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President

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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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### Global markets:

Merrill Lynch  
UBS  
Societe Generale

(Pan European only)  
Cheuvreux

(Asia only)  
HSBC

(Australia only)  
Deutsche Bank

(Lehman Brothers has  
withdrawn from Business.  
Please delete.)

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## United Kingdom

### Paper: U.K. sales of iPhone fall short

Apple's iPhone, sold by mobile service provider O2 in the United Kingdom, missed expected sales in the country, the Financial Times reported. O2 said Nov. 9 that it anticipated selling 200,000 iPhones in the first two months after the phone went on sale, the Financial Times said. The company has sold 190,000 units, according to the newspaper, which cited people familiar with the situation.

iPhone sales were strong before Christmas and then slowed, the newspaper said. O2, which said it was "delighted with the response to the iPhone," declined to comment on sales results, according to the Financial Times. O2 said the iPhone was its bestselling mobile phone "by a significant margin," the Financial Times said.

### Woolworths affecting tech...

When you think of technology bellwethers, the name of Woolworths does not immediately spring to mind (and if you're in the United States, the name may not have sprung to mind in quite a while). But the British chain has become the first major retailer to cast a decisive vote in the high-def DVD format war. Beginning in March, Woolworths stores will stock only Blu-ray discs, relegating HD DVD offerings to online sale only. The move came after Blu-ray movies outsold HD DVD by 10-1 in the chain's 820 stores. "Sales figures clearly show that the market is moving toward one format of high definition DVD," said Woolworths DVD buyer Steven McGunigel. "The main reason is the suc-

cess of Sony's Playstation 3 machine. Because it plays Blu-ray discs, there are over three-quarters of a million homes in the U.K. that can view the new high-definition format. There is no where near that number of HD DVD players around. "No sign yet that any big U.S. retailers are considering such a move, but we can expect some adjustments of the product mix if things keep going the way they are."



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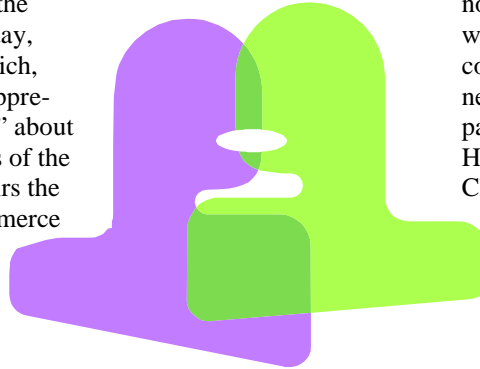
# China

## Congress panel probes China's role in sale of 3Com

A congressional committee is investigating the purchase of 3Com by a consortium that includes a Chinese company, intensifying scrutiny of the deal. In a letter sent Friday, Rep. John Dingell, D-Mich, said there is "growing apprehension in the Congress" about the security implications of the transaction. Dingell chairs the House Energy and Commerce Committee. Rep. Joe Barton, R-Texas, the senior Republican on

the panel, and two other members also signed the letter sent to Treasury Secretary Henry Paulson. Network equipment

maker 3Com agreed in late September to be purchased by private equity firm Bain Capital Management and Huawei Technologies for \$2.2 billion. Bain would own 83.5 percent of the company, while Huawei, a Chinese telecommunications company, would own 16.5 percent. Huawei's alleged ties to China's military have raised security concerns on Capitol Hill and in some government agencies.



## With deal, Sun rising in China

One deal turned a Swedish software company into Sun Microsystems' property. Another put Sun's cutting edge microprocessor designs into curriculum of China's leading universities.

Sun Microsystems executives touted the disparate deals as serving a common purpose: to enhance the open-source technology development, and Sun's prominence as a movement leader.

In the first deal, Sun completed its \$1 billion acquisition of MySQL, the Swedish database software firm. Sun Chief Executive Jonathan Schwartz described MySQL as a "crown jewel" that will enable Sun to offer a complement of open-source technologies that rival Microsoft's proprietary offerings.

