

TALK is cheap — if you buy now!

By Christian DeHaemer

Now, I'd be the first to admit to a standing dislike for phone companies. Every time I move or change phone carriers, my home phone is bombarded with a scavenging pack of sales people trying to get me to switch. And when I do, more flea-bitten curs want me to switch back.

I finally found the least expensive phone carrier out there, **Talk.com (TALK:NASDAQ)**.

Talk.com offers five cents a minute rates all the time, anywhere to anybody. They can do this because Talk.com is the low-cost long distance service provider. They have a simple business plan and lack the history of fixed costs that the giants in the industry like AT&T must deal with.

Talk.com knows how to keep costs down by using the Internet. They incur no postage fees because they use real-time online line billing. They are able to beat their competitors on cost as well as ease of use.

But what really sends Murphy Brown and that emasculated goofball from *Mad About You* into a cage-match death frenzy is the fact that Talk.com has bundled its five cent service with free domain name hosting. That's right, if you use their service you can get your own branded website.

TALK talks the talk— Free domain names

Just a little more than a month ago, Talk.com gained approval by ICANN as a registrar of domain names. Talk.com is one of less than 100 companies that are allowed by the powers that be to sell domain name registers. The going market rate for domain name registration is US\$70-80. The cost to Talk.com is US\$18.

Talk.com is planning on giving away the registration for free if you sign up with their low-cost telephone service. It is expected that this will build brand loyalty and reduce the turnover rate per customer, which is currently at 13 months.

.org.com.gov.sex.edu

This is the best marketing strategy I've heard since Cracker Jack put toys in the box. Most people don't know anything about registering a domain name. They don't even know where to start looking. However, every J.Q. Public wants a web site if only to display his baby pictures for grandma.

As you can imagine, the demand for site registration is huge.

Network Solutions registered 1.5 million new names in the third quarter alone. This is relevant because the CEO of Talk is the former CEO of Network Solutions (NSOL:NASDAQ).

Network Solutions is

the dominant domain name registration company. For the nine months ended 9/30/99, revenues totaled US\$144.9 million, up from US\$62.4 million. Net income totaled US\$17.9 million, up from US\$7.5 million. Nice growth, but can it continue?

For this, NSOL is rewarded with a market cap of US\$7.74 billion. With such a low barrier to entry, and Network Solution's former CEO now with Talk.com and willing to give away registration services for free, I don't expect Network Solutions to carry such a lofty price tag for long.

The talk on Talk

Talk.com is in a highly competitive business (over, please)

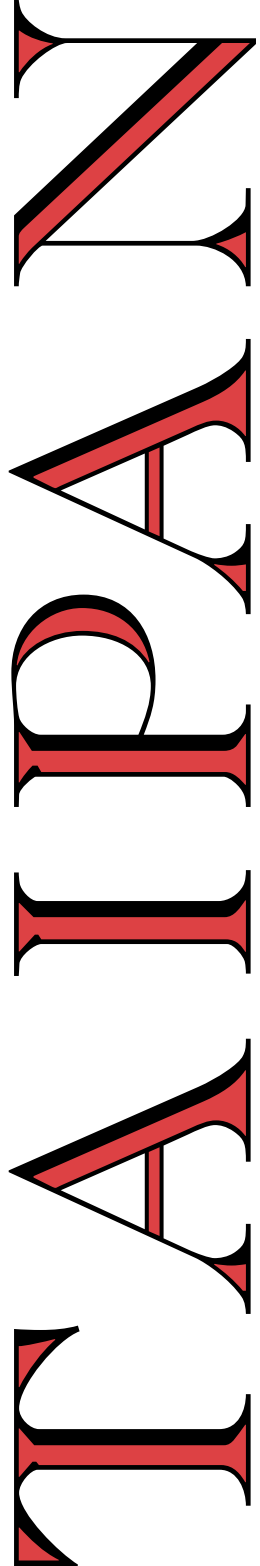
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ness. Long distance service has become a commodity, which is why you see companies like AT&T going into the cable business. In fact, the Baby Bells are now entering the long distance market and will bundle their local, long distance and wireless services in one neat package. This will put more pressure on the industry. However, since Talk.com is the low cost producer it will be the likely beneficiary.

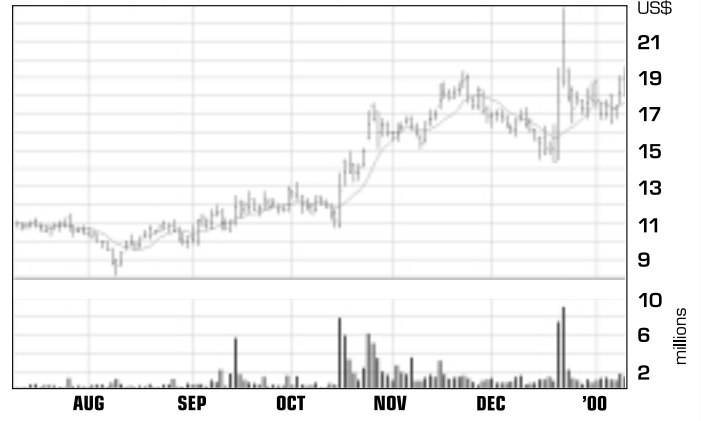
But that's not all, TALK does more. It is now testing "text to voice" messaging, so that you can call someone from your pager. Talk is also planning on offering remote conferencing for consumers.

New Talk

In the past Talk.com depended heavily on **America Online (AOL:NASDAQ)** as the exclusive partner to provide AOL's customers with long distance services. Talk.com is the founder of AOL Long Distance, America Online's most successful partner program to date. Talk.com ranks among the top five in consumer e-commerce categories, including revenues, repeat customers, revenue per employee and estimated earnings for 1999. AOL owns 4.1 million shares of Talk.com.

Talk.com is moving away from this depen-

Talk.com (TALK-NASDAQ)



dency and expects that the majority of its customers will be non-AOLers by the end of 2000. To accomplish this goal, it has co-branded with CDNow, offering a US\$15 rebate from the purchase of a CD if you pick Talk.com's service.

The big news is that Talk.com struck a deal with FirstUSA Bank, which allows Talk.com to market to FirstUSA Visa's 65 million cardmembers. The deal allows FirstUSA Visa holders to pay their telephone bill directly from their credit card. This makes perfect sense due to both companies' online platforms.

Network news

Talk.com has been building its own Network entitled One Better Network since 1997. The switch and router enthusiasts out there will be

Talk.com (TALK-NASDAQ)

The market cap:\$1.17 billion
Shares outstanding:64.7 million
Float:40 million
Estimated EPS growth:.....34%
3-year revenue growth:.....35%

Telecom Industry 3-year revenue growth:26%
Price to sales '99:.....2.4x
Price to sales '00:1.8x
Industry p/e ratio:44.74
Talk p/e ratio:20.4

HISTORICAL QUARTERLY RESULTS REVENUE (Thousands of U.S. Dollars)

	1996	1997	1998	1999
1st Qtr MAR	51,065	71,160	91,146	110,572
2nd Qtr JUN	57,015	75,032	111,098	117,139
3rd Qtr SEP	60,079	80,314	122,525	140,027
4th Qtr DEC	64,265	78,262	123,831	155,000

Est. total: \$524,000

EARNINGS PER SHARE (U.S. Dollars per share)

	1996	1997	1998	1999
1st Qtr MAR	0.080	0.080	-0.650	0.200
2nd Qtr JUN	0.070	-0.090	-1.490	0.220
3rd Qtr SEP	0.110	0.010	-1.580	0.230
4th Qtr DEC	0.090	-0.320	-1.560	



glad to know that this new network is being built with Lucent 5ESS-200 switches connected by leased fiber lines. Cool.

Like I said, TALK is cheap

The most compelling part of the Talk.com story is its value. The company is currently trading at a p/e of 20 and just over two times sales with a market cap of US\$1.17 billion. Qwest (QWST:NASDAQ), a similar upstart phone company, is trading at a p/e of 116 times sales and a market cap of US\$31 billion. That's insane.

