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Silence of the bulls: *Where to find profits as markets flatline*

by J. Christoph Amberger

Not too far from my house, there's a road that's lined with car dealers. And up and down the street, it's the same story. Too many Pathfinders on the Toyota lot. Too many Ford Explorers on the Ford lot next door. Down the street, too many Excursions. The list goes on.

Meanwhile, guess what's happening down at our local banks?

First of all, falling prices for used cars (the result of low demand and oversupply) means that for every one of those car leases that expires, local lenders get stuck with another US\$600 to US\$800 loss. You'd better believe that adds up.

But home foreclosure rates are creeping up too. So are business foreclosures. The Bank of America just declared *billions* in bad loans.

Over the last 10 years, America learned to count on falling interest rates and rising stock market indexes. But with thousands of small businesses and "startup" companies crushed by record levels of debt... with billions of dollars in stock options plummeting toward zero... and company and personal bank accounts wiped out overnight... *being rich in America is suddenly more challenging than it's been in more than 20 years.*

More than US\$2 trillion of market value has evaporated over the past year—and that's only counting the NASDAQ. In the last few months of the year 2000, according to Goldman Sachs, the net worth of U.S. households fell US\$875 billion. *And the ratio of net worth to disposable income suffered its sharpest drop since 1952!*

53% of American families live

from paycheck to paycheck. Make that 64% for households with moderate incomes (US\$20,000 to US\$50,000 p.a.) and 79% for those with incomes of less than US\$20,000.

Growth is decelerating, and that most nebulous factor of all—"consumer confidence"—is down. Unemployment—still at record low levels—is slowly inching up: according to the most recent data from the Bureau of Labor Statistics, a unit of the U.S. Labor Department, it has increased from 4.0% to 4.2%!

First, the good news

For those who bid up Pets.com last year, that's reason enough to run scared. But despite the unctuous growl of the bears, the U.S. economy is still in pretty decent shape. And there are some basic considerations that haven't made it into the media-fired anti-frenzy.

For starters, a 0.2% increase in the unemployment rate over the last month is statistically pretty insignificant, especially considering that government unemployment rates are derived from polling large samples of households and employers—and have a margin of error of 0.19%.

(Total employment statistics also fall within a "confidence interval" of plus or minus 376,000. If employment rises by 466,000, it really means that the number increased by any figure between 90,000 and 842,000.)

The most recent unemployment numbers for Northern Virginia, for example, are 1.7%. (When Reagan *(over, please...)*

TAIPAN

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was swept into power, it was upwards of 11%.)

If there's one piece of good news I can reassure you with in this report, it's this: no matter what happens, the laws of making money have *not* been repealed.

Waves and noise

Look at a chart of the Dow Jones Industrial Index since last October: there are steep, steep gains of 500 points in less than a month. And there are drops of 400-plus points in less than 2 weeks. **This spells incredible opportunity, both on the long and the short side.** But, maddeningly enough, the spikes appear out of sync with the underlying news that drives the market.

If you remember your high-school physics, you will recall that peculiar things sometimes happen when waves combine. Specifically, two waveforms that are precisely 180 degrees out of phase cancel each other out. Physicists call this *destructive interference*. Sound, for instance, is a wave phenomenon. If the phase angle between noise and "anti-noise" is 0 or 360 degrees, the signals reinforce each other. *But two noise waves 180 degrees out of phase result in—absolute SILENCE!*

For buy-and-hold investors, the noise/anti-noise behavior of the Dow has resulted in a frustrating flatliner market.

Sure... you can have overnight gains... like the 25% jump you got out of Amazon in a single day, when Wal-Mart announced they'd farm out their e-business to the online bookstore-cum-junk shop. But then the markets actually head south when the president of the United States proposes a tax cut on prime-time television that could put US\$20,000 or more in spendable cash into the pockets of taxpayers and investors with medium to high incomes.

But even with a stock market that fails to perform... even with bad news on TV's "talking head" financial shows or in the newspapers... **you and I are going to make a lot of money together.** On the very stocks that most other investors will overlook.

Flat markets make it hard to break even, let alone recover losses. But the good news I hope to show you in the pages that follow is that you don't have to tread water, even in flat stock markets. What you'll see in this report is exactly how a few investors are ready to make money if the market goes up... stays flat... or even *plummets*. We've done it many times before. As you

read this, we're doing it again. I'll show you how. But first, you and I have got some more urgent business to take care of. Namely...

There's also some bad news

In the tricky markets ahead, you'll have to be especially careful. Because America has never been in the position it is in right now. According to the General Accounting Office, a record number us are dangerously close to retirement... but suddenly, far too many of us are stuck with *virtually no savings to speak of.*

Last year's stock market wipeout only made a bad situation worse.

I sincerely hope you're not in that same situation. But even if you are... or if it's something you're trying to avoid... let me be the first to warn you. Index funds and slow-moving blue chips are not going to rise fast enough to make up lost ground. Not in the months ahead. And that's if they rise at all.

Staying flat isn't much better than losing a fortune. But there's no reason to lose money if you don't have to...

How to get rich safely—in every kind of market

You see, two high-level analysts from financial firm *Donaldson, Lufkin & Jenrette* just finished a new study with a reassuring result. They took long, hard look at historical trend cycles. Not just for the 1990s. Not just for the bull market that started in 1981. Instead, they analyzed boom and bust cycles—especially with regard to technology—going all the way back to the time of Babylon.

They found that when something historically catastrophic happens... like the wiping out of the Aztecs or the Mayas... or the devastation of a Hundred Years' War or a global epidemic like the Black Plague... fortunes may change hands. But technological advances still endure. No matter who ends up with the riches. And the trick to staying on the winning side of the curve is understanding *which* advances will outlast the short-term crisis.

The key is simple. Most of the stocks that crashed last year were "buzz" stocks. **And historically, "buzz" is short-term.** But lasting advances—especially with long-term technologies—aren't just about what's hot in gossip circles. **Long-term success comes only with technologies**

that can satisfy an already existing need in the marketplace.