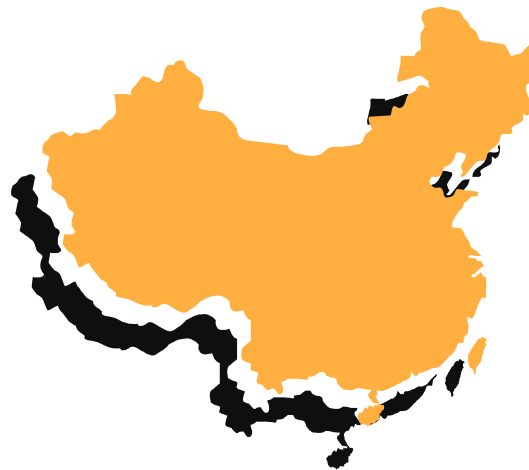
The second announcement is the first overseas expansion of Sun's Open-SPARC educational program. Inspired by the open-source software

movement, Sun in 2006 opened the underlying design of its advanced microprocessors to developers, and provided educational support to six U.S. universities. The new deal extends the program to five Chinese universities.

The three year collaboration "gives the People's Republic of China access to the tools and the freedom to develop the intellectual property framework it needs to cultivate native microprocessors and microprocessor engineers."

Schwartz said in a press release. Sun, based in Santa Clara, is banking on the open-source strategy – controversial to some analysts – to revive fortunes for a company that has flagged in recent years.

Schwartz, who took over in April 2006, cut about 2,750 workers to reverse losses. Sun, which makes both computer hardware and software, has now posted five straight quarters in the black.



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## Asia

### Valley stays an export powerhouse



“The value of exports in the San Jose region exceeded \$28 billion in 2006 – besting San Francisco a good enough for a No. 7 ranking in the U.S. list of regions with the top valued exports.”

Amid talk of a looming recession, the housing slowdown, a volatile stock market and a continuing credit crunch, there is one topic Silicon Valley companies could be eager to discuss in 2008: Exports.

“There are not a lot of bright spots for the Bay Area economy looking ahead in 2008, but one of the few we should expect is exports,” says Sean Randolph, president and CEO of the Bay Area Economic Forum. The value of exports in the San Jose region exceeded \$28 billion in 2006 – besting San Francisco a good enough for a No. 7 ranking in the U.S. list of regions with the top valued exports, according to new data from the U.S. Department of Commerce.

The San Jose metropolitan area, which includes Santa Clara and Sunnyvale, held its place for the second year as the value of exports increased by more than \$2.3 billion from 2005 to 2006, the most recent year for which the Department has released data.

Randolph says he doesn't expect a U.S. economic slowdown will stifle the sale of exports this year. The declining value of the dollar makes U.S. exports more competitive, and the expected growth of Asian economies indicates that the 2008 export market should continue to be strong. “The bottom line is that the rest of the world economy, and Asia in particular, will be growing faster than we are in the coming year,” Randolph

says. “With that and the exchange rate advantage we have right now, that means exports should be reasonably strong.”

In 2006, \$18 billion of the total \$28 billion exported from San Jose region went to Asia. The top five countries that imported San Jose region goods were, in ranking order Japan, South Korea, China,



Taiwan and Singapore. The New York region, which includes northern New Jersey and Long Island, topped the list for the second year in row, with \$66.2 billion in exports in 2006, up more than 16 percent from \$55.6 billion in 2005.

San Jose also ranked below Houston, Los Angeles, Seattle, Detroit and Chicago in value exports. But it topped San Francisco, whose metro area includes the port of Oakland

and city of Fremont, by more than \$10 billion. San Francisco's exports increased 20 percent in 2006 to \$18.4 billion.

Joanne Vliet, director of the U.S. Export Assistance Center of Silicon Valley, says the numbers don't tell the whole story because the government's regional groupings don't follow the traditional regional definition of Silicon Valley. Vliet says data include Redwood City, Fremont and Redwood Shores as part of San Francisco and count Santa Cruz as its own region when these areas are commonly considered to be part of Silicon Valley and San Jose region by those who live and work here.