I won't go into the litany of dotcom companies that are trading at absurd values. You know it too well. You can imagine what will happen if Talk.com's domain name registration takes off and it gets recognized as belonging in the same league as Network Solutions.

New equals value

I don't expect this, but stranger things have happened. I do expect that Talk.com will gain respect and market share as an innovative, low cost, Internet based, long distance

provider.

As such you can expect it to trade at a p/e multiple higher than its peers. It doesn't — in fact it trades at a multiple less than half the telecom industry, not to mention the Internet industry. To reach parity with other telecoms, TALK would have to rise 120% over current levels. That would give you a share price around US\$40.

For the nine months ended 9/30/99, sales rose 13% to US\$367.7 million. Net income before extraordinary items totaled US\$41 million vs. a loss of US\$230.2 million. The street estimates that Talk.com will bring on approximately 150,000 new subscribers in the last quarter of the year (earnings to be announced February 15). That would tack on an additional US\$155 million in revenue for the year.

Taipan believes that Talk.com's share price will surge before the earnings announcement. Furthermore, Taipan believes that if the market was is a more bullish mood Talk.com would already be in the mid 30's based on the FirstUSA and domain name announcements.

(...continued on page 4)

WHAT TO BUY AT WHAT PRICE

Lukoil Preferred (LUKPY-OTC)	Buy	Strong buy under US\$7
*Ventspils Nafta (VNFT-Riga)	Buy	Speculative buy under US\$0.80
Computer Learning Centers (CLCX-NASDAQ)	Buy	Strong buy under US\$4
Genus (GGNS-NASDAQ)	Buy	Strong buy under US\$3
Fisher & Paykel (FAP-NZSE)	Buy	Strong buy under NZ\$6.00 (US\$3.30)
+ Uproar Ltd. (UPRA-Vienna OTC)	Hold	Speculative buy under €21 (US\$21.85)
Herzfeld Caribbean Basin Fund (CUBA-OTC)	Buy	Strong buy under US\$5.00
Uni-Charm (8113-Tokyo)	Buy	Buy under US\$60
Commodity Trust Fund Ltd (CMT-London)	Buy	Strong buy under US\$1.40
Elbit Ltd. (ELBTF-NASDAQ)	Buy	Strong buy under US\$11
*TyumenAviaTrans ADR (TYAVY-OTC)	Hold	Hold
Hurricane Hydrocarbons Warrants (HUHY-TSE)	Hold	Hold
Restaurant Brands (RBD-NZSE)	Buy	Strong buy under NZUS\$1.30 (US\$0.70)
☐ Sasol (SASOY-NASDAQ)	Buy	Strong buy under US\$5
Avant Immunotherapeutics (AVAN-NASDAQ)	Buy	Buy under US\$3.00
△ Ashanti Goldfields (ASL-NYSE)	Buy	Strong buy under US\$4
☐ Hurricane Hydrocarbons (HHLAF-NASDAQ)	Hold	Hold
*Orckit (ORCT-NASDAQ)	Hold	Speculative buy under US\$30
☐ Mosenergo ADR (AOMOY-Pink Sheets, 037376308)	Hold	Strong buy up to US\$2
Aramex (ARMX-NASDAQ)	Buy	Strong buy under US\$11
Suez Cement (SZCD-LN, CUSIP: 864690102)	Buy	Strong buy under US\$16
☐ Surgutneftegaz ADR (SGTZY-Pink Sheets, 46625F104)	Buy	Strong buy up to US\$6
* Xoma (XOMA-NASDAQ)	Hold	Speculative buy under US\$2.50
Elron Electronic Industries (ELRNF-NASDAQ)	Hold	Buy under US\$20.00
Williams Controls (WMCO-NASDAQ)	Buy	Strong buy under US\$3.50
☐ Exponent (EXPO-NASDAQ) (Formerly FAIL)	Buy	Strong buy under US\$7

* Speculative — maintain adequate stop-loss provision.

△ Sell covered calls against position

☐ Dollar-cost average during price weakness

+ Recent stock split

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What to buy at what price aims at giving you a general idea of how *Taipan's* stock picks are standing in relation to our initially recommended buying range.



Real company, real profits

The Company's working capital was US\$50.5 million and US\$13.1 million on September 30, 1999 and December 31, 1998, respectively. This increase in working capital is primarily a result of the cash generated during the first nine months 1999 from operations. They are making money folks.

Buy Talk.com (TALK:NASDAQ) under US\$25. As I write this it is trading at US\$18. My 12-month price target is US\$45. This is a real deal on a solid, growing company with proven, innovative management that is trading at a substantial (120%) discount to its peers. I urge you to buy some today.

Contact Information: Talk.com, 2020 Sunrise Valley Drive Ste. 250, Reston Virginia 20191, Phone 703-391-7500, Fax: 703-391-7525.

Last month's pick, TiVo, jumped to an all-time high of 78 yesterday — up an amazing 212% in less than three weeks.

TiVo announced two deals, one with Blockbuster Video and one with Liberate Technologies.

The deal with **Blockbuster Inc. (BBI: NYSE)** allows viewers to receive "video-on-demand" and opens the door to real ease of use in video renting. No more late charges or late night dashes to the video store. Furthermore, the video you want will always be available. The next genera-

tion of interactive TV is arriving shortly.

TiVo also signed a deal with **Liberate Technologies (LBRT:NASDAQ)**. Those of you who are invested in **Zi Corp. (ZICA: NASDAQ — up 166%)** know Liberate as a company that penned a deal to use Zi's software for Liberate's set-top boxes.

It's all coming together

Liberate is partially owned by AOL and has been a market darling of late. TiVo and Liberate will develop a new product which they hope to sell to the networks in North America in the second half of 2000. Both of these companies will also be involved in delivering America Online's AOLTV later this year.

And to eliminate those pesky network-types from causing trouble, AOL decided to buy Time Warner for US\$184 billion. You can further understand why AOL bought Tegic, Zi's competitor, late last year.

This market is heating up, and as soon as someone starts looking to compete, Zi will become a likely beneficiary. *Taipan* will look for more plays in this market and keep you informed in upcoming issues.

Time to book 56% profits from Indonesian Telekom

Sell Indonesian Telekom above US\$11. Lock in 56% gains in three months.

In the October issue of *Taipan* I recommended that you buy **Indonesian Telekom (TLK:ADR:NYSE)** below US\$7.50 as a psychological play based on the East Timor crisis. That crisis has now passed.

Furthermore, Y2K fear has dissipated. TLK is now trading at US\$11.75. That's a gain of 53% in three months — not too shabby. The political situation in Indonesia remains unstable, and it is never a good idea to hang on to this type of play once it reaches the top of its trading range. Pigs get slaughtered, as they say.

Initially, my target price was US\$14.50 in 14 months. However, the chance of civil war in this conglomerate island nation is always present. I don't believe that the risk is worth the additional two points. Suffice it to say that *Taipan* made the correct call. **It's time to take profits.**



Taipan publisher is #9 in Australia

You may not have been aware of it. But *Baywatch's* David Hasselhoff has been one of the most popular rock stars in Germany for nearly a decade. ("The horror, the horror...")

Now Germany has struck back. *Taipan* publisher J. Christoph Amberger and his 1999 book *The Secret History of the Sword* currently hold rank #9 on amazon.com's list of best-selling titles in Australia. Too stingy to convert this success into a fully fledged promotional tour to OZ, Amberger is reportedly working on improving his sales ranking in Sub-Saharan Africa.



Show me the money!

How Taipan stock picks averaged 83% gains for you in 1999

By J. Christoph Amberger

Former CIA analyst, philosopher, martial arts expert and writer extraordinaire Robert W. Smith once wrote that the difference between involvement and commitment was like eggs and bacon: The chicken's involved. The pig is committed.