Take the Industrial Revolution of the late 18th century... the electrification of the Western world in the early 1900s... or the transition of communications from the telegraph to the telephone. Take the course of modern medicine through the Great Depression... two World Wars... Korea, Vietnam, and disco dancing...

No matter what the crisis, the advances endured. And the investors that understood this made fortunes. Sure, Wall Street gave up on Pets.com. We may yet give up on Amazon.com, with or without Wal-Mart. But can you see yourself giving up on cell phones or email? If companies can slash costs using the Internet in revolutionary new ways, can you see them passing up the chance? Can you imagine us giving up on breakthroughs with the Human Genome? Can you imagine a surgeon suddenly opting *not* to use a laser instead of a scalpel?

As George Bush Jr.'s dad used to say...

"Not gonna happen!"

Nobody wants to take a step backward. Progress marches ahead.

Every 18 months, computer speed still doubles (Moore's law, not mine...) Every day, I come to my office and log on to find 50 or more emails...

At Johns Hopkins Hospital nearby, they test new cancer treatments every day... And even as you read this, more and more "old economy" companies are going online. Not to destroy their old businesses. **But to reinvent them.**

My point is, if you understand how history works... and how some trends get ever more profitable, even as others are wiped out... you can still get rich. And you don't have to watch the broad indexes to do it. In fact, the tighter your focus, the better your profits. For instance...

Last year, while the rest of the market crumbled, one sector boomed. In fact, it went up 82%. But the boom times for this sector are not over yet. Not even close.

Because now that gene scientists have narrowed in on approximately 30,000 protein pairs that control human biology, everything we know about biotechnology has changed forever.

You see, less than a year ago, the main risk in biosciences was falling for market hype. A lot of exciting things were happening. A lot of promises were made. But with over 120,000 unsorted genes identified, few companies knew what to make of the new information.

Narrowing the focus by over 75% means that finding drug targets could happen three times as fast. Don't worry. You don't need to be a genetics engineer to profit from this. All you need is a little simple math.

Before the genome breakthrough last January, there were only about 500 "drug targets"... or physiological links... for using medicine to fight disease. Now that a more accurate genome map is complete, the number of drug targets has exploded to over 3,000...

Six times more profit potential...

Add it up. Considering the total drug solutions on the market already... **that's an increase in breakthrough and investment potential of more than 600%.**

In other words, *six times* as many opportunities to get in early on groundbreaking drugs. What's coming in biotech is an explosion of opportunity.

You remember what we said about technology and necessity. The bigger the need satisfied, the more solid the technological trend. Well, my friend, the need for medical miracles isn't like the "need" for e-commerce sites. The demand for better cures doesn't "crash" or go into recession. It's ongoing. If anything, it's in a permanently rising spiral. Especially now.

Think about it.

A record number of Baby Boomers are headed for decades of battling heart disease... cancer... diabetes... and all the other diseases of aging. All of them could benefit from the biotechnology boom. Already, health-care stocks are becoming a reliable "safe haven" in rough markets.

Bill and Hillary's attack on healthcare in the mid-90s reversed that tide. But when they let up, the market quickly recovered. Simply because the need for new medical technology and medical miracles has not gone away.

But what's really exciting about the months ahead for biotech is not what's already glutted the headlines... but the incredible next step that lies ahead. This is where knowing a little more about the science behind the stocks really *can* pay off.

The "Next Big Thing" in biotech stocks

Over the last couple of years, our *Taipan* team has been hot on the trail of biotech profits. You remember *MedImmune*... *Millennium Pharmaceutical*... *Closure Medical*. *Taipan* readers made a tidy profit on all of these.

In fact, my team has been able to help investors lock in profits like these time after time. Now biotech stocks are all over the news, even as the rest of the stock market goes stale. But if you're already starting to feel like you've missed out on this one, please don't. Nothing could be farther from the truth. In fact...

The next wave of profits could be ten times more lucrative!

A lot of analysts are just now getting a grip on the scope of biotechnology. What few of them understand yet is the next step...

And the players who already dominate this field are starting to get a lot of attention. In this issue, the *Taipan* team is going to show you how to rack up profits. On a few future winners investors *haven't* stumbled across yet. I want you to carefully study the case they make. And I am confident that you'll come to agree with me that the stomach-turning market upheaval we've experienced... and probably will "enjoy" a while longer... ranks among the most exciting periods of opportunity in our lifetime!

Sex makes markets:

Why the glut of 80 million baby boomers is a cash cow for anything healthcare

by **Brian Hicks**

A recent report by the U.S. Census Bureau claims the world's population surpassed 6 billion in October 1999. That's double the number in 1960. Assuming growth remains steady, the global population will grow to 9.3 billion in 2050.

This alarmed a bunch of empty-headed movie and rock stars so much that they revived an idea as old as the hills—and worse than the concept of Michael Jackson opening a daycare. I'm talking about population control.

Now, I'm not a social scientist or anthropologist. And I'm far from being an expert in demographic trends or population issues. But the point is—how in the world are you going to control population growth when you first have to control sex?

You can't.

First, population (nature) controls itself. If the world's population nears a dangerous level, disease, famine, and war will take care of it for us.

Second, if you reduce the human species to its most basic form, it's no different than any other organism. Our primary goal is survival. Survival of the species.

It's already built into our genetic make-up, so why fight it?

Enjoy it!

Think about it. Nature tricked us. It doesn't rely on man's benevolence to perpetuate the species. It doesn't rely on man's willingness to have offspring without a reward. It relies on sex. Sex feels good. Real good. Good enough that we keep doing it again and again and again. (I mean, would our population grow if sex were extremely painful?)

Think about how many times a healthy male will ejaculate throughout his life. By the time he's 40, it has to be a couple thousand times. At least! The odds of hitting pay dirt... producing 2 or 3 kids from all of that... are pretty good.

So what do you get?

