



Waves of hype, tsunamis of profit: *Digital media and profitable companies – make an easy 134% from the new New Net!*

by *Christian DeHaemer*

Remember the Nineties? Wave after wave of hype-driven sectors: Environmental companies, biotech, and satellites. We had disk-drives, routers, and chips. There was B2C, B2B, and the enablers. Don't forget emerging market telecoms, mobile phones, and EU convergence plays.

It was a decade of trends. And if you rode any one of these waves, you made your share of profits. These high-flying trend stocks are driven by flows of propaganda that are difficult to spot at the outset, and even harder to recognize at the top – when you are seized by the greed of a true believer and, in a cult-like, tongue-speaking state, profess to the man next to you on the train that profits don't matter.

This time it's different.

Profound buzzwords possess your soul – you find yourself muttering things like picks and shovels, stickiness, and branding.

Of course, this is the natural dichotomy of investing. You have to squint your eyes at traditional value ratios to buy a company that will benefit from the next wave of hype. Yet you must remain composed enough to know when the speculators have gone too far, so you can lock in the majority of your hard-won profits.

The obvious method is to use a trailing stop loss, which is just what it claims to be. You sell when the stock falls 20% off its most recent high. This is a simple method and keeps many an investor out of the poorhouse. But you knew that.

Greed

The question floating around the nether reaches of my mind for a few months now has been – what happens next? Everyone knows about the Internet, B2B, and broadband. The

fast profits have already been made.

But what happens when the promise arrives and high-speed Internet access is ubiquitous? What will you get exactly?

Digital Media

The next wave of market speculation to rumble through will be in the digital media industry.

Advances in CDs, DVDs, HDTV, and digital networks have been driving demand for software tools and services that help create digital content.

Most media professionals are aware of the companies and web sites that are taking advantage of digital technology. As an investor, you've probably had the opportunity to listen to conference calls and watch video interviews on websites like ON24 that use streaming audio and/or video.

The technology has advanced beyond the bandwidth access that is available to carry it. However, as broadband evolution continues and more people have access to high-speed Internet at home and in the office, webmasters will increasingly demand these tools to stay ahead of the curve.

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Old-style media companies like Time Warner and Disney, as well as audio and video engineers, musicians, and multimedia developers, want new integrated tools and services to republish old content or create new media in a form compatible with digital delivery.

The Three Amigos

There are three top companies now battling for expanded market share in this industry – **Sonic Foundry (SOFO:NASDAQ)**, **Loudeye (LOUD:NASDAQ)**, and **Media 100 (MDEA:NASDAQ)**. All three are growing like mad.

Sonic Foundry grew revenues 85 percent year-over-year as of February 2000. Media 100 grew revenues a more sedate 19 percent, but, due to recent acquisitions that I will tell you about later, should grow much faster going forward.

Loudeye's revenues jumped more than 800 percent, from US\$286 thousand to more than US\$2.6 million for FY 1999. However, net loss applicable to common stock totaled US\$25 million, up from US\$1.7 million.

Get more, pay less

This growth, coupled with in-demand online technology, sent the share prices of these companies into dot-com Valhalla over the past few months. Sonic Foundry got as high as US\$130 a share until it slipped in the NASDAQ bloodbath and skittered to its current price of US\$24, where it currently enjoys a market cap of US\$357 million.

Media 100 shot as high as US\$52 before pulling back to US\$26 where it percolates today, wearing a market cap of only US\$229 million.

Loudeye is a recent IPO, with a market cap of US\$570 million and a share price at US\$16, down from its initial price of US\$54 just a few short months ago.

Loudeye trades at 29 times sales, Sonic Foundry at 7, and Media 100 at 4.3 – the hands-down winner in this category. Clearly, this market is poised for a convergence in valuation multiples.

The situation warrants investigating the most undervalued players, keeping an eye on the market leader (Sonic Foundry), and ignor-

ing the recent IPO, which suffers from lack of track record as well as a high multiple.

Underdog eats magic pills

Media 100 has been selling advanced media systems, disk drives and ancillary video equipment since 1993, and has shipped over 170,000 software applications and 25,000 systems since then though its worldwide channel of value-added resellers.

In June of last year, they purchased Terran Interactive, a maker of Internet and DVD video. This has transformed Media 100 into a hawk of streaming media for use on broadband networks, DVD and CDs.

