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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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UBS  
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(Asia only)  
HSBC

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Deutsche Bank

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Lehman Brothers

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## Netherlands

### Lenovo in talks to buy stake in PC maker Packard Bell

Lenovo Group said Tuesday its in talks to buy a stake in Netherlands-based computer maker Packard Bell, a move that could give the Chinese computer company a leg up in the European consumer market.

Lenovo, which purchased the personal computer arm of International Business Machines in 2005 and has its headquarters in both Beijing and Raleigh, N.C., is the world's third-largest computer maker by shipments.

Packard Bell is a smaller player focused on sales of computers and consumer electronics to consumers in Western Europe. The company is privately

held by Chinese-American businessman John Hui, who is best known for selling eMachines to Gateway in a deal valued at close to \$300 million in 2004. In September, Hui purchased Packard Bell from Japanese electronics group NEC.



## China

### Good Morning Silicon Valley

For sheer size, it's hard to find a more tempting software market than China. Unfortunately, all those people don't have much in the way of disposable income, what with the average urban income just north of \$1000 a year, and the rural annual income about a third of that. Not only does that discourage the sales of imported software baring Western prices, it also encourages purchases of cheap pirated products. Microsoft has ad-

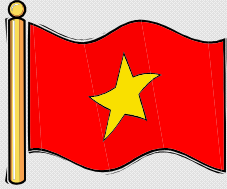
ressed most of its response to trying to stop the pirates, but today, it got aggressive on the other side of the equation, chopping the Chinese price on Windows Vista Home Basic from \$200 down to \$66 and Vista Home Premium from \$238 down to \$118. Small cuts were made at the top end of the Vista Family. Microsoft is hoping the prices encourage new sales and cut the margins on the pirated versions.

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# Asia

## Valley Venture into Vietnam



“When you look at Vietnam and the culture of the people, what you find when you dig deeper is a value system that is based on loyalty, creativity, knowledge, curiosity, tenacity- all of these give Vietnam an endearing advantage over most other countries.”

In a boost to Vietnam’s nascent tech economy, Silicon Valley investors announced Friday they are sinking as much as \$200 million into a new chip-packaging plant in Hanoi. The newly formed Vietnam-Chip-scale Advanced Packaging Services, or V-caps, will be led by a group of semiconductor executives with valley ties. The announcement was made during the first-ever Vietnamese Strategic Ventures Network conference in Palo Alto, where hundreds of investors, tech executives and entrepreneurs gathered for two days to discuss new opportunities in the economically rising Southeast Asian nation of 84 million people.

Conference speakers agreed that, risks of investing in any developing country aside, Vietnam is increasingly seen as a new destination for tech outsourcing and even some high-end services. The government forecasts its economy will grow at 9 percent this year.

The cost of doing business in Vietnam is about half of that of China, said Sanford Garrett, one of the seed investors in V-caps. He is president of the Garrett Group Technology in San Francisco, a financial consulting firm. “That Vietnam is inexpensive in and of itself is not the driving force for going there,” he said. “When you look at Vietnam and the culture of the people, what you find when you dig deeper is a value system that is based on loyalty,

creativity, knowledge, curiosity, tenacity- all of these give Vietnam an endearing advantage over most other countries.”

The 300,000-square-foot factory will be in the new Hoa Lac High Tech Park and will employ up to 1,500 workers. V-caps will consider building two more similar facilities, as well. The company will assemble and test chip packages for semiconductor companies for an array of products, from cell phones to personal computers.

V-caps founder Harry Rozakis, who most recently was chief executive of Milpitas- and Hong Kong-based chip-assembly company Asat, began

scouting Vietnam four years ago after taking a vacation to the country.

“I said, “This place is incredible. I think it will be the next Asian giant,” he recalled.

He will travel between the United States and Vietnam as he continues to raise funding for the company, which he launched nearly two years ago.

Eventually, Vietnamese executives will run the on-the-ground operations, Garrett said. “We believe in a strong local presence and a strong contribution to host countries,” he said. “Otherwise, there is a no way you can be successful.”



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## United Kingdom

### Draper fisher acquires stake in UK firm

Draper Fisher Jurvetson, the Menlo Park venture capital firm, has acquired a strategic stake in Esprit Capital Partners of Europe. Esprit, which has offices in London and Cambridge, England, has rebranded as DFJ Esprit and is now DFK's exclusive partner in Europe, the firms said in a statement currently on Esprit's home page.

DFJ Esprit is the latest addition to the DFJ Network of venture capital partnerships, which now includes 120 investment professionals in 30 cities around the world, DFJ said. Esprit, which has about \$560 million under management, formed last year with the merger of U.K. firms Cazenove Private Equity and Prelude Ventures. It invests in technology and health care.

**Accel Partners:** In Sik Rhee has joined the Palo Alto venture capital firm as a venture partner. Rhee co-founded and served as chief tactician at Opware, the data center automation company that Hewlett-Packard recently agreed to acquire for \$1.6 billion. He also co-founded Kiva Software, which

was acquired by Netscape. According to his bio, Rhee "self-taught software programming at the age of 12 and began developing commercial software as a 19-year old."

**Litescape Technologies:** The Redwood Shores company that says it offers "unified communications" ap-

**Cool Systems:** The Berkeley medical-device maker focused on sports medicine and post-surgical treatments for orthopedic injuries raised \$3 million as part of an expected \$6 million funding round.