Just like business and markets, population growth occurs in cycles. And there's no better example than when millions of U.S. servicemen came home from the war in 1945 and 1946. What happened was a national sex party that seemed to go on for years. The result? We call it the baby boom.

The baby boomers are an excellent example of the "pig in the python" effect: roughly 80 million strong (30% of the current U.S. population), baby boomers are the engine of the economy right now.

In the next 12 years, the oldest segment of the 80 million baby boomer generation will begin retiring.

To make money on stocks, follow the herd

I know, I know. That's blasphemy to dyed-in-the

wool contrarians like the *Taipan* team. But it's true nonetheless.

Let me explain.

A lot of things will happen when the baby boomers start retiring. But one thing's for sure: healthcare will be in big demand.

You name it, it will plague people 60 and older. Heart disease, cancer, arthritis, etc. It's just a fact of life. The older you get, the more ailments you suffer from.

Two diseases that will be—and already are—prevalent among our nation's elderly population are Alzheimer's and diabetes.

Alzheimer's costs the U.S. economy roughly US\$100 billion a year.

Diabetes is huge—costing about US\$98 billion per year.

But there's a huge difference between the two diseases.

There's no drug for Alzheimer's. In fact, the best treatment for Alzheimer's patients is playtime and reminiscing (or trying to). Not exactly modern science.

Diabetes, on the other hand, is a manageable disease. And the investment opportunities are enormous.

There are currently 15.7 million people in the U.S. with diabetes. It's the seventh leading cause of death in the U.S. In fact, 6.5 times more people die from diabetes than from AIDS.

Unfortunately, this number is expected to drastically increase as the baby boomers get older.

Three for the road

My diabetes recommendations hit on three themes: 1) a drug company that will treat diabetes; 2) a medical device company that's a leader in noninvasive insulin monitoring (pain-free); and 3) a company that supplies equipment to the diabetic population.

My first recommendation: MiniMed (MNMD:NASDAQ).

Before you do anything, take a look at MiniMed's sales growth. Very impressive.

As a small cap investor, I love seeing rapid and robust sales growth like this. It means the company is penetrating and capturing a large percentage of the market with its new technology.

Now, MiniMed is expected to continue its rapid growth in the diabetic device market.

For fiscal year 2001, the company expects to post revenues in excess of US\$376 million—up 28% from FY2000 revenues. In FY2002, revenues are expected to jump to US\$509 million—up 35% from FY2001, and up 73% from FY2000.

You'd be hard pressed to find a small cap stock with better growth than that.

Better yet, the company is profitable.

MiniMed is expected to post an EPS of US\$0.69 this

year... and an EPS of US\$0.94 in FY2002. This gives the stock a forward P/E multiple of 35... exactly in line with its EPS growth rate of 36%.

MNMD revenues				
Quarters	1997	1998	1999	2000
1st	19.1	26.3	40.9	60.3
2nd	22.9	31.7	49.0	69.4
3rd	25.0	34.8	51.4	72.1
4th	32.3	45.5	70.9	92.5
Total	99.5	138.5	212.2	294.4

(Revenues US\$mil)

I believe MNMD can continue to grow its top and bottom line at a brisk clip... and could trade at a premium because of its superior product line and technology.

Little prick

MiniMed's technological advantage is its continuous glucose monitoring system.

Traditionally, diabetics must finger-prick themselves to test their glucose levels. But this method is limiting because you can't do it while sleeping or exercising.

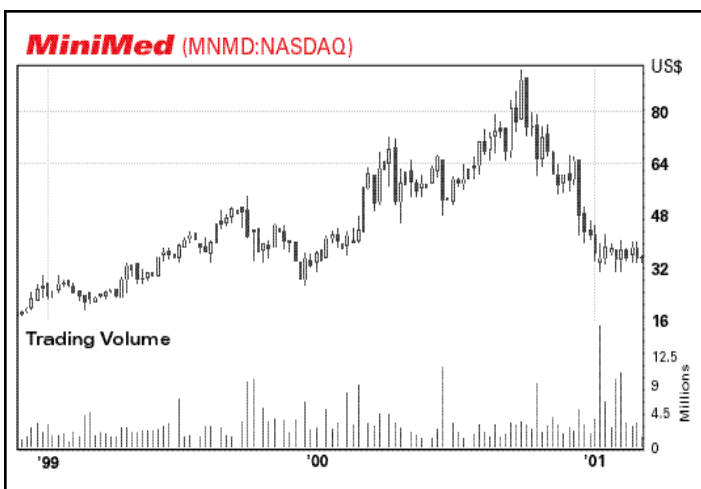
But MiniMed's system allows you take readings every five minutes, for up to three days.

How? Instead of pricking yourself, your doctor inserts a tiny sensor beneath the skin of your abdomen. The sensor is connected to a small monitor. This allows patient and doctor to continuously monitor the levels.

Buy it now

MiniMed currently trades at a market cap of about US\$2.3 billion. But the stock is down 62% from its 52-week high, making it extremely attractive at current levels of US\$35 a share.

As a medical company, MiniMed can trade anywhere from 7 to 10 times revenues. Going by FY2002 estimated revenues of US\$509 million, MNMD could handle a market cap of least US\$3.5 billion—or a per-share price of US\$55.00.



Buy MiniMed (MNMD:NASDAQ) with a 2-year price target of US\$55.

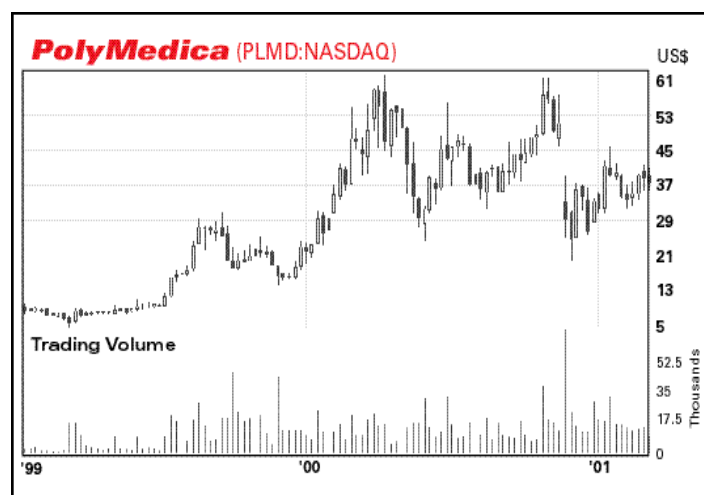
Supply-side

My second recommendation: PolyMedica (PLMD:NASDAQ).

