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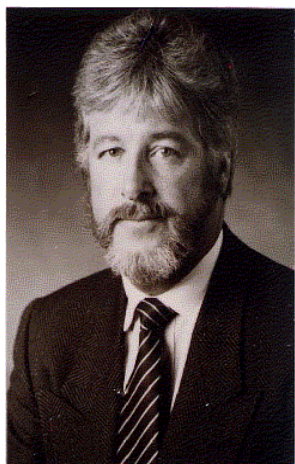
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EUROPE

Downsizing in the Future for Philips



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Philips Electronics recently announced it would cut 1,600 jobs in its U.S. and European semiconductor division. In addition, Philips will close several chip manufacturing factories in a restructuring aimed at returning the division to profitability by the end of the year. About \$275 million in annual cost savings will result from the recovery plan. This could be a sign that the worldwide semiconductor industry

slump is not over yet.

Philips will reduce capacity at its factories by 20 percent and cut the divisions research and development spending by \$220 million. The moves indicate that its chip-making activities have struggled as industry rivals have managed to stay profitable. Philips' semiconductor unit accounts for about 25 percent of overall sales. The division has been slowed by overcapacity, intense pricing pressure, and weak demand from cell-phone and personal computer makers. During the economic boom, this unit was the company's largest cash generator, but it has considerably contributed to Philips' record net loss in 2002. Philips, the third largest chipmaker in Europe, has also seen its share of global chips sales fall.

Many industry insiders complain that Philips chronically restructures its businesses and more drastic action is needed to offset weak demand and pricing pressure that shows no sign of relenting. However, Philips is collaborating with Franco-Italian microchip maker STMicroelectronics, Motorola, and Taiwan Semiconductor Manufacturing to develop a new generation of chips. This will help diversify the company's product mix and slash costs. The semiconductor company is interested in buying smaller chipmakers that have a bigger share than Philips' for the high-growth products market such as digital, audio, and automobile chips.

War Pays Off for Wireless News Outlets

Wireless phone companies hope the Iraqi War will convince customers that cell phones are a good way to keep up with current events. As the largest U.S. carrier, Verizon Wireless reports the number of customers that have signed up for test message alerts regarding the war news has doubled since January, and now number in the thousands daily. In Europe and Asia, mobile service providers also reported an increase in demand for news updates via text messages, picture messages, and adapted Internet sites. Sohu.com, an online news service provider in China, says eighteen thousand subscribers signed up for its text message service in the first six hours of the war outbreak. In Italy, Telecom Italia Mobile SpA claims that use of its service grew by 50% since the fighting began.

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A Service Disabled Veteran Enterprise

Before the war, most mobile phone companies failed to persuade its customers to use their phones to access news, entertainment, and other information. This could mark the beginning of a new trend in the cell phone industry. Wireless providers hope customers will become accustomed to downloading and exchanging information using their handsets, which will open up a new revenue stream for the industry.

Many expect the enthusiasm to be short-lived, since most Americans and Europeans rely heavily on television, newspapers, and the Internet for their information needs. Also, former users of this service have complained about receiving too many messages. The trend is more likely to catch on in countries where Internet services are harder to access. But other forms of technology provide a cheaper, faster, and more fulfilling experience for users.

ASIA

Sunny Outlook for Asian Markets

Asian companies are finding new ability to deliver growth during this economic slump. In the preceding ten years, Asian market share of world equity slide from two-thirds to less than thirty percent. During this time, Japan hit an economic slide while the emerging markets stalled amongst the Asian Currency Crisis. This time around, the expected growth is centered on the development of local markets and trade within the region and less on exports to slower-growing American and European markets.

Many regional developments have attributed to an attractive picture of growth potential in Asia. Among them are: production of goods for local consumption, improvement to consumer credit, higher level of savings, and a younger population more focused on consumerism. Higher commodity prices have also helped cash flow in resource rich economies.

Japan, Hong Kong, Singapore, and Taiwan have the most developed economies and markets in Asia, while Malaysia, Thailand, Indonesia, South Korea, India, and the Philippines are continuously emerging. However, China has paved the way by emerging as a customer and continuing as an exporter. While its economy is one of the fastest growing in the world, China is still not fully open and transparent. The government plays a large role in economic development, and its currency is not easily convertible.

Although no equity market has delivered a positive return in three years, Asian markets have been increasingly "less bad." As the dollar continues to lose its grip as the world's most valuable currency, Asia begins to look less risky as an investment alternative.

UTStarcom Inks deal with India's Largest Conglomerate

The Alameda, CA based telecom equipment company signed a more than \$100 million deal with Reliance Infocomm Ltd. of India to build a pan-India mobile service and telephone infrastructure. The contract is UTStarcom's single largest deal ever. The company develops telecom equipment hardware and software. In 2002, China contributed to over eighty percent of UTStarcom's \$981.8 million in revenues, which was up 57 percent from the prior year. Future growth will be fueled by contracts from other Indian companies. UTStarcom has strategically focused its efforts on emerging markets like China and India, where they are still buying telecom infrastructure equipment. It also has \$650 million worth of back-logged orders from 2002, which is up 67 percent from 2001 year-end.

