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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 Silicon Valley, California. Our contribution is to refute or confirm what is being publicly asserted by the covered companies. Thanks again.

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Global markets:

Merrill Lynch  
Societe Generale

(Pan European only)  
Cheuvreux

(Asia only)  
HSBC

(Australia only)  
Deutsche Bank

## Japan

### Poor quarter for tech in Japan

Brand-name Japanese technology companies, including Nintendo, reported dismal earnings Thursday, with Sharp emerging as an exception in doubling profits on brisk sales of flat panel TVs in China, Japan and the U.S.

Nintendo’s fir-half profit plunged as sales of its blockbuster Wii home console lost momentum in a saturated market. The maker of Super Mario and Pokemon games now expects annual earnings to fall for the first time in six years.

Kyoto-based Nintendo reported a 69.49 billion yen (\$722 million) profit for the April-September period, down 52 percent from a year earlier, and trailed its own May forecast for a 100 billion yen profit. Fiscal first-half sales dropped 34.5 percent to 548.01 billion yen.

Tokyo-based Hitachi, which makes everything from nuclear reactors to home appliances, and NEC, a provider of information technology services and network systems, also fared poorly. But Sharp reaped rewards from cost cuts and stronger demand for flat-panel TVs, which have been falling in price.

The mixed results at Japan’s major technology companies underline not only the hardships of the global economic slump but also differing success in achieving a recovery. Overall, the economic dive appears to have bottomed out. But some companies are needing more time than others for a turnaround, the earnings show.

Hit by weak demand abroad and in Japan, Hitachi’s July-September loss swelled to 50.56 billion yen (\$562 million) from a 17.37 billion yen loss a

year earlier. It said business conditions remained “severe with production and consumption levels extremely low.”

NEC booked a loss of 9.75 billion yen (\$110 million) for the quarter, compared with 1.28 billion yen profit the year before.

In contrast, Sharp credited booming TV sales and cost cuts for profit more than doubling to 7.4 billion yen (\$83 million) in the fiscal second quarter.

Nintendo, which had been booming for the last several years, lowered its projections, citing the erosion to revenue from a recent Wii price cut as well as the strong yen, which reduces the value of overseas earning of Japanese exporters.

Nintendo said it will earn a 230 billion yen (\$2.5 billion) profit—the first time in six years it’s predicting earnings to fall.

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# China

## China iPhone sales fall short



“We believe that eventually China will emerge as a major market for iPhone sales, but it could take a year or two to gain meaningful unit traction as it did in the U.S.” said Munster.

Apple’s Chinese partner sold fewer iPhones than analysts anticipated in the product’s debut last week, raising concerns the price is too high to attract customers in the world’s biggest mobile-phone market.

China Unicom said Monday that it has sold 5,000 iPhones since the Beijing-based carrier began offering the product Friday. The phone costs as much as \$1,025, compared with \$299 in the United States. Unicom’s version of the iPhone also lacks the Wi-Fi networking features available in other countries.

The sales figures were disappointing compared with results in other markets, said Paul Wuh, a Hong Kong-based analyst at Samsung Securities. The iPhone 3GS sold 1 million units within three days of its June debut in North America and Europe. That dwarfed the sales in China, a market that Apple Chief Operating Officer Time

## China braces for legal iPhone

Apple’s iPhone made its long-awaited formal debut in the world’s most populous mobile phone market, without a key feature and at higher prices than widely available black market models. Apple’s partner, China Unicom, hopes the sleek smart-phone will give it an edge against giant rival China Mobile, the world’s biggest phone company by subscribers.

Unicom started selling iPhones equipped for third-generation service Friday night at 2,000 stores in areas as far-flung as Tibet. Chinese news reports say Unicom hopes to sell 5 million in three years, but the company wouldn’t confirm that.

“Ever since we first launched the iPhone, we greatly anticipated bringing it to China,” an Apple vice president, Greg Joswiak, said at a launch ceremony at a Beijing shopping mall.

Unicom’s first iPhones lack Wi-Fi, a possible handicap with sophisticated, demanding Chinese buyers. The technology, a key part of the iPhone’s appeal, allows the phones in other markets to use free wireless networks in cafes and offices to download e-mail and the latest applications.

Cook sees as a ‘Priority project’ for the company’s expansion.

Unicom’s iPhone plan “will be an interesting exercise in how to sell an inferior product at a higher price,” said Duncan Clark, Chairman of BDA China, a Beijing-based consulting firm.