PolyMedica's story is a simple one—it supplies the diabetic market with supplies and equipment. And this is one huge market—as evidenced by the company's robust sales growth. In 1999, PLMD did US\$104 million in sales. Last year, the company grew the top line 49.7% to US\$156.9 million.

But get a load of this. In the next fiscal year, PolyMedica is expected to post revenues in excess of US\$220 million. A 40.5% increase from the previous year.

Earnings per share are expected to come in at



US\$2.14—a gain of 54% from last year's EPS of US\$1.39. A gain of 54%... yet the stock currently trades at a P/E multiple of 19.

Without a doubt, this is one of the better "growth at value prices" plays in the field.

PolyMedica occupies that sweet spot in the market. At a current market cap of US\$500 million, the stock is just now garnering institutional attention. Which means mutual fund managers will begin buying the stock in anticipation of further capital appreciation.

Buy PolyMedica (PLMD:NASDAQ) under US\$40.

Inhale profits

My third recommendation: Inhale Therapeutics (INHL:NASDAQ).

Inhale Therapeutics has one simple claim to fame: taking drugs administered through either a needle or IV (like insulin) and developing them to be delivered through an inhalation device.

Just like Aviron, which is developing a quick, convenient and painless therapy for a huge market (flu sufferers), Inhale is developing a quick, convenient and painless therapy for another huge market: an insulin inhaler for diabetics.

So promising is Inhale's technology, and the Phase II results so strong, analysts estimate the aerosolized insulin can capture at least 25% of the market for diabetics within 24 months of launch. This equates to sales of roughly US\$750 million.

If successfully launched and commercialized under the current agreement with Pfizer (which will market the inhaler-insulin), Inhale Therapeutics could rake in peak earnings of US\$3 to US\$4 a share.



No pain, no blood, no problem

What the company is developing is a pulmonary drug delivery device capable of delivering a wide range of peptides, proteins and other macromolecules currently delivered by injection or by other means.

Delivering drugs to the lung sounds simple enough, right? I mean, I was using asthma inhalers in the 1970s.

But developing more complex drugs has been difficult, because many of the drugs are macromolecules (a molecule with a high molecular mass).

Due to their large size, most macromolecules typically have been delivered by injection. And macromolecules that aren't delivered directly into the body via injections have a difficult time entering the bloodstream in safe and efficacious doses.

But that's changing. Innovation in biotechnology and recombinant techniques has led to a large increase in the number of macromolecular drugs. These drugs, which are similar or identical to the body's natural molecules, are enabling new therapies for many previously untreated or poorly treated diseases.

To give you a quick idea of how big the market is for Inhale's drug delivery system, there are about 30 macro-

molecule drugs marketed in the United States, with another 120 in human clinical trials. These drugs have a market worth, based on 1999 sales, of about US\$8.7 billion.

Because of this, it is estimated that worldwide protein drug sales will surpass US\$10 billion in 2001. By 2003, sales are expected to be in the US\$18 billion range.

What Inhale Therapeutics does is take a drug and develop it into a fine powder. The patient inhales the fine powdered formulation of the drug as an aerosolized cloud.

The drug reaches the deep lung tissue, then passes from the deep lung into the bloodstream.

As an alternative to invasive delivery techniques, a pulmonary delivery system could potentially expand the sales of currently marketed drug therapies by increasing patient acceptance.

And that's the other advantage to Inhale's business: it can take drugs that are already approved by the FDA, develop them into fine powders, and sell them as an inhalation therapy.

Now, that doesn't mean Inhale's reformulated fine-powder drugs will automatically receive FDA approval.

But as a biotech investor, you want to stack the cards in your favor. Investing in a biotech company that is refining drugs which already have a long, positive history with the FDA is one way to stack the deck.

The outlook - Inhale will have a US\$5 billion dollar market cap in 2 years

Taipan is estimating shares of Inhale will double in 24 months. And the way I come up with that analysis is very conservative: I'm only using a revenue and earnings model for inhaled insulin.

I assume two things: (1) the biotech sector will maintain its higher-than-the-market P/E multiple, and (2) biotech companies with blockbuster drugs and technologies will be rewarded with premium valuations.

Because of the flood of product approvals expected in the next 12 to 24 months, and the hundreds of drugs currently in Phase II and Phase III trials, I fully expect the biotech sector to maintain its premium P/E multiples.

Just as with Aviron (and most other biotech stocks), timing your entry point is everything. Last year, Inhale rallied with the biotech sector as a whole, hitting a new 52-week high of US\$70.

The stock is down 62% from its highs as a result of the crash in the NASDAQ last year. This is an excellent time to buy.

Buy Inhale (INHL:NASDAQ) under US\$28 a share.

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Making money off increasing demand for private healthcare:

A healthy recovery makes this an ideal IPO play!

by *Siu-Yee Ng*

According to SMG Marketing Group Inc.'s "Freestanding Outpatient Surgery Center Directory," the number of outpatient surgery cases performed in free-standing surgery centers in the United States has increased 191%, from 2.3 million in 1990 to 6.7 million in 2000. Back in 1980, outpatient surgical procedures represented approximately 15% of all surgery performed in the United States—compared to approximately 70% in 2000!

New surgical techniques and technology, as well as advances in anesthesia, have increased the types of surgical procedures that are being performed in surgery centers. Lasers, arthroscopy, enhanced endoscopic techniques, and fiber optics have reduced the trauma and recovery time associated with many surgical procedures.