In December 1999, Media 100 purchased Wired, Inc., a supplier of Moving Pictures Experts Group (MPEG) streaming media production tools for use on the Internet and in DVD authoring.

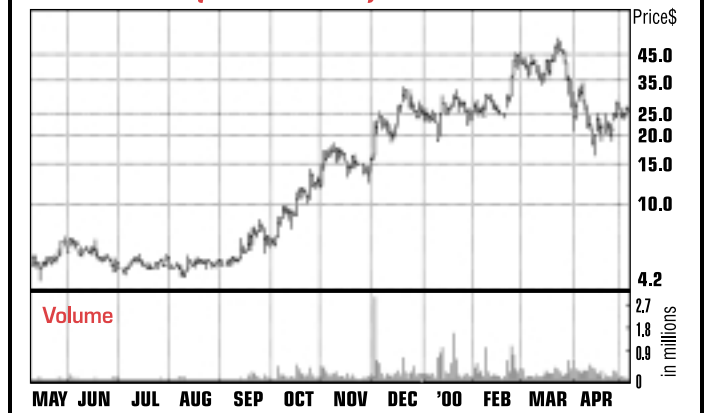
Also in December of 1999, the company announced that it was going to acquire Digital Origin, Inc., a maker of digital video editing and effects software applications designed for the new low-cost, high-quality digital video (DV) camcorders used specifically for creating Internet video. This acquisition should be completed by the end of July 2000.

New Deals

Media 100 and Terran are proving that they can be leaders in this field. The company has picked up new contracts with Streaming Communications Inc., which will integrate Media 100's streaming media production tools on the Windows NT and Apple OS 9 platforms.

Media 100 has also invested in Beatnik, Inc., a developer of applications for interactive Internet music production.

Media 100 (MDEA:NASDAQ)





Company	P/S	Revenue Growth Q1-Q1	Market Cap.	EPS Q1-Q1
LOUD	29	US\$301k – US\$1.6 mil	US\$570	(0.21)-(0.84)
SOFO	7	US\$2.7 mil – US\$5.1 mil	US\$357	(0.52)-(0.33)
MDEA	4.3	US\$12.1 mil– US\$14.4 mil	US\$229	(0.80)- 0.01 pos. EPS
MDEAs Terran division US\$0- US\$4 mil				

And ON24, Inc., which supplies streaming broadcast investment news, including CEO interviews and conference calls, has decided to use the tools from Media 100 and Terran to standardize its broadcast studios.

Cash cow

This increased revenue is largely attributable to such acquisitions of Internet media tool companies. This side of the business climbed to US\$4 million in revenues in Q1, up from zip in Q4 1999.

Media 100's old business did not fare as well. Digital Video sales fell US\$1.7 million to US\$8.3 million, while its service sector increased a marginal 6% to US\$2.3 million. But this core digital editing business, though flat, accounts for some 70% of revenue and carries a 60% margin.

Now, you could argue that as more website producers seek to add video content, this business could pick up significantly. Regardless, it stands as a cash cow and produces positive EPS and funds expansion. Something Media 100's competitors cannot say.

Gross profit increased 18.6 percent to US\$8.7 million and held steady at around 60 percent – which is fat – over the past year. The good news is that even after acquiring two software firms the company had a net income of US\$108,000, or US\$0.10 a share, compared to a net loss of US\$689,000 or US\$0.8 a share in 1999.

All Terran drive

The Terran Web business is flying out of the chute. Comparing March numbers to December, units and total dollars are up in excess of 75 percent, compared to expectations of 15 percent quarterly revenue growth.

This will be the main driver of share price appreciation, given the 150 percent estimated annual growth rate in

websites using advanced digital media.

Targets and prices

There you have it. Medea 100 sells at a 38 percent discount to the market leader SOFO (LOUD's valuations are ridiculous and don't even merit discussion). Granted, SOFO gets 90% of its revenue from high-growth streaming media, while Media 100 receives only 27% from this source (Terran, Wired, and Digital Optical).

But given recent deals, streaming media will account for some 45% of revenue for Media 100 going forward. This is important because the segment carries margins of 65-70 percent.

Media 100 can leverage its core business to expand, without sacrificing positive EPS. A secondary catalyst is the release of Terran's Media Cleaner 5.9 in the current quarter.

