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President

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.

In order to facilitate our receipt of directed order flow, we show our list of agents as follows:

Global markets:

Merrill Lynch
Societe Generale

(Pan European only)
Cheuvreux

(Asia only)
HSBC

(Australia only)
Deutsche Bank

Europe

Cell phone encryption code broken by hacker

A German security expert has raised the ire of the cell phone industry after he and a group of researchers posted online a how-to guide for cracking the encryption that keeps the calls of GSM-standard cell phone users secret. Karsten Nohl, 28, told The Associated Press that he, working with others online and around the world, created a codebook showing how to get past the GSM encryption used to keep conversations on more than 3 billion mobile phones safe from prying ears. Nohl said the purpose was to push companies to improve security.

The collaborative effort put the information online through file-sharing sites.

"The message is to have better security, not we want to break you," he said of the move. "The goal is better security, if any of the network operators could use this as a marketing feature ... that would be the best possible outcome." GSM, the leading cell phone technology around the world, is used by several wireless carriers in the U.S. with the largest being AT&T and T-Mobile USA. Verizon Wireless and Sprint Nextel use a different standard. The GSM Association, a trade group that represents nearly 800 wireless operators, said it was mystified by Nohl's rationale, calling his actions "highly illegal in the U.K."

Network Swamped

The head of mobile phone operator O₂ has apologized to customers in the British capital who were unable to make calls after its network was swamped by people using smartphones such as Apple's iPhone. In an interview published in the Financial Times newspaper O₂ Chief Executive Robert Dunne said some customers in London had periodically not been able to make or receive calls or transmit data because of pressure on the

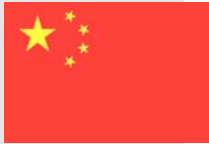
network from such smartphones. The network problems in the second half of the year were blamed on increased use of applications by customers with smartphones that repeatedly pull data off the Internet at short intervals. In the US, the iPhone's exclusive carrier, AT&T, also has had trouble keeping up with wireless data usage, leading to dropped connections and long waits for users trying to run programs on their devices.

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Asia

Setting the stage for buyers' return



“This year, CEA expects Asian countries to account for 36 percent of sales, which would be the same portion of global electronics sales as Western markets.”

The consumer electronics industry is set to follow a down year with another down one in 2010, an industry trade group projected in a recent report. Global retail sales of consumer electronics products will total \$681 billion this year, flat with last year, analysts with the Consumer Electronics Association said. China and products such as LCD TVs will see strong sales growth, but those will be the exceptions. Most product categories and most regions of the world, including North America, will see sales declines, according to CEA analysts.

Although the United States appears to already have exited its recession, the economic slump is making its way across the globe, depressing sales, said Steve Koenig, director of industry analysis at the CEA. “The recession has flattened the total market opportunity from a consumer electronics standpoint,” said Koenig, adding that growth in emerging economies won’t “be enough to pull up the global picture.” The downcast outlook could put a damper on the Consumer Electronics Show, the CEA’s giant annual conference that opens up this month.

Electronics companies frequently use the event to tout new products they hope retailers will sell to consumers later in the year. CEA expects North

American electronics sales to fall 3 percent this year after being down 12 percent last year. In Japan and Western Europe, where sales grew 19 percent and 2 percent, respectively, the group expects sales declines this year of 3 percent and 9 percent.

In contrast, the group expects sales in China to grow 10 percent after growing 10 percent last year. Similarly, it expects sales in the rest of Asia, which includes India and Korea, to



grow 6 percent after being up 6 percent last year. Those kinds of growth rates in Asian countries are realigning the global consumer electronics market. As recently as 2005, North America and Western European countries accounted for about 45 percent of global retail sales of electronics products. Even in 2008, those two markets accounted for 40 percent of global sales, compared with about 30 percent for China, Japan and other Asian countries. But this year, CEA expects Asian coun-

tries to account for 36 percent of sales, which would be the same portion of global electronics sales as Western markets.

“We’re in the middle of a real sea change,” Koenig said. “You’re going to see Asian economies overtake Western economies (in electronics spending) as consumers there spend more.” But for now, consumers worldwide are being picky about which electronics products they buy. The only major product categories that showed revenue growth last year were high-definition DVD players, laptop computers and LCD TVs. This year, CEA expects only high-definition DVD players and LCD TVs to show sales growth. That said, the group expects to see very strong growth among particular niches or types of products. In the United States, for instance, CEA expects unit sales of LED-backlit televi-

sions to grow 256 percent, e-readers to grow 127 percent, televisions with Ethernet networking ports to grow 95 percent and televisions with 3-D display capabilities to grow 95 percent. “2010 is a year of recovery and rebuilding,” said Shawn DuBravac, the CEA’s chief economist. “Where there are challenges and struggles, there’s also opportunity.”

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The Americas

Nokia escalates battle with Apple



“In its lawsuit, Apple seeks an injunction against Nokia, which would potentially bar it from selling some of its products in the U.S.”