Improved anesthesia has shortened recovery time by minimizing postoperative side effects such as nausea and drowsiness. So there's no need for overnight hospitalization in many cases.

Some states now even permit surgery centers to keep a patient for up to 23 hours. This allows more complex surgeries—procedures that were previously only performed in an inpatient setting—to be done on an outpatient basis.

Fact of life

The Health Care Financing Administration reports that in 1999, total U.S. healthcare expenditures grew by 6.0%, to US\$1.2 trillion. It projects that total U.S. healthcare spending will grow by 6.5% annually from 2001 through 2008. That's approximately US\$2.2 trillion by 2008, or 16.2% of the U.S. gross domestic product!

Many physicians prefer surgery centers and private surgical hospitals to general acute care hospitals. Let's face it: there's just less paperwork in surgical centers and private surgical hospitals, which increases the number of actual surgeries doctors can perform.

IPO opportunity

Now with all this said, I want you to take a look at **United Surgical Partners International, Inc.** United Surgical owns and operates surgery centers and private surgical hospitals in the United States, Spain and the United Kingdom. It acquires and develops its facilities

through strategic relationships with physicians and healthcare providers.

In the U.S., United Surgical has ownership interests in 28 surgery centers and one private surgical hospital, and manages five additional surgery centers. It also owns interests in and will operate five surgery centers and one private surgical hospital that are currently under construction in the U.S., and has identified five additional markets for possible acquisition or development projects.

In Spain, it owns and operates six private surgical hospitals, two surgery centers and one diagnostic facility. In the United Kingdom, it owns and operates two private surgical hospitals and is developing a cancer center.

Going global

Most countries in Western Europe provide their populations with some level of government-funded healthcare. Despite the success of these public programs, practical limitations have resulted in delays or rationing of elective surgeries and certain other procedures. In many of these countries, funding and capacity constraints on public healthcare systems have created an opportunity for private healthcare systems to develop. So you can see why there's a need for United Surgical.

While Spain's national health service covers substantially all of the country's population, a private healthcare industry has emerged that currently serves the 17.2% of Spain's population that maintains private insurance, and another growing portion of the population that pays for elective procedures out of personal funds.

Total healthcare expenditures in Spain grew from 5.9% of gross domestic product in 1997 to 7.6% in 1998.

Demand for private networks such as United Surgical will continue to grow.

The rain in Spain

The growth in Spain's private healthcare industry has been driven in large part by an increase in the number of employers offering private insurance as a benefit to their employees. Like their U.S. counterparts, private insurance companies in Spain typically offer comprehensive health coverage. Since only 57 of the 347 private surgical hospitals in Spain are owned by multi-facility systems, an opportunity exists to build a private hospital network that will enable United Surgical to negotiate

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more effectively with the country's large health insurance companies.

As of September 30, 2000, United Surgical derived approximately 65% of its revenues in Spain from private insurance, and around 22% from private pay.

The United Kingdom also provides government-funded healthcare to all of its residents through a national health service. But it, too, is subject to funding and capacity limitations. Since the demand for healthcare services exceeds the public system's capacity, U.K. residents may encounter waiting lists for elective surgery of up to 18 months, as well as delays in obtaining cancer biopsies and other diagnostic procedures.

Experts estimate that 25,000 people die unnecessarily of cancer in Britain each year, due to underfinanced and poorly managed cancer programs! In response to these shortfalls, private healthcare networks and insurance companies have developed in the United Kingdom.

Approximately 11% of the U.K. population has private insurance to cover elective surgical procedures, and another rapidly growing segment pays for elective procedures from personal funds. As of September 30, 2000, United Surgical derived approximately 58% of its revenues in the U.K. from private insurance and roughly 31% from private pay patients.

Recipe for success

United Surgical only began operations on February 27, 1998, and its first acquisition, in April 1998, was a hospital and a group of clinics located in Barcelona, Spain. United has grown through the acquisition of additional facilities in Spain, the United States and the United Kingdom, as well as the development of new facilities in the United States.

On February 12, 2001, United Surgical merged with OrthoLink Physicians Corporation. At that time OrthoLink held a direct or indirect ownership interest in eight surgery centers. This merger gives United Surgical 14 more service agreements with physician groups in six states.

United Surgical has also entered into strategic relationships with established healthcare systems and hospitals in the United States. Its largest joint venture is with the Baylor Health Care System in Dallas, Texas. This venture owns an outpatient surgery network that serves approximately four million people located in the Dallas/Fort Worth area.

Recently, United Surgical has signed an agreement for a strategic relationship with Mt. Sinai Health System in New York City, through which United will develop a surgery center in Manhattan. But it's still awaiting approval from New York's regulatory authorities.

Money talks

These acquisitions and alliances are adding to United Surgical's bottom line. For the year ended December 31, 1999, its first full year in operation, United Surgical generated US\$70.4 million in revenues. For the nine

months ended September 30, 2000, its revenues had grown to US\$98.8 million.

According to the latest figures, approximately 43% of its revenues were generated from operations in Spain, 39% from the United States and 18% from the United Kingdom. For 1999 and 1998, respectively, these percentages were 67% and 91% for Spain and 33% and 9% for the United States. It did not operate in the United Kingdom before April 1, 2000.

I hate to see a company rely on one customer, or in this case one country, for such a large portion of its revenue. But United Surgical's business expansion means it is now less dependent on a single country.

A major concern with international expansion is the fluctuating exchange rate. The exchange rate of the euro to the U.S. dollar declined during the first nine months of 2000. This meant a US\$4.4 million reduction in revenues for the facilities in Spain, relative to the 1999 numbers.

Nevertheless, the facilities in Spain contributed US\$39.6 million to consolidated revenues in the first nine months of 2000, an increase of US\$4.4 million over the same period in 1999.

Cash on hand

Of course, United Surgical had to pay for these acquisitions. So like many companies, United Surgical borrowed and issued stock options to fund the acquisitions.