At *Taipan*, we're pigs if it comes to investment profits. Not only can't we get enough of 'em... I expect my editors to fully commit to you and the promise we have made to make you money come heck and high water.

In 1999, their commitment to you resulted in spectacular gains. Gains that stand up favorably to those chalked up in the major indices... who enjoyed the most spectacular growth in a given year—ever!

- Dow Jones:**up 25%
- NASDAQ:**up 84%
- Russell 2000:**up 20%
- S&P 500:**up 19%

Compare that to our results—

Christian DeHaemer's

"World Investor" picks:up 53%

Siu-Yee Ng's IPO and

Aftermarket picks:.....up 357%

Brian Hick's Microcap picks:up 54%

James Passin's picks:

Global Services:up 28%*

Global Commodity:up 91%*

Global Technology:up 81%*

Emerging Market Fund:up 29.6%*

and our *Taipan Millennium Conference*

picks:.....up 84.6%

Only *James Passin's* **U.S. Small-Cap Tech** portfolio lost an average 30%.

(*=*including dividends*)

That brings Taipan's average gain for 1999 to a handsome 83.1%.

Let me stress that our commitment to you doesn't allow for those strategically placed stop losses some other services use whenever it is opportune. Neither do we crow about "annualized" profits... What you'll see on the following pages is what you got in 1999, warts and all... heartpounding gains and some losses.

Which doesn't mean that our tally reflects exactly what your brokerage account did last year: We are very aware of the fact that any kind of formal tracking requires a healthy share of generalizations and assumptions.

These are the criteria we apply to our track record:

1. Buy and sell dates:

Unless marked otherwise, buy and sell dates are determined by the publication date. Throughout 1999, we assumed the **publication date to be 3 days after the U.S. issue was mailed.** Which means the date on which the majority of our subscribers (based on USPS distribution statistics) would have received the issue in the mail.

This coincides with the online release of the issue on the Internet at <http://www.taipanonline.com>—which is accessible only to *Taipan* members with the appropriate password—which you find in every issue.

Given the increasing importance of instant accessibility through the new media, we have changed the publication date of each monthly *Taipan* edition for the year 2000 to be the date of its online release.

(You will find a comprehensive list of the publication dates for each month of the year 2000 on the inside cover wrap of your Dec. 1999 Annual Forecast issue. You can also register—free of charge—for our *Taipan* e-Dispatch, which will alert you automatically via e-mail when the new issue is up.)

2. Prices and dividends

Any gains and losses reported in this overview only apply to the time period between Jan. 1 and Dec 31, 1999. For recommendations and open positions we carried over from previous years, we have taken the first trading day in 1999 as our entry level, thus providing an overview of its performance in the past calendar year only.

(We think that's only fair: If the respective stock had declined after our recommendation in 1998, we already accounted for its drop as a loss in last year's 1998 roundup. See "Year of the Tiger performance review: How you did in 1998," *Taipan*, February 1999, p. 9f.)

If we advised to add to your position during the year, we have averaged the entry price. (It's marked with an *.)

Where no sell recommendation was issued, the closing price is considered the last trading day of 1999. **Call option premiums are added to the closing price, while we tend to subtract dividends paid from the purchase price.**

What that means for you personally

As I mentioned above, portfolio tracking requires generalizations. To arrive at a meaningful work-up of the numbers and at "average gains," we have to make certain assumptions. Such as that the hypothetical *Taipan* member invested an equal amount of money into each and every stock recom-

(...continued on page 6)



mended. That each and every *Taipan* member was able to buy the stock at exactly the publication date level.

Which you and I know can never be. Because *Taipan* considers itself a smorgasboard of profitable investment ideas for independent individuals, not a prescriptive formula. So your individual decision to take us up on some recommendations and not on others can result in drastic discrepancies between your own portfolio tally and our general overview.

Stop losses

We do not include stop losses in our computation of our annual portfolio gains. (If we had, our average gain would exceed 83% by a long shot.)

IPO Trader

—Siu-Yee Ng

1999's IPO market was a record-setting year. US\$93 billion of proceeds were raised, easily beating the 1996 record of US\$57 billion. We had the biggest first day gainer with a 698% pop from **VA Linux (LINUX-NASDAQ)**. And we had the largest foreign IPO, raising US\$16.5 billion.

And *Taipan's* IPO picks have soared with the market. We

Which doesn't mean we are opposed to you observing your own stop-loss provisions based on your personal threshold for pain: In fact, we recommend you observe a 20-25% stop loss on all your positions. It is really a very simple risk management tool that allows you to lock in profits while controlling your downside.

Of course, many discount and on-line brokers will not observe any kind of stop loss for you. (After all, if you only pay 8 bucks for an electronic transaction, what can you expect?) But that doesn't mean you can't observe and implement your own stop loss as you monitor your portfolio yourself.

All in all, I hope you will agree with me that your subscription fee to *Taipan* was money well spent. (Keep that in mind when it's time to renew!)

sold our IPO positions in **Perot Systems (PER-NASDAQ)** with a 150% profit, **Tibco Software, Inc. (TIBX-NASDAQ)** up 133%, **GoTo.com (GOTO-NASDAQ)** soaring 233%, just to name a few.

January is a busy month for bankers and companies as road shows and meetings engulf their time. Companies hop from one city to another for one to two weeks before pricing the IPO. But there are already hot IPOs in the pipeline for 2000.

	Company	Exchange/Symbol	Entry Price	12/31/99/Sell Price	Gain/Loss	Status	
Oct. 98	Fox Entertainment	NYSE:FOX	US\$23	US\$24.38	8%	open	
Jan.99	Barnes and Noble	NASDAQ:BNBN	US\$20.50	US\$15.25	-26%	open	
Feb.99	Korn/Ferry International	NYSE:KFY	US\$11.50	US\$16	14%	closed	
	Perot Systems	NASDAQ:PER	US\$16	US\$40	150%	closed	
Apr.99	TheStreet.com	NASDAQ:TSCM	US\$19	US\$31	63%	closed	
May.99	Razorfish	NASDAQ:RAZF	US\$16	US\$30	88%	closed	
Jun.99	GoTo.com	NASDAQ:GOTO	US\$15	US\$50	233%	closed	
Jul.99	Tibco Software	NASDAQ:TIBX	US\$24	US\$35	45%	closed	
Aug.99	"Red Hat, Inc "	NASDAQ:RHAT	US\$7	US\$136	1842%	open	
Sep.99	Interwoven	NASDAQ:IWOV	US\$17	US\$123	623%	open	
Oct.99	Akami Technologies	NASDAQ:AKAM	US\$26	US\$237	811%	open	
Nov.99	FreeMarkets	NASDAQ:FMKT	US\$48	US\$212	341%	open	
<i>IPO Trader</i>		Average Percent Gain: 357%					

World Investor

—Christian DeHaemer

(Investment breakdowns below)

I remember it well. E-mails, letters, faxes... missives of know-it-all's trying to take me to task for recommending boring old **Sun Microsystems (SUNW-NASDAQ)** in April and then following up with **Oracle (ORCL-NASDAQ)** in July.

To those offering unsolicited advice and comments on

my stock-picking skills: Imagine me producing a vulgar noise by flapping my lips as I exhale. To those *Taipan* readers who took me at my word: Congratulations on gains of 196% and 194%, respectively!

Overall, my picks for 1999 gained an average 53%. That's not exactly chopped liver. And it included such classic blood-in-the street picks as **Telekom Indonesia (TLK-NYSE)**, which in cold blood capitalized on riots, murder, and mayhem in Indonesia, to the tune of 56%.

And we're already racking up the gains for 2000. (See Page 4 for the latest on TiVo!)



