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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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Societe Generale

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Cheuvreux

(Asia only)  
HSBC

(Australia only)  
Deutsche Bank

(US Managers only)  
Lehman Brothers

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## Europe

### **Google's DoubleClick**

Google's planned \$3.1 billion DoubleClick deal will be reviewed by regulators in the European Union, according to a Bloomberg News report Friday. Antitrust regulators in individual countries in the EU decided not to look into the proposed acquisition, putting it under the European Commission's authority. DoubleClick is a New York online advertising agency. Consumer groups in the United

States and Europe have complained that the powerful combination of Google and DoubleClick could threaten the privacy of people online. In the United States, the Federal Trade Commission is looking into whether the combination has antitrust ramifications.

### **Google's Copyright Appeal**

Google filed an appeal seeking to overturn a copyright ruling in a Belgian case that restricted the company's ability to link to news stories. Google filed the appeal last month with the Brussels Court of Appeal while continuing talks with Belgian publishing association Copiepresse, said Google spokeswoman

Jessica Powell. In May, the two sides reached a partial settlement that allowed Google to offer access to portions of the newspapers' Web sites. A Brussels court Feb. 13 found Google guilty of breaching copyright laws by publishing links to the Belgian newspaper articles on its Internet news service without permission.

### **Yahoo and Privacy**

Yahoo will respond to European Union concerns that storing personal information on users' online searches breaches EU privacy rules. An EU data protection agency, made up of experts from 30 European countries, last month extended its scrutiny of Google to examine the

privacy policies of all search engines, including Microsoft and Sunnyvale based Yahoo. "We will make an announcement on data retention policies in the coming weeks," Yahoo said in an e-mailed statement Friday.

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“There’s a lot of energy out there in a lot of countries trying to get a piece of this region.”

## Chile

### Selling Chile to the Valley

If you’re a Silicon Valley executive looking for another country where you can expand or relocate your business, here are a few things the folks from Chile want you to know about their country: It’s stable. It’s got low tariffs. It’s almost in the same time zone (as the East Coast). There are lots of free-trade agreements with a variety of countries. And it boasts several good engineering schools. Did we mention it’s stable? “In terms of safety, you don’t have to go around in an armored truck,” said Raul Rivera, part of a delegation of Chilean economic development officials that recently stopped in Santa Clara.

“There’s a lot of energy out there in a lot of countries trying to get a piece of this region,” said Natalie Eisner, consulting director for Latin America for IDC, a Massachusetts-based research firm.

“By the sheer number of folks competing, it’s a high barrier to entry.” The Chilean delegation brought its international infomercial to the shores of Santa Clara on June 14 at an event hosted by the Silicon Valley/Northern California Council of the AeA, a trade and lobbying group formerly known as the American Electronics Association.

As the presentations began, the audience slipped into their seats. Chilean officials had come armed with all the important tools for

impressing a Silicon Valley crowd, including slick PowerPoint presentations, pictures of cities that mixed historic and modern architecture, and even their very own graduate from the Stanford University School of Business (Rivera).

Chile started focusing on its technology economy in 2000 when the Chilean Economic Development Agency- or CORDO- launched Invest@Chile to attract high-tech



businesses. The program aims to promote Chile’s assets while also offering some basic tax credits and research grants. And in 2004, a free-trade agreement between the United States and Chile went into effect.

To build on those efforts, about a dozen Chilean economic development officials arrived as part of a promotional tour that would later include stops at various undisclosed valley companies.

Their pitch tried to convey things that made Chile different. Rather than just promote the region as another low-cost place to do busi-

ness, Chilean officials focused more on things like its location in the East Coast time zone, something that might be a good complement for companies that have call centers in India. They also highlighted the country’s 85,000 engineering graduates and its strong telecommunications system.

Focusing on special assets like its time zone and engineering talent is key to Chile’s success, said Eugene Kublanov, a managing director at neoIT, a San Ramon consulting firm that advises companies on globalizing their business.

Kublanov recently spent a week in Chile at the invitation of Chilean officials and spoke at Chile’s valley roadshow.

“This is precisely where new markets like Chile have a role to play,” Kublanov said in an interview later: Chile is making some headway. Last year, Yahoo and Synopsis opened small research and development facilities in Chile, employing 10 and 26 people respectively. In January, Oracle opened a shared services facility that employs 120 people.

“You will not find surprises in Chile,” said Victor Grimblatt, managing director for Synopsis in Chile, who spoke at the event. “The way business is conducted there is the way it is conducted in the U.S.”

## Morocco

### The Tech Talk Blog

Intel teamed up with Hsain Ilahaine of Iowa State University to study Islamic religious schools, dubbed “madrasas,” in Morocco. He said they are looking at the tradition of “waqf,” an Islamic charity funded by donations so that it can play a major economic role in a community.

These charities fund places such as schools or hospitals. Ilahaine said Intel is studying these institutions and the madrasas to determine whether they could be used to fund computer purchases.