Now United Surgical plans to use the IPO proceeds to redeem in full all outstanding shares of its Series A redeemable preferred stock, plus accrued and unpaid dividends. And of course to pay off its debt. I usually don't like to see debt repayment from the offering, but it may not be a bad idea in this case. United Surgical has established credit lines for borrowing if needed. Nevertheless, this is a young company and we'll need to keep an eye on its cash flow.

United Surgical Partners International is in a booming industry. Just look at its competitors, HEALTHSOUTH (HRC:NYSE) and Triad Hospitals (TRIH:NASDAQ) which have market caps of US\$6.02 billion and US\$1.17 billion respectively.

United Surgical plans to raise US\$138 million in its offer, so the market cap is much smaller than that of its competitors. This alone makes United Surgical a great play—we can look forward to watching the stock price appreciate relative to the price of its competitors.

The underwriters involved are Credit Suisse First Boston, UBS Warburg LLC, Lehman Brothers and SG Cowen.

ACTION ALERT

For more information after the quiet period, contact United Surgical Partners, 17103 Preston Road, Suite 200 North, Dallas, TX 75248, tel. 972-713-3500, fax 972-713-3550.

This 20-cent stock could be the next Hurricane:

Buy Nelson Resources as an highly speculative play on Kazakh oil

by James Passin

If you watched or participated in **Hurricane Hydrocarbons' (HHLF:OTC)** incredible recovery from US\$0.25 to US\$5.75, then you have learned one thing: *there are fortunes to be built in Kazakhstan*. Despite appreciating 20x from the 1999 low in less than 2 years, Hurricane is trading at only 2x earnings—revealing the sheer magnitude of profits available to oil operators in Kazakhstan. Despite steady growth in production, Hurricane has also grown its reserves—demonstrating, among other things, the benefits of applying Western technology to Kazakhstan's massive hydrocarbon deposits.

One of the most important factors behind the turnaround in Hurricane was the acquisition of the Shymkent oil refinery. **Central Asian Industrials Holdings (CAIH)**, an entity associated with **Kazkommertsbank (KKB:Berlin)**, which is the largest bank in Kazakhstan, sold an 88% stake in the Shymkent refinery to Hurricane in exchange for 30% of the equity of the merged company. The deal resulted in huge stock market gains for both CAIH and minority investors in Hurricane.

In July 2000, I discovered that CAIH was negotiating a reverse-merger deal with an obscure Toronto-listed gold company. The Kazakhs agreed to inject three oil fields into **Nelson Resources (NLG:Toronto)** in exchange for 70% of NLG's equity. Given CAIH's track record with Hurricane, I decided to immediately build up a position for my fund. Having just returned from a due diligence trip to Kazakhstan, I am now in a position to disclose the details of my research into NLG.

NLG currently trades around US\$0.20. My twelve-month target is US\$0.50, based on a US\$50 million valuation for the gold operations, a simple US\$1/bbl net reserves calculation, and the assumption that the company issues another 100 million shares to raise working capital. My three-year target is US\$1, based on my assessment of the cash flow potentials of Alibekmola, Tenge, and the gold operation, as well as upside from future acquisitions.

National treasure

Alfred Nobel, who prospected in the Caspian region when he wasn't filing patents in Europe, was involved with the first search for oil in what is now the Aktobinsk Oblast in Kazakhstan. The first discovery was made in 1907. The giant Zhanazhol field, which is now controlled by Chinese National Petroleum through its super-majority stake in Aktobemunaigas, was discovered in 1978. A number of other substantial fields have subse-

quently been delineated in Aktobinsk.

Aktobinsk is close to the Caspian Sea, where the giant Kashagan and Tengiz fields are located. Massive pipeline capacity is being constructed near Aktobinsk to provide export routes for Caspian oil. The Caspian Pipeline Consortium is expected to be online by July 2001. A pipeline already runs from Aktobinsk to the Orsk refinery in Russia. Oil is also exported via tanker through the renovated Aktau reloading facility.

Alibekmola is one of the largest fields in Aktobinsk, with an estimated half a billion barrels in recoverable reserves (for licensing purposes, the Alibekmola and Kozhasai fields are consolidated). Test wells reportedly have revealed high-quality oil with low sulfur content. Several oil majors have allegedly attempted to acquire Alibekmola, including Amoco (before the merger with BP) and Lukoil. Government officials have called Alibekmola one of Kazakhstan's "national treasures." I have been told that Alibekmola was *the last major unclaimed hydrocarbon structure* in Kazakhstan.

In February 1999, the Kazakh government decreed that Alibekmola would not be made available for foreign development, as it was considered a "strategic" state reserve. The licenses were transferred to Kazakhoil, the state-owned national oil company.

In March 2000, NLG announced that it had signed a preliminary term sheet with CAIH to acquire 50% of Alibekmola. In July, NLG announced that Korinth, an entity associated with Halyk Savings Bank, the largest savings bank in Kazakhstan, would join the deal on equal terms with CAIH. Korinth is associated with Timur Kulibaev, the president's son-in-law. Kulibaev also controls Kaztransoil, the national oil and gas pipeline monopoly (a critical piece of the NLG puzzle).

The final deal, which was approved by shareholders, gave CAIH and Korinth each 35% of NLG on a fully diluted basis in exchange for 50% of Alibekmola, a 31% call option on the estimated 100 million barrel Tenge field, and US\$15 million in cash. The deal left old shareholders with 30% of the company—a generous deal that transferred massive value into the stock.

Magic shell

Before the deal, NLG was a penny stock with a deteriorating balance sheet. I am not going to use the term "shell," since most shells don't own a 3 million ounce gold reserve base or mine 80,000 ounces per annum. With its large mining operations in Tajikistan, NLG is a significant junior gold company. NLG traded at US\$2 in 1996 based only on its gold assets. The collapse of gold has hurt NLG's cash flows.