1999 PERFORMANCE REVIEW

	Company	Exchange/Symbol	Entry Price	12/31/99/Sell Price	Gain/Loss	Status
'98 open positions	Analytical Surveys	NASDAQ:ANTL	US\$27	US\$14	-51%	open
	Vision Twenty-One	NASDAQ:EYES	US\$5.25	US\$1.50	-75%	open
	Human Pheromones	NASDAQ:EROX	US\$2.40	US\$1.10	-55%	open
Feb. 99	York Rearch	NASDAQ:YORK	US\$4.40	US\$7	55%	closed
March 99	PLD Telecom	NASDAQ:PLDI	US\$2	US\$5.25	165%	closed
April 99	SunMicroSystems	NASDAQ:SUNW	US\$26	US\$77	—	open
	Marlton Technology	AMEX:MTY	US\$3.50	US\$2.50	-28%	open
May 99	Media Arts	NYSE:MDA	US\$8	US\$4	-50%	open
July 99	Oracle	NASDAQ:ORCL	US\$38	US\$112	194%	open
August 99	SM&A Corp.	NASDAQ:WINS	US\$8.50	US\$6	-29%	open
Sept. 99	Zi Corp	NASDAQ:ZICA	US\$7.50	US\$17.50	126%	open
Oct. 99	Telekom Indonesia	NYSE:TLK	US\$7.50	US\$11.75	56%	closed
	Safeguard Scientific	NASDAQ:SFE	US\$80	US\$145	81%	open
Nov. 99	Internet Capital Group	NASDAQ:ICGE	US\$50	US\$136	172%	open

World Investor Average Percent Gain: 53%

Microcaps

—Brian Hicks

Small and microcaps come back in favor — and *Taipan* hits it big with several emerging growth stocks. Our microcap positions had a massive year — especially in key growth groups like biotechnology. *Taipan's* core pure play on the Human Genome Project — **Millennium Pharmaceuticals (MLNM-NASDAQ)** — gained in excess of 325% from our original entry price.

But the gains won't stop there. At the beginning of the post-Y2K party, stocks connected with the Human Genome project took off. And Millennium was one of them — hitting a high of US\$167 a share. But Millennium

wasn't the only one. Another core biotech holding, **MedImmune (MEDI-NASDAQ)**, returned *Taipan* a profit of 252% in a year. **Optimal Robotics (OPMR-NASDAQ)**, a play on the self-checkout rage in grocery stores, is up more than 273% in less than 6 months.

Look for more gains in OPMR in the coming months as the company is ramping up a massive roll-out of its U-Scan Express self-checkout systems across the U.S. **Micros Systems (MCRS-NASDAQ)** doubles in less than a year-and-a-half. Micros Systems has gone from my original entry price of US\$29 a share to over US\$60 a share.

The leader in wireless ordering units for restaurants, Micros, will rally in the coming months.

	Company	Exchange/Symbol	Entry Price	12/31/99/Sell Price	Gain/Loss	Status
'98 open positions	ADFlex Solutions	NASDAQ: AFLX	US\$12	US\$3.50	-70%	closed
	AVI Biopharma	NASDAQ: AVII	US\$3.25	US\$5.25	61%	open
	Aviron	NASDAQ: AVIR	US\$22	US\$15.75	-28%	open
	Closure Medical	NASDAQ: CLSR	US\$22.50	US\$12.90	-42%	open
	Micros Systems	NASDAQ: MCRS	US\$27	US\$75.75	180%	open
	Modtech	NASDAQ: MODT	US\$18	US\$6	-66%	open
	Nastech Pharmaceutical	NASDAQ: NSTK	US\$8.50	US\$2.60	-69%	open
	Printrak	NASDAQ: AFIS	US\$8	US\$9.75	21%	open
Jan. 99	MedImmune	NASDAQ: MEDI	US\$50	US\$164	228%	open
Mar. 99	Pharamaceutical Product Develop.	NASDAQ: PPDI	US\$35	US\$11.90	68%	open
	Orbital Sciences	NYSE: ORB	US\$22	US\$18	-18%	open
Apr. 99	Visx	NASDAQ: VISX	US\$55 (a)	US\$52	0%	open
May. 99	Millennium Pharmaceuticals	NASDAQ: MLNM	US\$36	US\$121	236%	open
Jun. 99	CheckFree Holdings	NASDAQ: CKFR	US\$50	US\$104.50	109%	open
Jul. 99	Univision	NYSE: UVN	US\$60	US\$102	70%	open
Aug. 99	Optimal Robotics	NASDAQ: OPMR	US\$12	US\$37.25	210%	open
Sep. 99	Ballistic Recovery System	OTC BB: BRSI	US\$3	US\$1.25	58%	open
Nov. 99	Sensormatic Electronics	NYSE: SRM	US\$12.50	US\$17.50	40%	open

Microcaps Average Percent Gain: 54% (a) split-adjusted



The cash register is ringing: Taipan's contrarian stock picks crush the Dow

By James Passin (Investment breakdowns on the next page)

No matter how you look at it, 1999 was an outstanding year for *Taipan* subscribers. Explosive gains in technology, commodities, Asia, and Russia fueled a massive re-rating of our recommended portfolio. My own modest contribution of picks returned an average profit of 58%, more the double the performance of the record-setting Dow Jones Industrial Average. Seven positions generated triple-digit profits.

The "Global Commodity" portfolio returned 91% on the back of a broad recovery in commodity prices. A rebound in crude oil from US\$10 to US\$25 per barrel supported a massive rally in Russian stocks. The top performer was **Surgutneftegaz ADR (SGTZY-OTC)**, gaining 483% to a record high. There was only one significant loser in the Global Commodity portfolio: **Ashanti Goldfields (ASL-NYSE)**. ASL declined 71% after its hedging strategy backfired. Considering the high level of real interest rates and continued growth in Asia, I remain moderately bullish towards commodity-related positions in 2000.

Our "Global Technology" portfolio participated in the tech craze, generating an average 86% profit. **Elbit Ltd. (ELBTF)** was the top performer, climbing 405%. Other Israeli techs produced outstanding results, including **Elron (ELRNF)** and **Orckit (ORCT)**. **Uproar (UPRO-EAS-DAQ)**, the former EPUB-Austrian BB), my play on the Internet Bubble, changed its name, split 20-for-1, and filed with the SEC for a NASDAQ offering — driving the stock up 117%. While I am concerned about the likelihood of a shakeout in the U.S. tech market, I am inclined to let win-

ners run. However, I recommend waiting for material pullbacks before adding to any positions.

The only big disappointment was "U.S. Small Cap Technology." 1999 was a frustrating year for small-cap investors. The money flowed into big stocks. Why bother uncovering undervalued small caps when you can jump on fashionable momentum plays? Cumulative market breadth in NASDAQ collapsed, excluding the majority of small-cap stocks from the bull market. Ironically, a number of internet highfliers deserve to trade at small-cap valuations based on prospective cashflows or even sales. The U.S. small-cap tech portfolio shed 4%.

But don't you know it, there was a massive rally in small caps in the first two weeks of January 2000. GGNS, XOMA, and AVAN bounced sharply, contributing to a 22% average gain in the portfolio since January 1 (compare this to the 2% rally in the Russell 2000!).

I believe that the tide has turned; small-cap technology is positioned to compete for market leadership with ludicrously overstretched Internet highfliers. As I wrote in the December 1998 Special Update Issue of *Taipan*: "**This will be the long awaited bull market in small caps, commencing near the eve of the new millennium.**"

James Passin is a Portfolio Manager with Firebird Management and Contributing Editor to Taipan. Passin's views are strictly his own and not necessarily those of Firebird Management or Taipan. Several funds managed by Firebird are currently shareholders in Surgutneftegaz and Uproar.

Millennium Conference Picks

—Christian DeHaemer

Sure. You could have stayed at home. Watched the Learning Channel after raking the first fall leaves from your front yard. You also made sure you didn't lose 46% on my American Quantum pick. But if you didn't make it to *Taipan's* Millennium Conference last October, you lost out on some fast cash.

Speaking strictly for myself as one of the conference's keynote speakers, you could have made 163%, 177%, 63% and 66% on the picks I gave my audience.