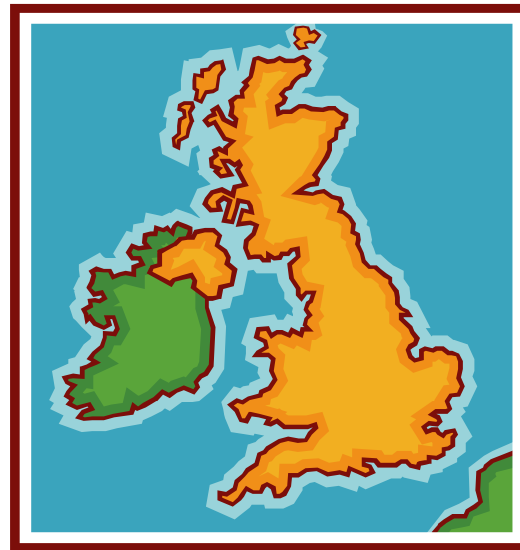
**Acologix:** Thea Hayward biotech focused on treating bone and

tures, Woodside Fund, QTV Capital, Seagate Technology, Infineon Technologies, Emulex Corp., and EMC. Since 2000, the company has raised about \$100 million in total VC funding.

**HandHeld Entertainment:** The San Francisco company said it has agreed to acquire eBaum's World, an entertainment site offering user-generated videos, games, jokes, photos and other content. HandHeld said it will pay \$17.5 million for eBaum's World at closing, including \$15 million in cash, \$5 million in common stock, which is subject to a \$2.5 million one-year hold-back based on achievement of certain financial targets. In addition, HandHeld may pay earn-outs of up to \$32.5 million (\$17.5 million in stock and \$15 million in cash) over three years to the owners of eBaum's World, dependent on the achievement of certain financial and operational milestones of the purchased business.

kidney disease withdrew an initial public offering that it had hoped would raise as much as \$115 million.

**Aristos Logic:** The Foothill Ranch-based provider of RAID storage processing technology has raised \$13.36 million in Series G funding, according to a regulatory filing cited by PE Wire. Investors include JPMorgan Partners, TPG Ven-



plications, has raised \$14 million in a second round of funding. Vedanta Capital led the deal, which included T-Venture and existing backers SoftBank Capital, TeleSoft Partners and Blumberg capital.

**AutkeBio:** The Santa Clara-Beijing hybrid company that grows engineered cell lines for drug companies, raised \$1.1 million.



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## Europe

### Antitrust charges filed against Intel

European regulators brought antitrust charges against Intel on Thursday in a high-stakes dispute that could force the world's largest chip maker to change its business practices around the world.

The case, the result of a six-year probe, accuses Intel of offering illegal rebates to computer makers during its decades-long rivalry with Advanced Micro Devices and is likely to set off a lengthy legal struggle that could reset the competitive landscape in the chip industry. At a time when antitrust enforcement in the United States has been lax, the action also cements Europe's reputation as the top antitrust cop in dealing with powerful companies that hold significant sway over the markets they serve. Intel spokesman Chuck Mulloy declined to comment on the formal statement of objections that the Santa Clara company received Thursday. But experts said the disagreement could turn into landmark case.

"You don't bring a statement of objections against Intel without it being a

World War III," said Robert Lande, a director at the American Anti Trust Institute and a professor at the University of Baltimore. "It's of the utmost importance." If European enforces prevail – a determination will not be made for years – and eliminate the alleged illegal product discounting in EU countries, Intel might be forced to change its business practices in the United States, Asia and elsewhere, Lande said. That's because customers who believed they were being forced to do business with Intel and avoid AMD to get lower price could simply do business in Europe. "There is a really good chance it would have a beneficial effect on U.S. consumers" by leading to lower prices, Lande said. However, with the action at an early stage and little indication of the strength of the evidence, predicting an outcome is difficult.

It is not the first time Intel, with 80 percent of the \$33 billion personal-computer chip market, has faced an antitrust investigation. In 2005, the company agreed to

abide by antitrust recommendations from the Japan Fair Trade Commission, which called on it to stop requiring PC makers to limit the use of competitors' chips in exchange for monetary rebates. South Korean investigators also have been looking into the company after raiding its offices in February 2006.

In recent years, Sunnyvale chip maker AMD has lodged complaints about Intel's practices in several countries. AMD spokesman Drew Prairie told Bloomberg News that the company hadn't heard from the EU, but he noted in an e-mail that "we have always applauded governmental decisions to bring full and fair competition to the global microprocessor market."

In a lawsuit pending in U.S. District Court in Delaware, AMD alleges that Intel is "engaging in a relentless worldwide campaign to coerce customers to refrain from dealing with AMD." Intel has denied engaging in any anti-competitive behavior. The European Commission began its investigation after receiving a 2001 com-

plaint from AMD. In February 2002, the commission – in a preliminary assessment – said complaints that had abused its dominant position by using rebates to prevent customers from going to rivals were "unfounded."

But the commission reopened the probe in June 2004 after AMD offered new information and alleged that Intel gave illegal rebates. The commission raided Intel's European office in July 2005, looking for evidence of anti-competitive actions.

AMD, a scrappy and persistent competitor of Intel's, has seen its fortunes rise and fall over the years. By the third quarter of 2006, its market share rose to 16.8 percent, according to research from iSuppli, as its chips outperformed those from Intel. By the end of the second quarter of this year, however, the number had fallen to 11.4 percent as Intel fought back with improved products.

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