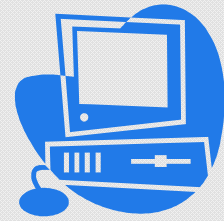
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# California

## California falls from high-tech export peak, but stays on top



“The evidence points to Silicon Valley as the engine of export growth “given that computers and electronic products are the largest exports from the state and Silicon Valley is the hotbed of where that is happening,”

California continues to lead the nation in high-tech exports, although it is a long way from its high point in 2000. According to a study by AeA, formerly known as the American Electronics Association, California companies exported \$51.8 billion worth of high-tech products in 2006, nearly a quarter of all such exports from the United States. The total is an 8 percent increase over 2005 but still down 23 percent from the boom year in 2000, when California dispatched \$67.5 billion in high-tech products across its borders. The figures are derived from those collected by the Department of Commerce, which does not provide data below the state level. It isn't clear, therefore, exactly how Silicon Valley contributes to the total, but experts estimate that it is significant. “Probably half of that comes from our region,” says Stephen Levy, director and senior economist at the Center for the Continuing Study of the California Economy. The evidence points to Silicon Valley as the engine of export growth “given that computers and electronic products

are the largest exports from the state and Silicon Valley is the hotbed of where that is happening,” says Joanne Vliet, director of the Silicon Valley U.S. Export Assistance Center. “Trade is very important to Silicon Valley companies.” California's importance and that of the valley would be even clearer if there were a measure of the export of services and design. For instance, each iPhone that is sold by Apple Inc., is an import because, although it is designed in California, it is assembled in China. “It's a mistake not to acknowledge that, even if you can't exactly measure it,” says Levy. Mat-

thew Kazmierczak, vice president for research and industry analysis for AeA, agrees that it is unfortunate that there is no good measurement of services exports. “That's an area of increasing frustration,” he says. “I'd like to get my hands on more of the service economy.” This missing measurement is especially important to California as it continues to move from a manufacturing to a service economy. The numbers show Texas second in overall high-tech exports. The Lone Star State comes first, however, in the increase in value of exports between 2000 and 2006. It experi-

enced a \$5.3 billion dollar increase during that period. California came in last in the change rankings of the 50 states plus the District of Columbia and Puerto Rico. California saw a drop of \$15.7 billion in high-tech exports.

Mississippi showed the highest percentage of increase in 2000-2006 time frame, probably the result of a small expansion in chip-making that had a big effect on its bottom line. In 2006, the Magnolia state exported \$577 million worth of high tech products, about 1 percent of California's total.



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## ASIA

### Others seek to copy 'secret sauce' recipe



“Across the booming economies of Asia - from India to China, Singapore to Korea – everyone wants to replicate the ‘secret sauce’ of the valley.”

If imitation is indeed the sincerest form of flattery, Silicon Valley should feel well loved. Across the booming economies of Asia - from India to China, Singapore to Korea – everyone wants to replicate the ‘secret sauce’ of the valley. Both economists and government officials have picked up the imagery of an ecosystem – an intertwined network of universities, an educated labor force, capital sources, support services and regulatory policies – that foster innovation. They just haven’t figured out how to match what’s already in place in Silicon Valley. India has its well subsidized software parks. Comparable breaks for other knowledge-based endeavors are on the drawing boards. China isn’t far behind with its investments in knowledge parks built around universities. And, of course, it’s strong in luring manufacturing plants. Both understand that cost matters and their ample application of tax holidays is a competitive advantage to encourage investment. Both nations seem to understand clustering an industry in one area can lead to synergies, but they’ve missed the Silicon Valley lesson that cross-industry pollination is key to breakthroughs in nanotech, biotech and beyond.

Both understand that churning out engineering grads is a path to economic success, but both still struggle with quality issues. By some estimates, only 15 percent of India’s engineering grads are ready for the job market. That leaves tech giants like Infosys to pour serious money – in the hundreds

new cities, while India has pushed the infrastructure issue to private industry. In both nations, the demographics are simply too daunting for an easy answer. But in the final analysis, Silicon Valley’s greatest advantages may be two that seem unmatched. One is the valley’s tolerance



for failure. Scratch any serial entrepreneur in the valley and you’ll find an association with something that didn’t quite work out as hoped. No matter. They get back on the horse and investors are eager to get aboard the next venture. That’s not the case in Asia where saving face and personal reputation are keys to the deal. While valley VCs talk in terms of chasing the 10x

of millions of dollars each year – into running remedial programs for their new hires. Both nations have made gains in unraveling archaic rules that limit foreign ownership, but both have a long way to go.

Much as Silicon Valley complains about traffic, infrastructure, pollution and governmental dysfunction, overall we’re still decades ahead of both India and China. Both still wrestle with official corruption and deep environmental problems. China has invested in wide roads and

deals, in most of Asia, the prospect of a 2x return is exciting and a 3x return makes the heart race. Then there’s nature itself. Even the valley technologists who have returned to China and India acknowledge they miss the seemingly endless great weather. As the yellow dust blots out the sun in Beijing or the monsoons close in on India, it’s clear this is not a contest the valley will lose with any entrepreneur who has a true choice.

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