As an unhedged producer with low-grade gold ore, NLG is highly leveraged to the gold price. NLG owns 44% of Zeravshan Gold Company, which holds licenses to the Jilau and Chore/Taror gold mines. As operator, NLG

James Passin manages the Firebird Global Small Caps Fund for Firebird Management. Passin's fund, as well as other Firebird funds, are currently shareholders in Nelson Resources. Passin's views are strictly his own and not necessarily those of *Taipan* or Firebird.

retains 90% of the cash flows generated from the mines.

NLG's gold operations have just turned cash-flow positive. Since the gold mines do not consume cash, you can view them as call options with no expiration.

Eventually, there will be a sustained recovery in the gold price. I personally believe we are close to a major bottom in gold. Once sentiment towards gold begins to shift, there will be a massive rerating in gold-related assets. The biggest gains will be in unhedged juniors with large, low-grade reserves and current production. *If the market valued NLG's gold reserves at only US\$40/ounce, NLG's gold operations would be worth US\$120 million—the current market capitalization of the entire company.*

While gold production is not currently a fashionable business, NLG is one of the gold industry's rare Central Asian success stories. Howard Miller, the founder of NLG, will head the company's mining operations from Almaty. NLG's controlling shareholders are in an unrivalled position to find and secure attractive precious metal assets in Kazakhstan. It is my belief that NLG is committed to building and monetizing a massive pan-Central Asian mining business.

Caspian tide

I met with Kong Teck Soon, the new CEO and chairman, in Almaty. Mr. Kong has an outstanding reputation in the oil industry and a 35-year track record of developing successful oil projects in difficult operating environments. After meeting with Mr. Kong, I firmly believe that the interests of NLG's management are aligned with the interests of minority shareholders.

The development of the massive offshore Kashagan field and the completion of the CPC pipeline should keep Kazakh oil in the front-page news. Bush and Cheney are eager to foster the development of oil supplies outside of the Middle East, including the Caspian. If oil prices remain reasonably robust (and, call me crazy, but I believe they will), then Western investors may look for stock market plays on Caspian oil. I anticipate that a number of triggers could ignite interest in NLG over the next twelve months.

Don't invest if you can't take the risk

NLG is a very, very risky stock. It is a penny stock with 600 million shares outstanding, fully diluted (I would anticipate an eventual 10:1 reverse split). The stock is utterly illiquid and may be extremely difficult to

sell. NLG needs to raise several hundred million in debt or equity to begin production at Alibekmola. Kazakhs control at least 70% of the shares. The board of directors is currently controlled by Kazakhs. As a development-stage oil company, NLG is highly vulnerable to a downturn in world oil prices. Given the prominent political connections of NLG's controlling shareholders, the stock is particularly vulnerable to any unforeseen political turmoil. There is very little detailed information about Alibekmola's or Tenge's geologies in the public domain.

But, for my money, the low price of NLG more than



balances these risks. If you wanted to acquire a 50% interest in Alibekmola, you would have to pay far more than US\$120 million in upfront cash. Unbelievably, by buying NLG at the current US\$120 million market cap, you not only get a 50% interest in Alibekmola, but you get a 31% interest in Tenge and 3 million ounces of gold in Tajikistan.

While Kazakhstan-related stocks are regarded as "risky" investments, they can't be any riskier than U.S. tech stocks, which are riddled with more corruption, incompetence, and insanity than I have ever seen in so-called emerging markets.

You should thoroughly review the company's filings on www.sedar.com and contact the company directly with questions before trading the stock. **Nelson trades under NLG on the Toronto Stock Exchange or NLRRF on the Pink Sheets. I would recommend keeping a close eye on the stock to take advantage of any exaggerated volatility in the share price.**

For more information, contact Nelson Resources Ltd., 2nd Floor, 18 Maddox Street, London, W1S 1PJ, England, tel. +44-20-7496-4991, fax +44-20-7497-4992.

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How to profit from the most infamous world pandemic since the bubonic plague

Buy Cipla below 900 rupees for your long-term portfolio

by *Christian DeHaemer*

There are currently 36 million people with AIDS, 90% of them living in developing nations. Atypical multi-drug treatment or "cocktail" for use as an HIV inhibitor costs US\$10,000 to US\$15,000 a year in the United States. As one would expect, the governments of most countries with major HIV problems—most people earn less than a dollar a day—have been protesting the prohibitive cost of these treatments for years. They blame transnational drug companies for making a profit on the corpses of their children. And who can blame them?

Even big pharma itself, while defending its high prices with charts of R&D expenses and international patent agreements, finally gave in under the global pressure of organizations. Last May, five major drug makers agreed to slash the cost of their HIV/AIDS medicines for sale to poor counties.

The agreement has had little effect: The drugs are still priced out of reach for many regions, and the country-by-country approach taken by the various drug companies has been too slow to affect the escalating epidemic.

Striking back at Empire

Due to the decrease in the cost of information and the rise of global money flows since the fall of the Berlin Wall, the globalization process has accelerated. Former third world countries have had to switch loyalties, from socialist to capitalist demagoguery. The irony is that when, like India, slow countries get fast, fast countries like the U.K. may not always enjoy the results.

I just returned from a research trip to Bangalore, India. I went with the idea of uncovering some unknown software company that was participating in the booming IT market, or a cement maker or perhaps a construction company that could profit from rebuilding in the aftermath of the recent earthquake.

What I found was surplus of over-valued IT. And that there are more than 50 publicly traded cement companies.

All of them are losing money due to price controls and overcapacity.

No sex, drugs and sitar music

What I did find surprised me. India has a fifty-year history of drug manufacturing. And, thanks to a 1970 law that allows patents for the production process but not for the drug itself, counterfeiting drugs is perfectly legal, and is in fact a booming business!

On top of that, the biggest company of them all not only has a fifty-year track record and the lowest production costs in the world, but it's selling at a 20% discount due to a recent lawsuit in South Africa.

It was then that I realized that the 12-hour jetlag and constant diet of mutton curry and warm yogurt were all worth it.