Nokia is opening up a new front in its patent war with Apple. Having already sued Apple in October for allegedly violating patents covering key cell phone technologies – and been countersued by the iPhone maker earlier this month – Nokia filed a second lawsuit earlier this year. It accused Apple of infringing seven additional patents, some of which relate to technologies found in nearly all Apple products. At the same time, Nokia filed a related complaint against Apple with the U.S. International Trade Commission. Nokia’s trade commission action could represent a significant threat to Apple. Not only does the commission typically hear cases within a year, which is far sooner than they’d go to trial in a district court, it has the power to block companies from importing products into the country. Nokia is asking the agency to do just that, which would effectively bar Apple from selling everything from its iPhone and iPods to its Macintosh computers in the U.S. “It’s an escalation,” said Fabio Marino, a partner in the patent litigation department of Orrick, Herrington & Sutcliffe. “If you want to bring things to a head, a fling with the ITC is the way to go.” The Helsinki, Finland-based company’s actions were in response to Apple’s lawsuit, said Nokia spokeswoman Laurie Armstrong.

In its lawsuit, Apple seeks an injunction against Nokia, which could potentially bar it from selling some of its products in the U.S., she noted. “It doesn’t leave much of an option for us other than to file (a claim) with the ITC,” she said, adding, “Nearly all of Apple’s products infringe one or more of Nokia’s asserted patents.” Apple representatives did not respond to requests for comment. But legal experts said there’s a good chance the Cupertino company will respond in kind, by filling its own claim with the ITC. The escalating dispute between the two companies comes as the two face contrasting fortunes. Apple has been posting record sales and profits in recent years, driven in part by the iPhone, its hit smartphone. Nokia, in contrast, has stumbled recently, seeing its sales and earnings slump. It still dominates the global market for both cell phones and smartphones. But its market share of the latter has fallen steadily in recent years, and

it has struggled to sell those devices in the U. S. The company’s troubles are part of a larger upheaval in the cell phone industry, said Carl Oppedahl, a partner at the Oppedahl Patent Law Firm. “Every cell phone manufacturer wonders if it still will be in business in three or four years,” Oppedahl said. “Surely this leads companies to explore every possible way of gaining an advantage over a competitor. Clearly one of the options is patents.” Nokia’s latest claims cover a wide range of cell phone and computing technologies, including a chip that helps limit the power used in transmitting radio signals, a design for a compact but high-fidelity speaker system for phones and digital camera built on a single microchip. The patents covered by Nokia’s original lawsuit relate to essential parts of the standards for cell phone technologies, Nokia has said. The company is required to offer li-



licenses for those patents at reasonable terms to any and all seekers, but Nokia has claimed that Apple refused its terms. In contrast, the patents involved in Nokia’s latest actions are not part of any standards, Nokia said. So the company is not required to license them; instead, it considers them unimportant to differentiate its products from those of competitors.

Most patent disputes end in a settlement. And when such disputes happen between two large companies with extensive patent portfolios – such as Nokia and Apple – the two sides typically end the war by simply cross-licensing their patent portfolios. That’s still the likely end result of the Apple-Nokia conflict, legal experts said. But by bringing in the latest set of patents to the dispute and by filing the action with the ITC, Nokia may be signaling that it will wait to see how the ITC rules before pressing to settle.

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China

Chinese search engine set to fill Google's void



“A Google pullout from China could boost its ambitious China-based rival Baidu...”

A Google pullout from China could boost its ambitious China-based rival Baidu, which dominates the Chinese market and is expanding abroad. Baidu, launched in 2000, is a standout in the global search industry – a local competitor that beats giant Google.

Baidu has 60 percent of China's search market and has held onto that despite Google's launch of a local site and relentless efforts to tailor its services to Chinese tastes. If Google closes China-based Google.cn, Baidu might pick up many of its users and advertisers, analysts said. Google's main U.S. site has a Chinese section, but government filters hamper access for users in China. “It's a huge positive for Baidu,” Citigroup analyst Catherine Leung said. Baidu shares on the U.S. Nasdaq market jumped 13.7 percent after Google's announcement that it would stop censoring search results in China

and might pull out of the country.

Even if some Chinese users switch to Google's U.S. site, advertisers in China might be uneasy about being associated with it after Google's statement about Web censorship, Leung said. She said up to 80 percent of Chinese advertiser spending that now goes to Google.cn might be switched to Baidu. “If Google.cn is shut down, the only real alternative is to go to Baidu,” she said. “If Baidu were able to get the majority of Google's market share, that means we are looking at a player with 80 to 90 percent market share in China.”

Little known abroad, Beijing-based Baidu is one of the world's most-popular Web sites based solely on its following in China, the world's most populous Internet market with 338 million people online as of June. Web traffic monitoring company Alexa ranks Baidu as the world's eight-most-visited site.

The company launched its first site abroad in 2007 in Japan, and analysts expect other markets to follow. Less competition from Google might allow Baidu to boost profits and speed up its overseas expansion.

Baidu has benefited in the past from government controls over Internet access, though it is unclear whether Beijing tries to promote the site over foreign rivals. China's extensive system of Web filtering tries to block access to material deemed subversive or pornographic. Baidu built up a commanding lead in market share after the government's filters slowed access to Google's U.S.-based site. Google launched its China-based site in 2005 to speed up access and

opened a Beijing center to create services for the China market, but Baidu has held onto its lead. Baidu had 58.4 percent of the search market in the final quarter of 2009, while Google had 35.6 percent, according to Analysts International, a Beijing research firm. Google was up from 29.1 percent the previous quarter, but most of the gains were at the expense of other rivals such as Yahoo's China site. In 2006, Baidu launched a Chinese-language encyclopedia inspired by the cooperative reference site Wikipedia after access to the American site was blocked, possibly because it has articles about Tibet, Taiwan and other sensitive topics.



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