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## **Roberts & Ryan Investments Inc.**

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## EUROPE

### New Licensing fees raise SAP profit

SAP, the world's biggest maker of business management software, said Friday its first-quarter profit rose nearly 10 percent on increased support and licensing fees, as it moves to add smaller companies to its client roster.

The Walldorf Germany, company said it earned 310 euros (\$421.63 million) in the

quarter compared with 282 million euros a year earlier.

SAP competes fiercely with Redwood City-based Oracle for customers. Last month, Oracle sued SAP on charges of computer theft and espionage.

## PACIFIC RIM

### Firm testing South Korean investment waters

Drawn by a bevy of entrepreneurs and robust bandwidth, some Silicon Valley investors are brushing off the usual deterrents to foreign investment to test the South Korean venture waters. The recent free trade agreement between the U.S. and South Korea could expand investing in the region, though venture capitalists say it's those other factors that captured their attention.

Recent investments in PandoraTV by Menlo Park-based firms DCM and Altos Ventures highlight what is most attractive about the country.

About 49 million people live in South Korea. And the vast majority of those, an estimated 90 percent of households, have access to broadband Internet connections, while 70 percent are Internet users. That's the highest penetration in the world.

And that makes South Korea fertile ground for the kinds of companies who depend on fast downloads of large files like PandoraTV, South Korea's version of YouTube.

Altos Ventures invested in PandoraTV- the country's largest video-sharing Web site- in its \$3 million seed round before joining DCM on a \$10 million Series B round early this month. The company claims 12 million monthly users and 1.2 million monthly page hits.

Partner Han Kim found the company for Altos. The 10-year old venture firm counts three Korean Americans as partners, including Kim, who began traveling frequently to the country about three years ago.

The firm is distributing its third fund of \$70 million and has a total of \$220 million under management. Altos has made two investments in South Korea, including participating in the \$10 million Series B round in PandoraTV and another investment this year in Seoul-based Blogcocktail which runs all-blog.net, a search and community service Web site.



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Kim says South Korea has plenty of entrepreneurs who need the kind of guidance established venture firms can provide. But it's the usual deterrents of foreign investment that keep investors away. There are language and cultural barriers, Kim says. Not to mention that South Korea has an intimidating neighbor to the north. “I think people look at it,” Kim says, but the kind of bandwidth available in South Korea intrigues some developers of more demanding technologies and applications. “But there are a lot of people who study it rather than invest in it and then invest in something similar in the U.S. or China.”

South Korea does represent uncharted territory. While China

and India have emerged as hot spots for foreign investment over the last five years, no one tracks how much venture investment has gone into South Korea.

“The reason people are looking at South Korea is that some VCs are being a little scared off by so much activity in India and China,” Heesen says “There are too many people in those and boxes. And they're saying, “Here's an area as entrepreneurial (as China and India), if not more so, and there isn't enough competition.”

Mark Heesen, president of National Venture Capital Association, says while the free trade agreement might make it easier on U.S. investors in the long run, the follow-the-leader nature of the

venture industry would be more likely to spur increased investment there.

“DCM is a very well respected firm,” Heesen says, “It was one of the early investors in China and they have done well with several companies in China. I think there are VC firms who will look at what DCM is doing and saying, “If they're looking in South Korea, maybe I should look there, too?”

## CHINA

### EA buys minority stake in Chinese game company

Electronic Arts is making another play in Asia. The Redwood City video game publisher announced Monday that it is investing about \$167 million in cash to buy a 15 percent stake in The9 Limited, a Chinese video game company. As part of the deal, The9 acquired an exclusive license to publish EA's “FIFA Online” soccer game in China.

The9 has a lot of experience in marketing online games to Chinese consumers, said Owen Mahoney, senior vice president of corporate development at EA. EA's agreement with the company will allow the game giant to tap into The9's expertise, he said.

“We've been thinking hard and working hard on China for several years now. It's a very foreign place. It's difficult for a foreigner to understand,” Mahoney said, adding that The9 “really knows” its market.

The move follows a similar agreement EA announced in March, in which it bought a stake in Neowiz, a South Korean game company. EA teamed up with Neowiz to launch “FIFA Online,”

and, as part of its investment, announced plans to co-develop four additional online games with the company.

The Chinese market in particular and Asia in general have proved challenging for Western video game companies. Part of that has to do with taste in games, which varies considerably between Asia and Western countries. Games such as “Madden NFL,” which are enormously popular in the United States, haven't found similar success overseas.

But part of it has to do with how people play games in the different countries. While gaming in the United States has largely focused on generally unconnected game consoles, in China, South Korea and other Asian countries, much of the game playing is done on broad-band-connected PCs. Online gaming isn't a new trend there, it represents the bulk of the market.

EA has taken a number of stabs at trying to tap into the larger Asian market. In addition to its latest investments, the company brought online gaming developer Mythic Entertainment last year, in move company officials at the

time expected to help EA compete better in China and the global online game market.

And in 2004, the company announced that it was establishing its own game studio in Shanghai, China. At the time, the company said the studio would initially focus on customizing some of EA's games for the Chinese market.

EA's investment in The9 doesn't affect its Shanghai studio, which is now focused on developing new games for the Chinese market, Mahoney said.

The video game giant is only the latest technology company to turn to a local company for help in the Chinese market. In the past two years, eBay and Yahoo have handed over control of their Chinese affiliates to local-run companies in which they have minority stakes.

EA's investment, which is subject to regulatory approval, had been rumored to be in the works since early last month. Despite the large stake it is taking in The9, EA will not be naming any directors to the Chinese company's board.

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