Unicom’s price for the most expensive iPhone model is 26 percent high than in neighboring Hong Kong. Even so, the difference is smaller if you consider Hong Kong’s taxes, Unicom President Lu Yimin said. Demand has been “quite good,” he said.

The Chinese sales in the first four days were disappointing and “soft,” said Gene Munster, an analyst with Piper Jaffray in Minneapolis. Judging by the original iPhone’s U.S. release in June 2007, the China debut should have generated sales of about



“There’s going to be a perception that the phone they have is dumbed down from the one that somebody has in CA,” said Duncon Clark. “We’ve seen before that Chinese consumers don’t like to be treated like second-class citizens.”

There are already an estimated 1.5 million to 2 million such phones using China Mobile 3G service that allows Internet access and other features.

Unicom’s prices range from 4,999 yuan (\$730) to 6,999 yuan (\$1,025) for the high-end, 32gb iPhone 3GS. That is 20 percent about the 5,700 yuan (\$835) charged by merchants at Chinese street markets for 3GS with Wi-Fi.

China Unicom has 143 million mobile accounts, which would be an impressive figure in any other market but lags far behind China’s Mobile’s 508 million accounts.

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# Taiwan

## Taiwanese maker of cell-phone chips defies economic downturn



“But look at India, Africa — it’s amazing how the handset is changing the economy and lifestyle of people in those areas.”

Amid the global downturn, cell phone chip maker MediaTek has enjoyed an upturn.

While gloom has wrapped the Hsinchu Science Park, the island’s version of Silicon Valley, the mood is almost giddy at MediaTek. That’s because the fables chip company has cashed in on the widespread recession with its one-size-fits-all chip set for the low-end mobile phones that are increasingly popular in the developing world.

By providing those chipsets, essentially the ready-made guts of a mobile device, the 4,000-employee company helped spark the go-for-broke cell phone industry in China and became the dominant supplier for China’s low end mobile industry. MediaTek expects to sell more than 300 million chipsets this year, up from just 3 million in 2004 and close to a third more than last year’s 220 million. Its technology, coupled with fierce competition among Chinese vendors, is continually driving costs available on basic devices.

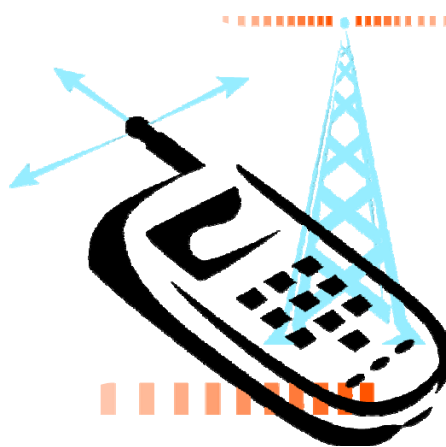
“We saw an upside while everybody else saw the downside,” said Ji-Chang Hsu, MediaTek executive vice president. “People’s buying power dropped. They wanted a better cost-performing phone, not brand image. That’s why the downturn really helped us. In January and February, we were selling so well.”

The company is riding the rising mobile-phone market in the developing world.

During the first half of 2009, Chinese companies shipped 165 million mobile handsets, up 19 percent from the same period in 2008, according to researcher iSuppli.

For the year, iSuppli reports that Chinese companies will ship 363 million mobile

phones, a 20 percent jump from 2008. The global downturn did not dent demand much in emerging markets, iSuppli analyst Kevin Wang noted in an August report. “Not only is growth in new subscribers continuously contributing to the first-time buying market in the emerging regions, the sharply declining price to feature-rich phones has also stimulated demand for replacement handsets in these areas,” he said.



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The 12-year-old company is the world’s third-largest fables chip maker, which means it outsources manufacturing to contract giants like Taiwan’s TSMC and UMC, and is ranked

behind Broadcom and Qualcomm. It is the world’s No. 1 vendor of chipsets for DVD players, high-definition digital TVs and optical storage.

In mobile phones, it is the world’s fourth-largest chip set supplier. In the first half of the year, MediaTek’s net income soared 77 percent on revenue of \$1.5 billion.

The company’s chips are in mobile phones used in more than 100 countries, though not the United States. “The United States is a very mature market,” MediaTek Chief Financial Office Mingo Yu said. “But look at India, Africa — it’s amazing how the handset is changing the economy and lifestyle of people in those areas.”