Multiple guess

Media won't trade at a comparable multiple to SOFO, but the gap should close somewhat, given that its Terran division is expected to grow more than 75 percent in the coming year. That would give you US\$77 million in revenues over the next four quarters even if the core business stays flat. Multiply that by the current price-to-sales and you get US\$331 in market cap. Or 38.5 on the share price.

But with the likelihood of a convergence with SOFO, the current market downdraft, its growth rate and the sound possibility of speculation in this market segment, I believe MDEA can carry a multiple closer to 7 times sales. Which would give you a conservative one year target of US\$61 on the share price, or 134 percent over current levels.

It has obviously traded at much higher multiples in the

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HISTORIC AND QUARTERLY RESULTS REVENUE (Thousands of U.S. dollars)					EARNINGS PER SHARE (U.S. dollars per share)				
	1997	1998	1999	2000		1997	1998	1999	2000
Q1 FEB	11,524	10,521	12,139	14,482	Q1 FEB	0.020	-0.090	-0.080	0.010
Q2 MAY	12,102	9,637	12,537	—	Q2 MAY	0.040	-0.410	0.020	—
Q3 AUG	11,107	10,124	13,116	—	Q3 AUG	-0.050	-0.290	-0.020	—
Q4 NOV	11,927	11,506	13,687	—	Q4 NOV	0.060	-0.180	0.140	—



recent past. With the right market conditions this could be a US\$90 stock.

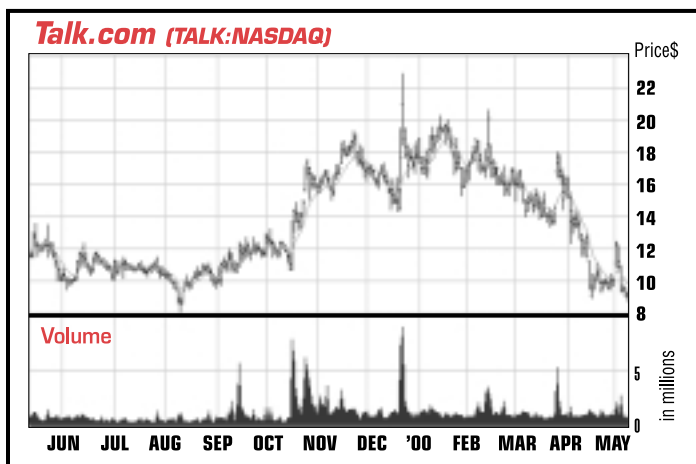
Media 100 (MDEA:NASDAQ) is a strong buy under US\$27 with a one year price target of US\$61. **Contact Investor Relations: Media 100, 290 Donald Lynch Boulevard, Marlborough, MA 01752 Phone: (508) 460-1600, Fax: (508) 460-8627.**

Money Talks – or not

Talk.com missed its earnings expectation by 3 cents last month. Its share prices ended down more than 15 percent the day of the announcement.

Talk.com earned US\$13.4 million, or 20 cents a share, in Q1, compared to US\$12.3 million, or 20 cents, a year earlier. First Call had a 23-cent consensus estimate. The company spent US\$36 million on advertising, which ate into profits.

On the plus side, sales rose 41 percent to US\$156.1 million from US\$110.6 million a year earlier, but the increase was only 4.6 percent above the fourth quarter's level of US\$149 million.



Hello, operator...

The long distance business is overrun with competition. Pricing power is an oxymoron and even the big boys like AT&T are having problems and laying off workers in order to cut costs. The industry is gearing up for a massive shake-out.

Talk.com has a number of advantages, which would suggest that they will be a long term winner. The first is valuation. With a US\$618 million market cap, Talk.com now has a price-to-earnings ratio of 10 and a price-to-sales of less than one. And remember, Talk.com is the low cost producer of long distance.

Secondly, AOL has reaffirmed Talk.com's exclusive contract to market long distance service to AOL subscribers.

Little bundle of joy

Third, the company plans to build out its new local

business, which it started with the purchase of **access one** last month.

The company will leverage its local customers and sell them long distance in a neat bundle utilizing AOL marketing channels.

I haven't met a business owner yet who didn't think that Talk.com was a fantastic service.

The upshot of all of this is that local and long distance is now a commodity. Whoever can produce it at the lowest cost and has the cash to hold on through the money-burning-high-advertising-duel-to-the-death-for-market-share dance will be the winner.

Dell did it in computers. Wal-Mart did it in retail. Can Talk.com produce in carrier service? Only time will tell. But at these valuation multiples I'm willing to wait it out – at least for now.