Which only goes to show that attending *Taipan's* get-togethers and conferences is not only fun, but money well spent. So I hope I've made my case and will see you on one of our events we've scheduled for the year 2000.

After all, an average gain of 80-some percent just for listening to me ramble on for a half hour is a pretty good return...

Millennium Conference	Company	Exchange/Symbol	Entry Price	12/31/99/Sell Price	Gain/Loss	Status
	Conqur	NASDAQ:CNQR	US\$11	US\$29	163%	
	VerticalNet	NASDAQ:VERT	US\$59	US\$164	177%	
	Advanced Aerodynamics Structures	NASDAQ:AASI	US\$2	US\$3.15	63%	
	American Quantum	AMEX:AFV	US\$3	US\$1.60	-46%	
	VentureCatalyst	NASDAQ:VCAT	US\$3	US\$5	66%	



1999 PERFORMANCE REVIEW

Global Services

Company	Exchange/ Symbol	Entry Price	12/31/99/ Sell Price	Gain/Loss	Status	% Gain w/ Dividends
Aramex	NASDAQ:ARMX	US\$11.75	US\$10	-14%	open	
Restaurant Brands		US\$.53	US\$.86	62%	open	79%
Fischer & Paykel		US\$3.08	US\$3.80	23%	open	28%
Unicharm		US\$48	US\$57.50	19%		

Average Percent Gain: 28%

Global Technology

Elron	NASDAQ:ELRNF	US\$16.06	US\$29.75	85%	open	87%
Elscent	NYSE:ELT	US\$12.13	US\$9.88	-18%	closed	
Elbit Medical Imaging	NASDAQ:EMITF	US\$10.88	US\$8.75	-19%	closed	0.01%
Orbotech	NASDAQ:ORBK	US\$47.25	US\$61	29%	closed	
Aladdin	NASDAQ:ALDN	US\$10	US\$8.94	-10%	closed	
Elbit Ltd.	NASDAQ:ELBTF	US\$3.50	US\$17.69	405%	open	
Orckit	NASDAQ:ORCT	US\$16.13	US\$34.31	112%	open	
Elbit Systems	NASDAQ:ESLTF	US\$12	US\$17.88	49%	closed	50%

Average Percent Gain: 81%

Global Commodity

Jan.99	Commodity Trust Warrants	CMT	US\$1.07	US\$1.62	51%	open	
Jan.99	Commodity Trust Warrants	CMTW	US\$0.06	US\$0.14	133%	closed	
Jan.99	Hurricane Hydrocarbons	HHLFQ	US\$1.19	US\$2.28	91%	open	
Jan.99	Hurricane Warrants	HUHY	US\$0.35	US\$0.34	0%	open	
Jan.99	Ashanti Goldfields	ASL	US\$9.38	US\$2.625	72%	open	-71%
Jan.99	Surgutneftegaz ADR	SGTZY	US\$3	US\$17.5	483%	open	
Jan.99	Suez Cement	SZCD	US\$15	US\$16.52	10%	open	17%
Jan.99	Sasol	SASOY	US\$4	US\$8.375	109%	open	121%
Jan.99	Monsenergo ADR	AOMOY	US\$1.5	US\$4	166%	open	
Jan.99	TyumenAviaTrans	TVAVY	US\$0.5	US\$0.5	even	open	
Sep.99	Ventspils Nafta	VNFT	US\$0.75	US\$0.94	25%	open	
Nov.99	Lukoil Preferred	LUKPY	US\$5.75	US\$10.25	78%	open	

Average Percent Gain: 91%

US Small Cap Tech

Jan.99	Xoma	XOMA	\$3.25	\$3.00	-8%	open	
Jan.99	Shaman	SHMN	\$2.03	\$0.38	-82%	closed	
Jan.99	Avant Immunotherapeutics	AVAN	\$1.91	\$2.47	29%	open	
Jan.99	Williams Control	WMCO	\$2.38	\$2.22	-7%	open	
Jan.99	Exponent	EXPO	\$6.00	\$6.63	10%	open	
Jan.99	Genus	GGNS	\$2.50	\$4.50	80%	open	
Jan.99	Computer Learning Centers	CLCX	\$5.00	\$2.41	-52%	open	

Average Percent Gain: -30%

Emerging Market Funds

Jan.99	Morgan Stanley India Fund	IIF	US\$7	US\$10.437	49%	closed	
Jan.99	MS Russia Fund	RNE	US\$9.39	US\$12.375	31%	closed	
Mar.99	Herzfeld Caribbean Fund	CUBA	US\$5	US\$5.375	0%	open	8%

Average Percent Gain: 29.6%



The mystery of the high-tech stock “Bubble”—profiting in a speculative frenzy

By Briton L. Ryle

Few technological advances that make our lives what they are today could have been achieved without a speculative environment. So when someone tells me that Internet or tech stocks are over-valued or that the stock market is a bubble I say, “Damn right, isn’t it great?”

When the bubble breaks and all my investments go down the toilet, and the bank forecloses on my house, I’ll be living in the woods under a pile of leaves. But you can bet my pile of leaves will have high-speed wireless Internet access and I’ll be watching re-runs of Andy Griffith on the high definition TV I got at the thrift store for twenty bucks.

Who wants to get e-mail on a pen?

I swear, I’m not making this up. Some Japanese company has made a wireless pen that you can get your e-mail on. This is an example of what we’ll call “mal-invested capital.” There’s always a few nuts out there with more money than sense. And that’s how it should be.

The important thing is that there’s cash available for such cockamamie schemes. If money were pegged to a fixed amount of gold, only the most sound ideas would make it past the drawing room. There simply wouldn’t be enough capital and the junk bond market wouldn’t fill the void.

It’s not the joke, it’s how you tell it

Imagine Jeff Bezos asking some dusty, moth-balled banker to lend him money to start a business that’ll never turn a profit. The old boy might have enough life in him to conjure up a chuckle. But tell the same thing to millions of Internet-crazed investors and... well, you know.

Nothing is a success from the start. Most pioneers start out as celebrated explorers and end up as shrunken heads in a medicine man’s hut. But they have to have the means to fail.

Bezos is a pioneer. And I won’t be surprised if his company, Amazon, doesn’t make it. But I don’t own Amazon stock, so I don’t really care. If he doesn’t figure out how to make money, someone else will. Amazon’s promise may be so much hot air, but the promise of e-commerce is very real.

Profit in the Technology Age

Buy and hold just doesn’t make sense when new technologies keep popping up like pimples on a teenager’s face. You have to use a short-term horizon to catch the rising tide and not get beached when the water rushes out. The key to this strategy is vision and knowledge—knowledge of where technology is today. And vision to see where it’s headed.

Just look at broadband Internet access: The promises of broadband are mouthwatering—video conferencing,

movies on demand, 3-D graphics, interactive TV, etc. But the current state of our broadband networks won’t support these “data-centric” promises. Have you ever tried to watch streaming video over even the fastest Internet connection? It looks more like stop-action photography than video.

Playing the game

I have a theory as to why the promises are being made prematurely. I believe these companies are playing the Wall Street game. The companies make the promise, investors pile into the stock, ramp up the price and then the stock can be used as acquisition tender to help make the dream a reality.

But until that is realized, companies have to find a way to sate the appetite of their customers or face massive revolt and accusations of fraud. Not to mention the unspeakable possibility of losing market share. Huge opportunities exist for the companies that can bring data service products to market now. That’s why I like **FastComm Communications (OTC BB:FSCX)** and **Pliant Systems (OTC BB:PLNS)** so much.

Filling in the gaps

With the development of photonic switches by companies like Nortel, Sycamore and Lucent, networks will carry massive amounts of data at fast as light speeds. But that doesn’t help us now.

Homes are still connected to fiber backbones by copper wire. Digital Subscriber Line (DSL) is essentially a stop-gap solution to the data-to-the-home dilemma. DSL does increase data speeds exponentially and it allows you to use your phone while on-line. But DSL has problems that aren’t easily solved.