The company points to the eye-popping growth potential of emerging markets, such as India and China. Only 25 percent of India’s 1.1 billion people, for instance, have mobile phones. MediaTek is not working on chip sets to support smart-phones for the masses after rolling out its technology for 3B devices.

Nothing seems to dampen the spirits of the Taiwan chip maker, though. “We don’t need Nokia’s business,” Hsu said.

“We tell our customers, if you want to have a sustainable business, you need to innovate,” Yu said. “You can’t survive making fake phones.”

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# Asia

## Engineers accused of taking computer chip plans for use in china-backed company



“Experts estimated U.S. companies lose more than \$40 billion a year from stolen trade secrets.”

By the time the FBI came knocking on their doors in July 2003, engineers Lan Lee and Yue-fei Ge were already caught in the cross hairs of a government investigation into whether they were stealing technology from their Silicon Valley employers to establish a rival company backed by China.

More than six years later, the story of their suspected theft of superfast computer chip plans is about to emerge from the shadows. In the second trial of its kind in the nation, the engineers are set to face economic espionage charges in federal court in San Jose. Jury selection is scheduled to begin Tuesday.

Lee, 44, and Ge, 36, are among just a handful of defendants to face federal charges under a section of the 13-year-old Economic Espionage Act, designed to prevent the illegal transfer to technology to foreign governments. While a number of defendants have pleaded guilty and been sentenced, only one other has gone to trial—a former Boeing Co. and Rockwell International engineer convicted this summer in Santa Ana federal court for passing critical information on the space program to China.

For Silicon Valley, where companies have worried for years about their prized secrets being leaked to China and other countries, such a trial is a window into the complexities of protecting product information in a place with ties to every corner of the global economy.

The trial also is fraught with pitfalls for prosecutors and the defense, both of whom are entering largely uncharted territory of how jurors will assess whether trade secrets were illegally stolen for a foreign government, China.

“It’s challenging for prosecutors in these cases to demonstrate a clear intent to benefit the foreign government,” said Scott Frewing, a former federal prosecutor who advises companies on protecting trade secrets. “And the challenge for

the defense is that in China, every part of the economy is dominated by the government, so the links are more obvious.”

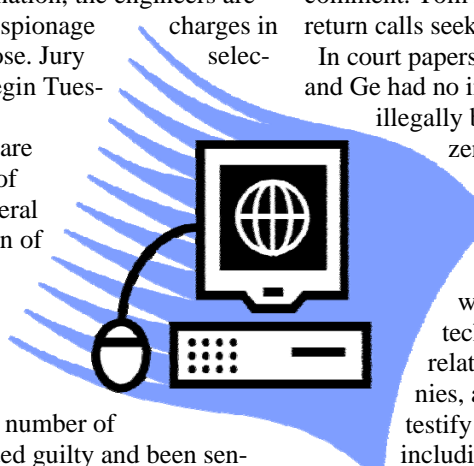
Lee and Ge have pleaded not guilty to the charges that include theft of trade secrets and violations of the espionage law. If convicted, they face 10 years or more in prison, although most convicted on economic espionage charges in recent years have received much lower sentences. Ed Swanson, Ge’s lawyer, declined to comment. Tom Nolan, Lee’s attorney, did not return calls seeking comment.

In court papers, defense lawyers suggested Lee and Ge had no intention of doing anything to illegally benefit China. Lee, a U.S. citizen, and Ge, a Chinese national, allegedly stole the blueprints for a superfast computer chip from their employer. The defense does plan to call witnesses with expertise on the technology involved and China’s relationship with technology companies, as well as witnesses who will testify about the engineers’ character, including wives, co-workers and friends, according to court papers.

In court papers, prosecutors allege Lee and Ge conspired to steal secrets from NetLogic to establish their own startup company with funding from a Chinese venture capital arm called the “863 program” - which the U.S. says is intertwined with the Chinese government. Court papers show the two men were first uncovered by anonymous e-mail tips to the FBI traced to Ge’s wife.

But prosecutors have other witnesses and material seized from the engineers’ home computers, including references to the allegedly stolen data and negotiations with China, court documents show. There are no direct allegations of China’s role, except that the technology could be used for the Chinese military and tech businesses.

Experts estimated U.S. companies lose more than \$40 billion a year from stolen trade secrets. “The really story is what took so long and why there aren’t more of there.”



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