technology group employs 17,000 workers worldwide. The 600 workers who are losing their jobs will be given two months to try to find jobs elsewhere in the company, an IBM spokesman, Scott Sykes, said.

End-Of-Summer Clearance On VC-Backed Firms

The world of high-tech finance was cheering last week when the National Venture Capital Association reported that acquisitions of venture-backed companies are beginning to pick up. True, the \$1.8 billion spent by suitors in the second quarter was 27% higher than the prior quarter, but it is still very much a buyer's market. According to a report released yesterday by VentureOne, Cisco Systems, EMC, IBM and Sun Microsystems have been among the most active shoppers during the bust.

Bargains are everywhere. The average deal three years ago was \$447 million. Today? A mere \$68 million. The number of deals per quarter has fallen 20% to 72 in the latest second quarter from 91 in the second quarter of 2000, yet the total value of those deals has been slashed 93% to \$1.8 billion from \$26.4 billion in the same period.

The selection is huge. There are some 8,000 venture-backed companies looking for an exit. Independence isn't an option for most of them: The market for initial public offerings is barren, and few customers are willing to buy tech products from startups.

With less competition for deal flow, buyers have more time to mull over their purchases. David Barry, author of the VentureOne report, says companies are spending more time on due diligence—up to six months in some cases. In the boom, deals were inked in a matter of weeks. Acquisitions these days have a lot more thought behind them than in the rush of a few years ago. They're not under as much pressure. They talk to customers, venture capitalists, investment bankers and engineers. They want to know it's something they need that they can integrate effectively, and that the pricing makes sense.

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AMERICA...(Continue)

Cisco topped VentureOne's list of acquirers for closing the most venture-backed deals: six in two years. Craig Griffin, senior director of business development at Cisco, says he expects more from acquisitions than he did during the boom. For one thing, they have to be much cheaper. A good deal has to have two components: it has to be a good asset at a good price. Sometimes that means turning down an opportunity if the price is too high.

A few years ago the company was happy to pay billions of dollars for a scrappy startup to keep innovation out of the hands of its competitors. But since the annihilation of tech the company is getting better valuations. The networking giant was able to nab six companies for less than \$800 million.

For Cisco, those deals meant landing talent as well as new product offerings in the areas of consumer networking and security. For others, such as EMC and Sun Microsystems acquiring new technology means staying in the game—for pocket change.

EMC, a leader in the data-storage area, has been battling threats from established software companies such as Veritas as well as nimble newcomers. The company gained new revenue opportunities when it picked up four companies in the battered storage business. Buying in a downturn meant EMC could scoop up Sanrise, a company that had raised \$128 million from its previous investors, for \$2.5 million.

Sun's new "N1" strategy centers on creating and managing more-efficient data centers for its customers. Powering the new direction is a string of acquisitions, including Terraspring, a developer of software that helps manage data center resources, which it bought for \$35 million, a little more than one-half of what the original investors put into it.

E-Business Rebounds

For the Internet companies that survived the collapse of the sector a few years ago, 2003 is turning out to be a good year.

Netflix has seen its stock more than double since the beginning of 2003. The company, based in Los Gatos, Calif., is an online movie rental service that charges \$20 per month and allows subscribers to rent three DVDs at once, with no due dates or annoying late fees. As users return DVDs, Netflix ships new ones out.

Netflix reported sales of \$63 million and its first profit, 11 cents per share, in its second quarter ended in June. For all of 2003, analysts reporting to Thomson First Call expect sales of \$266 million and earnings of 32 cents per share. For next year, analysts think that Netflix will generate revenue of \$389 million and post earnings per share of 74 cents. Netflix sells for 33 times its 2004 forecast.

We screened for Internet commerce companies whose stocks are beating the Nasdaq index year to date. The companies listed below are expected to show profits both this year and next, and carry three-to-five-year annualized earnings growth estimates of at least 15%. One caveat: These stocks aren't cheap. As a group they trade for an average of 64 times this year's estimated earnings per share.

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