“When you take all of those together, Silicon Valley really bumps up on the chart,” she says.

The Department of Commerce won't release data on individual companies, so it's unknown who the largest exporters in the region are. But, the data do indicate computer and electronic products accounted for \$19 billion of the \$28 billion total value of 2006 U.S. exports. Machinery was the second largest industry group at nearly \$6.6 billion.

“We have a lot of the world's major IT manufacturers right here in our neighborhood and they're huge and world renowned companies contribute a great deal to those numbers,” Vliet says.

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# Australia

## Down Under venture firm positions for access in valley



“ ‘We thought the real opportunity was to take a deep technology and innovation out of Australia and work with those going after large global markets.’ ”

Unlike the constellation that provides its name, Southern Cross Venture Partners, an Australian venture capital firm, is hoping to guide companies formed Down Under north to Silicon Valley.

So far, they’ve relocated two – Xerocoat Inc. in Redwood City and uiActive Inc. in San Mateo – but they have plans for more. “We thought the real opportunity was to take a deep technology and innovation out of Australia and work with those going after large global markets,” says John Scull, managing director of Southern Cross Venture Partners, named for the constellation of the flags of Australia and New Zealand that can be used to locate the southern direction.

“Oftentimes we needed access to what Silicon Valley has in spades,” says Scull. “We need access to management talent, access to partnerships, access to customers that are obviously in large markets like the U.S., but also, a gateway to other companies around the world and funding from top tier venture capitalists, and ultimately exit the companies.”

The firm closed a \$150 million fund in mid-2007 and invests in early-stage Australian companies in most any industry other than biotech and life sciences. The firm says it’s opening an office in Silicon Valley in February and plans to move to many of its portfolio companies’ headquarters to the area. It has already started with two of its four investments.

Xerocoat, which makes specialty coatings that boost the

efficiency of solar panels, moved its headquarters to Redwood City from Queensland, Australia. Southern Cross co-invested in the company with well-known valley cleantech firm Nth Power. UiActive, which makes a network-based mobile phone platform, will keep a technical team in its hometown of Sydney even though it is now based in San Mateo.

“There’s an immaturity of technology commercialization because there’s not really historically been a VC business or any kind of early stage investing capital,” Scull says.

“What’s often happened is guys there tended to bootstrap their companies and oftentimes sold their licensed technology to larger companies to do things with it.”

He says a good example of that is Australian chipset maker Radiata Inc. that was bought by Cisco Systems Inc. for \$295 million in 2000. The technology has since been phased out but Cisco was an early investor and the deal was widely considered a bargain. Australia’s venture capital scene changed dramatically in the 1990s when a new administration took office and developed lucrative incentives for investing in innovation, says Australian Graham Crooke, a venture capitalist with Asset Management Company in Palo Alto.

In 2005 Australia ranked No. 12 for global private equity investments with \$2.32 billion invested that year. The U.S. ranked No. 1 with more than \$46 billion that year, according

to PricewaterhouseCoopers Global Private Equity Report for 2006. And while the industry has been growing, several Australian venture firms today partner with U.S. venture firms once they’ve taken an Australian company beyond initial financing rounds. GBS Venture Partners focuses on bioscience companies and Starfish Ventures focuses on technology companies and has global investment partners including the Carlyle Group and Versant Ventures. But they don’t keep offices in Silicon Valley or the U.S.

Scull was on the original Mac team at Apple Computer Inc. in the mid 1980s. He’s been the CEO of the two software companies throughout the 1990s and became a venture capitalist seven years ago, joining another Australian venture firm Allen & Buckeridge where he advised Australian firms on relocating to the U.S. There he met Allen and Buckeridge partner Bob Christiansen and they worked on five companies together. Christiansen and Scull spun off and created Southern Cross in 2006 with the aim of fine-tuning their venture strategy on early stage and seed investments, as opposed to the broader approach of Allen & Buckeridge. Australian entrepreneur and photonics expert Larry Marshall will join Scull in the Palo Alto office, also as managing director.

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