AIDS and profits

In late February, South Africa delayed for a month an important decision: whether to uphold international patent law or buy affordable counterfeit drugs from India and Brazil. Thirty-nine pharmaceutical firms, including GlaxoSmithKline, are arguing that the new South African law gives arbitrary powers to the health minister in deciding when the state can make or import generic versions of patented drugs.

Big pharma believes it is a case of upholding international patent protection. South Africa believes it is a matter of life and death.

Already, developing nations are bypassing the WTO agreements. In Kenya, where 600 people a day are dying from AIDS, they announced legislation allowing the country to import cheaper generic AIDS drugs. The Health minister cited a WHO loophole that can circumvent patent law in case of an epidemic or national disaster. It's a logical step when 20 to 50% of your population is dying of AIDS.

Buy AIDS drugs for US\$350 per year!

I don't know anyone who has AIDS.

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I'd tell them to buy their cocktails in India. Cipla Ltd, the primary maker of these drugs, can sell AIDS medicines for only US\$350 a year. That blows away big pharma's US\$10,000-\$15,000!

Cipla can do this because of a unique Indian patent law passed in 1972 that removed monopolies in the drug industry. (It should be noted that recent WHO treaties would rescind this law in 2005.) Even after big pharma's AIDS cocktail discount—as low as US\$1,000 in a country like Senegal—the drugs are still three times the average annual salary of its 290 million citizens.

Cipla has experience in India, and in Brazil and Thailand has shown that most of these critical drugs can be produced at costs that put them realistically within the reach of the resource-poor. Cipla is selling these drugs to Doctors Without Borders for US\$350 per patient per year. And still this company has a double-digit profit margin.

Bulk drugs

Cipla is India's second largest pharmaceutical company. It has successfully produced a plethora of generic drugs at a cheaper price for the domestic market, while building an expanding export market.

Cipla makes everything from tablets and injections to inhalers and powders. They are also a low-cost producer of medical hardware. They have manufacturing sites all over India and are approved by the FDA, and by like-minded bureaucracies in the Europe, not to mention the World Health Organization.

Before I get into the numbers, let me give you some background and possible catalysts for share price appreciation. The first and most obvious is the resolution of South Africa's patent trial, discussed above.

The second has to do with domestic liberalization. Some 60% of drugs in India have arbitrary price controls. Given the current trends in globalization and deregulation, the company and others like it are lobbying hard for the end of this socialist legacy. As the second largest player in India and arguably the most technically savvy, and one with little debt and a large cash position, Cipla stands to benefit from the end of price controls.

There are also the possible tie-ups with global big pharma, as Cipla is a low cost producer. A third catalyst is continued growth based on Cipla's entrance into non-CFC based inhalers, primarily for asthma. Cipla is talking up a range of medicinal aerosols that the company believes will give it an edge in global markets, especially Europe.

Cipla has a thirty-year history of growth. It has a five-year compound annual growth rate of 20 percent. The most recent quarter was no exception—net profit jumped 53 percent in Q3, for a net profit of Rs535.40 million in the quarter ended December 31, 2000. This is compared to Rs348.20 million in the same quarter of the previous year. (The rupee is currently trading at 45 to the U.S. dollar.)

Net sales for Q3 jumped 47 percent to Rs2.75 billion, versus Rs1.87 billion in the same period of last fiscal year.

Last year, total income was Rs7.95 billion compared to Rs6.45 billion, an increase of 23.2%. Sales from operations were at Rs7.59 billion compared to Rs6.17 billion, an increase of 23%.

The split between domestic sales and exports was roughly 80/20, with exports growing by 20%. The company expects the exports segment to continue to grow in proportion, so that in five years it would account for 40 percent of sales. Exports have registered a CAGR of 40.1% in the past 5 years.

The debt/equity ratio has declined since FY96 as the proceeds from a rights issue were used for repayment of debts. In FY00 the debt/equity ratio fell from 0.07 to 0.03. That's a good sign. This low level of debt means that Cipla can increase spending on property, plants and equipment, which it has done to the tune of Rs291.5 million last year. The company plans to spend Rs600 million to set up a non-CFC plant at Kurukmbh.

Cipla has also been busy expanding into new markets in Latin America, Canada, Europe, Africa, Asia Pacific and the Middle East. Products are now exported to over 130 countries.

There is a good chance that this company will continue to grow its exports, due to the AIDS crises in developing countries, the liberalization of the Indian market and its new asthma inhalers.

Given the artificial nature of the South African lawsuit, it seems like this would be a great opportunity to step in and pick up a piece of the world's low-cost producer of generic drugs—at a 20 percent discount to its trend line.

Cipla Ltd isn't particularly cheap. There are 60 million shares outstanding and it currently trades at 1,000.10 rupees. That gives it a U.S. dollar market cap of 1.3 billion. Or roughly 7 times sales, and a P/E in the low 30s. That's less than GlaxoSmithKline, but more than Merck (MRK:NYSE), which trades at a P/E of 25 and 5 times sales.

The difference is in the potential for long-term growth, given Cipla's position as low-cost producer. Cipla trades on the Mumbai (Formerly Bombay) Stock Exchange under the script code 87.

The chart shows that it is down along the bottom of its range and well off its high of 1,300 rupees last spring. If it breaks below 990 rupees, the next support level will be 900. That looks like a safe point to get in.

The next catalyst for upside should follow a new fungibility rule from the Indian government. The new regulations will allow domestic shares to be freely convertible to and from international depositary receipts. This should boost Indian shares, and at the same time reduce the premium on Indian ADRs such as **Infosys (INFY:NASDAQ)**.

If you take a medium- to long-term view, I think Cipla Ltd is a good stock to own for the long haul. Peter Schiff should be able to buy it for you. You can give him a call at 800-727-7922, fax 749-863-7100. Cipla Ltd contact: Mumbai Central, Mumbai Maharashtra, 400008 India, tel. +91 22 3082891/3095521, fax +91 22 3070013.