For starters, to get DSL, your home or business has to be within 17,500 feet of the telephone switching office. This alone will keep DSL from being the dominant high-speed technology. But Pliant Systems can help.

Pliant Systems recently announced a new product, the Pliant 3000. The Pliant 3000 extends the range of DSL services to 50% of those that are currently outside of coverage areas. The Pliant 3000 should be a godsend for CLECs (competitive local exchange carriers) who want an inexpensive solution for maximizing their data services. The company estimates that local voice and data services is a US\$500 million market. The Pliant 3000 is well positioned to corner a significant chunk of this market.

The rapid pace of change means a life-span for the Pliant 3000 of probably only a couple of years—an eternity in



today's fast moving market. And, who knows, in the meantime, Pliant may have the savvy to develop products that keep it in the game for the long term. No doubt that's the goal. But that's not really the point. It's a lot easier to see who stands to profit in the next few months rather than the next few years.

The kicker

Pliant Systems shares patents with a company called **Next Level Communications (NXTV:NASDAQ)**. The two companies' flagship products are very similar. The biggest difference between the two is valuation. Next Level does US\$55 million in sales, while Pliant does US\$38 million. However, Next Level sells for 94 times sales, while Pliant sells for 3.5 times sales. Next Level is clearly overvalued, Pliant is clearly undervalued.

Pliant is attending trade shows and doing product demonstrations to increase awareness of its product. An important show, COMNET, is being held in Washington, D.C. Jan. 25-27. I look for this show to be a catalyst for the stock.

Increased awareness and a couple of contract announcements could easily put Pliant's stock in the US\$20 range. **I am raising my entry price for Pliant Systems (OTC BB:PLNS) to US\$10.50. Remember to check the *Taipan* website for further information. You can contact Pliant Systems at: PO Box 13737 Research Triangle Park, North Carolina 27709-3737. Investor Relations Telephone: 919-405-4618.**

And in this corner...

It's FastComm Communications. A couple positive news releases along with fundamentals indicative of a rebound have seen this stock nearly double, from US\$2 to US\$3.50 over the last month.

But don't worry, that's only the beginning for this relatively unknown player. FastComm's products target the local area network (LAN) sector, basically office and company networks.

The award-winning MetroLAN product lets businesses build a single network to handle all of their voice, data and video needs. Used in conjunction with FastComm's larger GlobalStack-EX, companies can build a local network that supports thousands of locations.

David vs. Goliath

FastComm also makes routers and switches for frame relay and IP networks. The companies' products are aimed at the Unisys and IBM mainframe market—ambitious to say the least. But FastComm offers a better product than IBM at a 40% discount, not to mention that this equipment is flexible enough to accommodate data rates spanning from 9.6 kbps all the way up to a T-1 line. That should be enough performance and price incentive to open the market's eyes to the benefits of dealing with a small company.

Despite the recent jump in price, I believe there is plenty

of upside potential for FastComm. FastComm will be at COMNET in late January, too. A good showing could easily translate into a US\$10 price tag. Again, please visit the *Taipan* website for updates. **Buy FastComm Communications (OTC BB:FSCX) under US\$3.50 a share. Contact Information: FastComm Communications Corporation 25472 Holiday Dr. Sterling, Va. 20166. Phone: 703-318-7750.**

Voluntary Disclosure—I own shares of FastComm Communications.

My January picks are off to the races

I posted an update for **SAFLINK (ESAF:NASDAQ)** on the *Taipan* website January 9. Right on cue, SAFLINK released a double whammy. The company announced the creation of a new division, the Internet Products Group.

To head the new division, SAFLINK hired industry vet Bob Perez, who has an impressive pedigree, including a stint as the head of Apple's Macintosh Software Evangelism group. Leave it to Steve Jobs to come up with such an ostentatious name. SAFLINK is also hiring ten senior software engineers. This ambitious expansion is just what the business needs.

Ashton's no slacker either

With limit orders in place, we should have just sneaked into **Ashton Technology Group (NASDAQ:ASTN)** under my US\$6.50 purchase price. And that's great, because Ashton promptly tacked on two bucks and has been sitting around US\$8.50 since January 2nd. And you'll notice, the "good news" rule is at work here, too.

Hot on the heels of a deal with an Asian company to help bring the eVWAP system to Hong Kong and even China, Ashton announced that eight firms have agreed to use the eVWAP system to clear and settle trades by institutions, pension funds, and money managers. Names were not released, but I expect another news release with more details soon.

And the first shall be last...

I now have a soft spot in my heart for **Geoworks (GWRX:NASDAQ)**. My first recommendation to *Taipan* members, Geoworks has made you money and me proud. Once again, I don't recommend ignoring entry prices, but I know that many of you did and bought Geoworks at US\$7.00. Hindsight's always 20/20, but that was the right move.

After hitting an intra-day high of US\$20, Geoworks has settled into the US\$14 range. I see US\$14 as a strong support level. A break through US\$14 would make US\$12 the next support level. If Geoworks falls below US\$12, there would be no significant support until the US\$7-US\$8 range. To lock in our gains, apply a mental stop at US\$12. I doubt we'll see that level, but it's good to have a game plan in place.



Playing the IPO market for \$\$\$ in 2000

By Siu-Yee Ng

The IPO market offers both short and long-term returns. But getting the shares at the cheapest price possible (offer price) is a challenge, especially for the small investor. In the past, shares were allocated mostly to institutions and to the preferred investors. For the most part, this is still true. But IPO shares are getting into the hands of some investors.

Change is slow, so investors will need to be patient. There are channels you can take to participate in the IPO market. First, select a broker who participates in many IPOs. Your account has to be active. Some of the leading investment bankers involved in underwriting IPOs are Goldman Sachs, J.P. Morgan, Credit Suisse First Boston, Lehman Brothers, Merrill Lynch & Co., and Bear, Stearns & Co., Inc. These are full service brokerages, so be prepared to pay more for commission.

Or you can choose to start an account with a regional underwriter like Jefferies Group, Inc., Kashner Davidson Securities Corp., Dain Rauscher Corp., Ferris Baker Watts, Inc, or William Blair.

Some investors have chosen to try using the online broker option: Charles Schwab, Fidelity, E*Trade, DLJ Direct, and Wit Capital. But Internet brokerages usually have few shares to allocate, and they are allocated to investors with active accounts.

Keep in mind that sometimes even institutions do not receive all the shares requested. Some will need to buy in the aftermarket (when the stock already begins to trade). 1999 was a record-breaking year for aftermarket gains. The average gain per issue for 1999 was 199%. So for those investors who missed out on the IPOs, the *aftermarket offers another opportunity for huge profits.*

Cash in on the Internet revolution with a one-click stop!

It's tough running a business these days. There's more competition, and with the Internet any entrepreneur can start a business. Historically, companies have invested heavily in enterprise applications to automate and improve the efficiency of their internal business processes. But times have changed, and the markets have become more dynamic. Out with the old and in with the new. Companies have begun to recognize that they must coordinate more closely with their customers, suppliers and business partners.

Traditional enterprise applications, however, do not readily support business processes beyond the borders of an enterprise. As a result, companies relying only on their enterprise applications have not been able to easily integrate their business processes with those of their customers, suppliers and other business partners to achieve

productivity gains.

In the midst of this environment, the Internet has emerged as a crucial medium for electronic commerce. Business-to-business e-commerce has already enabled organizations to tap new revenue streams, streamline cumbersome processes, lower costs and improve productivity. Businesses are seeking a B2B (B2Bi) integration solution that allows them to utilize their existing portfolio of enterprise applications to exchange information and transact business with customers, suppliers and other business partners over the Internet.

According to Forrester Research, revenue generated from B2B e-commerce will exceed US\$1.3 trillion by 2003, representing a far larger market opportunity than business-to-consumer e-commerce.

Forrester Research also estimates that B2B e-commerce will account for more than 90% of U.S. e-commerce transactions by 2003. International Data Corporation projects that the Internet commerce application market will grow from US\$444 million in 1998 to over US\$13 billion in 2003.