The telecom company leads the market in wireless personal access system (PAS). This technology enables telephone companies to offer wireless telephone and data services through traditional networks, without having to install new cellular networks. However, the PAS phone services resemble cell

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phones except with a limited coverage area. This allows consumers to pay about one-third of the cost for using a cell phone, and handsets are cheaper to purchase on this system. PAS allows consumers to receive the same services offered by wireless providers such as text messaging, Internet surfing, taking digital photos, playing games, listening to MP3's, and receiving data services. Although it has limited appeal among business travelers who often go outside of their metropolitan network, many urbanites have embraced the lower cost mobile alternative. Currently, the technology does not exist in North America. It is best suited for dense, urban areas.

Reliance IndiaMobile is the first mobile service in India that combines voice and data delivery to handsets with computing capabilities. Reliance Infocomm belongs to India's largest conglomerate, Reliance Industries Ltd. It is the country's dominant oil refiner and petrochemical business.

Home Networking Trend has Linksys Contemplating IPO

Linksys jumped at the opportunity to sell a new networking standard applied to a small credit card-sized circuit board to the retail market in the 1994. It got the product out on U.S. retail shelves before anyone else by recruiting several Taiwanese companies to manufacture the cards. The company started as a middleman for U.S. tech companies looking to manufacture their products overseas. This strategy of working with U.S. retailers and Asian manufacturers has helped Linksys become the leader in various home networking product markets. In 2002, sales rose 27% from the year before. The combination of success in the home network market and high growth has Linksys mulling over the idea of going public when the markets turns upward.

The Irvine, CA based company targets the do-it-yourself customer who wants to share home or

small office broadband Internet connections. This area is one of the few growth opportunities in the battered networking equipment market. Linksys attributes its sales growth to the increasing number of U.S. homes and small offices that want to connect more than one computer with broadband Internet service. It focuses on making easy-to-use and easy-to-install networking gear.

What is amazing about how Linksys has stayed in front of the competition is that it has done it without a formal budget for research and development. The company has roughly 40 engineers who work with the overseas manufacturers to stay current with designs. By working closely with their manufacturer partners, Linksys can stay on top of what customers want. However, the strength of its business is getting the products to U.S. retailers. The company's business model is similar to a distributor's.

The hottest product for Linksys is wireless networking equipment, also known as Wi-Fi. In 2002, it sold \$200 million in Wi-Fi gear. Only Cisco sold more, but it mainly focuses on networking gear for medium to large sized businesses. Wi-Fi is expected to account for half of the company's revenue this year. The outlook for Linksys only looks better as people become more dependent on technology. Businesses, such as Starbucks and McDonald's, are beginning to integrate the wireless standard for customers to surf the Internet while they spend time there.

Roxio Purchases PressPlay from Sony to Team with Napster

Software maker Roxio has acquired for about \$40 million the online music service PressPlay, a venture jointly owned by Universal Music Group and Sony Music Entertainment. Roxio, best known for its CD-burning software, owns the Napster brand and is expected to relaunch PressPlay under the name that set Internet music file sharing in motion.

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The Santa Clara-based company purchased PressPlay for \$12.5 million in cash and approximately 3.9 million shares of Roxio common stock, according to a statement from both companies. The purchase price would be approximately \$39.5 million.

Roxio bought the Napster brand cheaply after the company, sued into submission by the record labels, dissolved. With the acquisition of Napster, it obtained the most powerful brand in the online music space. Now, with the acquisition of PressPlay, Roxio has the most complete and scaleable legal technology infrastructure to use as a platform to relaunch Napster.

PressPlay President Mike Bebel will become the president of the new Napster company and the service will be launched some time in the current fiscal year, Gorog said. The new Napster, when it launches, can expect continued competition from Apple's new iTunes Music Store, MusicNet and Listen.com's Rhapsody service. But for brand recognition with online music, the Napster name has a leg up.

Sony to Challenge Nintendo with New Portable Console

Entering a market dominated by Nintendo's Game Boy, Sony plans to deliver its first handheld gaming device, PlayStation Portable (PSP), next year. Sony's PSP is touted as the Walkman of the 21st century.

The player's game cartridge will use a Universal Media Disc, or UMD, that measures 2.4 inches in diameter and holds 1.8 gigabytes of information. At the heart of PlayStation Portable is a microprocessor with integrated sound and graphics functions that produce music in stereo and 3-D graphics on a backlit 4.5-inch LCD screen.

Nintendo has had a lock on this market. Satoru Iwata, president of Nintendo, said he's not concerned because his company controls the handheld gaming market, and Sony's new product probably won't be available until the end of next year.

Nintendo, which appeals to younger gamers, will continue to focus on publishing titles based on its popular characters, such as Mario, Donkey Kong and Pokemon. Popular but controversial game titles like Grand Theft Auto that are not available on Nintendo's Game Cube.

With the industry in the middle of its hardware cycle, one of the key expectations among industry watchers has been a possible price cut on the game consoles. No one budged. PlayStation 2 and Xbox both remain at \$199, and GameCube stays at \$149. Sony will start making its PlayStation 2 with built-in network cards for online gaming and sell them for \$199 beginning in June 2003. Currently, gamers have to spend \$40 for an external network adapter.

Sony also introduced EyeToy, a \$39 USB camera that integrates the gamer's movements into the game. For example, instead of using a game controller, the player can wave his hands to knock down opponents in a martial arts game or to wash windows in another title called Wishi Washi.

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