Shorter and better

webMethods, Inc. (WEBM-NASDAQ) came in the nick of time. webMethods is a provider of infrastructure software and services that allow companies to achieve B2Bi. The company's software solution permits customers to rapidly and cost-effectively deploy new, real-time business-to-business e-commerce applications over the Internet by integrating their existing enterprise applications with those of their customers, suppliers and other business partners.

webMethods provides the foundation for a new class of B2Bi applications that can be delivered with shorter, more cost-effective implementation cycles and the ability to scale to large numbers of business partners. webMethods' B2B provides companies with integrated direct links to buyers and suppliers, connects them to major B2B marketplaces and enables real-time, interactive communication through the Internet regardless of existing technology infrastructure. webMethods' B2B has been developed exclusively in the Java programming language, which means webMethods' B2B can be readily deployed on almost all commonly available computing hardware and operating systems. This makes it easy to deploy the webMethods' B2B solution across a large trading network running different hardware and operating systems.

The company's B2B software provides support for a broad range of current and emerging B2B communication standards, including eXtensible Markup Language, or XML, traditional EDI, Open Buying on the Internet, or



OBI, and XML-based e-commerce frameworks, such as RosettaNet, cXML and Microsoft BizTalk.

Win-win situation

webMethods' software helps a company achieve significant cost savings and productivity enhancements by reducing cycle times, lowering inventories and reducing error rates through the real-time exchange of information. Closer integration with their suppliers and buyers help the company's customers improve their planning and forecasting capabilities.

Customers will have real-time pricing and available information for key products and services. For example, webMethods' B2B can enable a company to automatically check the availability of a requested item in its supplier's inventory and relate pricing, availability and shipping information directly to its customer. An order for the requested item could then be automatically entered directly into the supplier's order processing system. Quick and easy.

Sell, sell, sell

webMethods' software is marketed globally through a direct sales force and a number of resellers and systems integrators. A key element of the company's sales and marketing strategy is to keep its customers and business partners happy and content. Referrals are the best and easiest sales. Providing solutions to leading buyers, suppliers, portals and enterprise software and hardware companies pursuing B2B e-commerce opportunities, webMethods' software sales will only increase as its technologies become more widely deployed in the marketplace.

webMethods' B2B has been licensed to customers in a variety of industries including high-technology manufacturing, telecommunications, financial services, shipping and logistics, chemicals and insurance. As of October 31, 1999, the company had over 100 customers, including Dell, DHL, Dun & Bradstreet, W.W Grainger, Hewlett Packard, Lexmark and Occidental Chemical.

The company has also established strategic relationships with leading B2B e-commerce marketplaces such as mySAP.com, the Ariba Network, Clarus Supplier Universe, Grainger.com, OrderZone.com, VerticalNet and Intelisys, many of which have purchased webMethods' software to operate their trading networks.

In March 1999, webMethods entered into a development partner agreement with SAP AG. Their relationship with SAP AG provides them with an important endorsement for their software. This will expose the capabilities of a restricted version of its webMethods' B2B software to the SAP AG customer base and gives it the opportunity to license the fully-featured version of the webMethods' B2B software to its customer base. Under the development partner agreement, webMethods granted SAP AG a perpetual

license to include a restricted version of webMethods B2B in its software.

SAP AG has become a significant customer, accounting for approximately 35% of webMethods' revenues for the six months ended Sept. 30, 1999 as a result of the development partner agreement. As I said before, I don't like to see a large portion of revenues derived from a small number of customers. So it's crucial to keep an eye on this partnership.

Under the agreement, SAP AG pays a quarterly fixed fee. SAP AG must pay this fee even if the agreement is terminated. webMethods may see more revenue as a result of SAP AG customers that upgrade to an unrestricted version of webMethods B2B.

Revenues are up

Revenue is derived from sales of licenses of the company's webMethods B2B software, professional services, and maintenance and support. The company is not generating a profit yet, but revenues are up which is a good sign.

Total revenue increased by approximately US\$5.9 million, or 589%, to US\$6.9 million for the six months ended Sept. 30, 1999, from US\$1.0 million for the six months ended Sept. 30, 1998. Total revenue increased by approximately US\$4.3 million, or 2,588%, to US\$4.5 million in fiscal 1999, from US\$166,000 in fiscal 1998 as webMethods first shipped its B2B at the end of the first

(...continued on page 16)

IPO FOLLOW-UP:

■ After going public in December, **FreeMarkets Inc. (FMKT-NASDAQ)** has had its fair share of bad news. GM canceled its contract with FMKT and a class action lawsuit has been filed for violating the federal securities laws. The lawsuit claims that FMKT knew that GM was taking its business elsewhere but did not disclose this fact in the SEC filing. We're still up 341% from our IPO position. This is currently a hold.

■ **Red Hat, inc. (RHAT-NASDAQ)** had a 2 for 1 stock split on Jan. 10. We're already up 623% in our IPO position but we'll see RHAT continue its market domination in 2000. Not only is RHAT expecting to beat its Q3 results but there are also Linux companies in the IPO pipeline that will lift the sector further. Hold on for more gains.

■ **Barnesandnoble.com (BNBN-NASDAQ)** can't seem to lift its share price, and the latest resignation of its CEO does not help. This change in management will not be detrimental to the company because the online bookseller needs fresh blood to lead the company. I still like the company, so hold on for future news.



All the content that's fit to sell

By J.K. Riggin

I, for one, was disappointed.

Y2K was a non-event. E-tailers more or less hit their Christmas targets and nothing blew up.

E-commerce is becoming a legitimate business and one can almost sense the excitement beginning to fade. Jeff Bezos is among the first and most successful e-commerce visionaries, but the reality is that he's just a shopkeeper. And despite the fact that he runs the best store on the Internet, **Amazon.com (AMZN-NASDAQ)** must still negotiate the same inventory, shipping and pricing challenges that face every mail order catalog and department store from here to Freeport, Maine.

One of the great things about e-commerce is that you can separate customers from their money more rapidly — and with more convenience — than ever before. But the problem is that they only have so much money. So what do the nearly 100 million current Web surfers do in the meantime?

They distract themselves with a rapidly growing selection of freely available *content*... everything from news of Al Gore's latest gaffe on *The Drudge Report* to stock quotes to Pokemon paraphernalia. And as the Web joins the telephone and the television as a must-have consumer appliance, the price for all of this content is targeted banner advertising, email addresses and, in some cases, subscription fees. But the companies that are doing the best job of turning content and traffic into profits are not who you might think.

Lust vs. Greed

Ah, yes... we've been waiting for this one. In a January IPO filing, Hef's daughter Christie is leading an effort to spin off Playboy.com (ticker symbol to be PBOY) from Playboy Enterprises and re-tool the institution for the Web. The company plans to make its money through advertising, sponsorships, e-commerce offerings (from both proprietary Playboy Store products and affiliate programs with other e-commerce sites) and subscription fees.

Sounds familiar, doesn't it? Remember **Thestreet.com (TSCM-NASDAQ)**? With a high-profile May, 1999 IPO, TheStreet.com preys on greed instead of sex and earns its keep through sales of advertising and Web site subscriptions. Playboy.com's IPO filing boasts traffic of more than 100 million page views and 16 million unique visitors in November, 1999 — impressive numbers for a startup. For December, 1999, Thestreet.com claimed 27 million page views and 2.2 million unique visitors. With a universally recognized brand and unlimited nudie pics, this is a slam dunk, right?

Not so fast. The story peters out once you look behind the curtain. Playboy.com claims to have just over 37,000 paying subscribers to its three-year-old Playboy Cyber Club. Thestreet.com claimed 50,000 paying subscribers in its IPO

filing and currently has 94,000. Can anyone say red flag?

But here's the real problem — Playboy currently charges US\$15 to US\$35 CPM (or per thousand impressions) for banner ads; Thestreet.com is charging US\$47 to US\$75 CPM. Oops. Apparently, Playboy doesn't value its demographics as highly as other fledgling Web content plays.

By practically giving away what should be precious advertising, it's no wonder Playboy.com isn't making a profit yet. According to its IPO filing, the company had revenues of US\$6.6 million for the first three quarters of 1999, and a net loss of US\$7.2 million for the same period.

The bottom line is that greed may trump lust in the race to monetize eyeballs on the Web. Despite the fact that net pundits love to point to porn as the great testing ground for e-commerce and advertising, the Playboy.com business model and Web site appear to be plagued by a premature case of erectile dysfunction. *To succeed, Playboy's aging brand will have to devise its own form of Viagra to extract money from a new generation of men for whom free porn is just a mouse click away.*

Good tidings from Dulles

Don't let the Playboy.com tease get you down. The much-heralded deal between **AOL (AOL-NYSE)** and **Time Warner (TWX-NYSE)** — besides creating a company worth more than the economic output of Russia — is the big bang Internet-based content providers have been waiting for to sort out issues of broadband access, streaming video and standardizing advertising values.

This deal, more than any other event in the brief history of cable modems, validates the technology as a viable residential broadband technology. DSL may be technologically superior, more scalable, and more flexible for consumers and businesses. But AOL's ease of use, combined with Time Warner's Road Runner cable network, means more broadband for more people. And that means more customers for a more technologically sophisticated breed of content.

And item number one on the technological sophistication list is streaming video. With the merger, AOL and Time Warner have locked it up. Together, they have the platform (AOL) and the brands (Time Warner's HBO, CNN and more) to beat lethargic competitors. And don't forget Netscape and AOL Instant Messenger, the premier software products for Web browsing and instant messaging. The more customers use these technologies, the more reliable they become.

Time Warner failed to fully leverage its media assets on the Web and, as we all know, this is AOL's sweet spot. Various estimates have the new colossus outdistancing Yahoo by 15 to 20 percent as the new most popular Web property. This will not only help AOL/Time Warner wring more advertising dol-



lars out of their vast stable of content, it also will help to raise and standardize the overall market for Internet advertising... providing a nice updraft for the entire content sector.

Engineers of content

Last September, I told you about **Vignette (VIGN-NASDAQ)** when it was just south of US\$60; the stock is now over US\$180. The software company provides the tools to build complex Web sites and manage content, databases and e-commerce transactions. Vignette's performance is directly attributable to the rapidly growing demand for content management software.

Enter **Ondisplay (ONDS-NASDAQ)**, with its strong December IPO. Despite volatility in the aftermarket, there is still room for incremental movement if you get in at under US\$100. Beware in June, however, when lockup agreements expire and new shares flood the market. If you want to get cute, swoop in then and grab the diluted shares. This is a solid company.

Ondisplay provides a package of applications that help operators of complex Web sites to manage increasingly sophisticated content. Like Vignette, demand for Ondisplay's wares continues to grow, and the company has tripled its year-to-year revenues.

The best play of the moment in this sector is **Merant (MRNT-NASDAQ)**. Currently they announced a deal with Allaire in January that got lost in the AOL/Time Warner shuffle. The deal integrates Merant software technology with a new Linux version of ColdFusion (a Web application server).

And Merant has been around. The company has been developing enterprise applications since 1976 and now is focused on enabling those applications to take advantage of the Internet, especially helping complex Web sites manage their content. With US\$370 million in annual revenues and a new Internet-focused strategy, the company is poised for increasingly rapid growth in this sector.

On the IPO track, keep an eye on Neuromedia to come out later in the year. The company provides server software that enables Web operators to create and deploy something called a "virtual representative," an online sales and customer service function that can dynamically interact with customers via real-time, natural language queries. Neuromedia already has more than 90 customers, including Charles Schwab, DaimlerChrysler AG and Oracle. The company closed its second round of financing last October.

The Content Brokers

Infospace.com (INSP-NASDAQ) went public in December, 1998, with CEO and Chairman Naveen Jain among the first of several Microsoft executives to jump ship for Internet IPO riches. InfoSpace.com provides content and commerce services to Web sites and Internet appliances. InfoSpace.com's content is built around its

nationwide yellow pages and white pages directories, but also includes maps, directions, autos, homes, you name it.

As one of the first content syndicates, Infospace.com stock has been very popular through the end of year run-up. The company's year-to-year revenues have increased four-fold. The problem is that even if Infospace.com can continue its torrid growth, it will be a US\$10+ billion company with US\$100 million in sales. Like **Broadvision (BVSN-NASDAQ)** and Vignette in the software services sector, *watch Infospace.com as the bellwether for content brokers.*

The sleeper in this space is **InfoUSA (IUSA-Nasdaq)**. The company provides data on consumers and businesses. InfoUSA owns databases of more than 12 million businesses and 195 million consumers in the United States and Canada. In December, InfoUSA.com raised US\$10 million in financing from Trident Capital, a venture capital firm specializing in B2B.

Plans for the subsidiary notwithstanding, InfoUSA is profitable. With a US\$.29 EPS, and a market cap of only about US\$580 million, the company's stock price has tripled in December, from US\$5 to US\$15, and it's not done.

The middleman is alive and well

A lot of smart people said the Internet would kill off the middleman and that we would have something call "frictionless commerce." Please.

Friction is what pays the bills, and iSyndicate is a very intelligent example of that. The privately-held (for now) company matches content providers with Web site operators seeking continuously updated information.

Since the beginning of 1999, iSyndicate has quadrupled the number of sites (140,000) for whom it packages content. The company has made it all work by building powerful databases to pull real-times data feeds from more than 500 content sources, and then repackage the content according to Web site operators' individual needs. All told, iSyndicate's affiliate network reaches nearly 10 million unique users each month.

The company has raised US\$18 million in venture capital, and counts InfoSpace.com and Vignette among its investors. Watch for an IPO by this summer.

Not your father's content

The limp Playboy.com offering is the poster child for old media companies that just don't get it. We're all operating in Internet time now. If you don't feel like paying for the Wall Street Journal, you can still find cutting edge business news for free from a myriad of sources on the Web. And syndication doesn't mean re-runs of *Gilligan's Island* and *Seinfeld* anymore. The Internet is like the classic variety show exploded into 500 directions. The companies that do the best job of connecting their customers to the highest quality and widest range of content ultimately will win.



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(...continued from page 13)

quarter of fiscal 1999.

Gross profits increased by approximately US\$4.2 million, or 468%, to US\$5.1 million for the six months ended Sept. 30, 1999, from US\$907,000 for the six months ended Sept. 30, 1998. Gross profit increased by approximately US\$3.6 million, or 2,194%, to US\$3.8 million in fiscal 1999 from US\$166,000 in fiscal 1998.

A strong backbone

The chairman of the board, president and CEO founded webMethods in June 1996. He has served as the vice president of engineering at Open Software Associates, an Internet and graphic user interface tools company.

The financial officer and treasurer served as the controller and vice president of finance for SRA International, Inc., an information technology company.

The president of sales has served as vice president of worldwide sales since Sept. 1999. Prior to this position he served as director of worldwide sales for the help desk and

network management group at McAfee Software, now Network Associates, Inc.

The vice president of product marketing was employed by the Open Environment Corporation, a distributed computing software company. He's also a frequent writer and specializes on topics related to XML and B2B e-commerce.

The vice president of marketing was the director of Web services at America Online, an online service provider.

Investors include FBR Technology Venture Partners, Goldman Sachs and the Mayfield Fund. Underwriters include Morgan Stanley Dean Witter, Merrill Lynch & Co., Dain Rauscher Wessels and Friedman, Billings, Ramsey & Co. The webMethods is tentatively set to debut during the week of Feb. 7, 2000.

For more information after the quiet period contact webMethods, Inc. at 3877 Fairfax Ridge Road, 4th Floor, Fairfax, VA 22030, phone: 703-460-2500, fax: 703-460-2599, website: <http://www.webmethods.com>.

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