Valance Technology picks up a new order

Taipan's newest hot stock, **Valance Technology Inc (NASDAQ:VLNC)**, announced that it has received a small initial purchase order from a major satellite and cellular phone customer for its advanced rechargeable lithium polymer batteries. These batteries will go into a mobile wireless device currently being built for high bandwidth Internet.

The batteries are Valance Model 25C. This is a slimmed-down version of a battery Valance already provides to this particular telecom OEM. The new battery measures less than 6mm and contains approximately 4 watt-hours of energy in a form factor of 25mm x 110mm x 5.7mm.

The share price seems to have found a base at US\$13. **Valance looks like a good buy below US\$17 and a great buy if it retests the US\$13 level.**

ClearWorks.Net gets another contract

ClearWorks (CLWK:OTC Bulletin Boards) signed a deal to deliver Bundled Digital Services to the Team Reach community in Fort Worth. This community comprises 700 single-family homes, thirty acres of multiple dwelling units and eighty acres of commercial property.

Revenues for the life of this project are expected to be US\$76 million with a gross profit of US\$46 million. These are long-term contracts with life expectancy of 25 years. Though the majority of the profits won't hit the books anytime soon, you have the peace of mind of knowing that the tech company you are investing in will be around for quite some time.

ClearWorks has sold off from our entry price, but with sizable contracts coming in at a rate of two a month and a US\$567 million market cap, I can't help but think that this company will be a long term winner.



The Bear is dead: Now's the time to load up on selected tech stocks!

by James Passin

Don't worry: I'll stop ranting about carnivals. The "Year of the Dragon" has erased the egregious excesses of the first quarter. My downgrade of the majority of U.S.-correlated positions to Holds or Sells was timely.

NASDAQ crashed 36%. eToilet paper like KOOP appears to be on the brink of obliteration. Margins calls have wiped out over-leveraged day traders. Even George Soros capitulated, puking up tech stocks into a declining market. *Newsweek* ran a cover story on April 24: "Is the Bull Market Really Over?" I no longer hear bartenders or bellhops gloating about their stock portfolios.

Now that the weak hands have been cleared out, the U.S. equity market is on course for new highs. Hubristic euphoria has been crushed. *The dancing girls have been torn to shreds by the lions.*

It's hard to believe that a bear market could last two months. Call it a correction. But the dark days are coming to an abrupt end. *It's time to feed.*

"The limit of the evening and the morning is the Bear; and opposite the Bear is the boundary of bright Zeus."

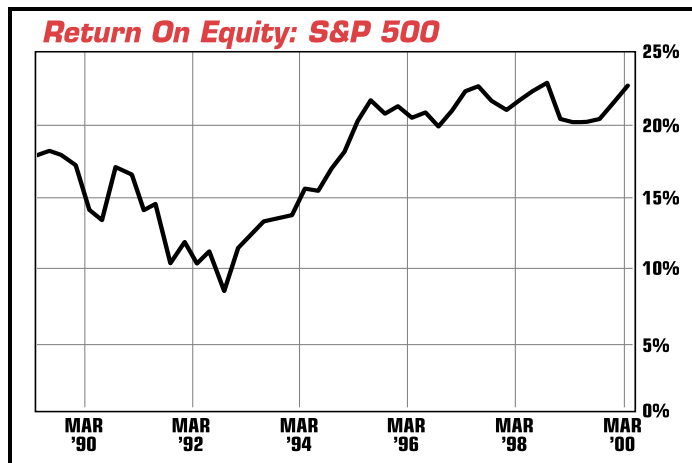
~Heraclitus, 500 BC

There is some inflation in the U.S. economy no matter what the pundits say. I don't know about you, but I find that movie theaters, baseball stadiums and restaurants keep getting more expensive. U.S. Steel announced it is hiking steel plate prices by 6% to US\$330 per ton – after reporting 11x growth in earnings. If domestic steel producers have pricing power, something is wrong. Air freight import rates surged 15% in April. Headline inflation statistics keep inching higher...

Everyone has a job. The labor market hasn't been this tight in decades. (Try finding an intern!) When the labor market is tight, employers are forced to raise wages to compete for workers. Rising wages give workers the confidence to consume, which gives companies the ability to pass on price hikes to consumers, degrading the purchasing power of wages, *creating a vicious circle or inflationary spiral...*

Inflation is dead...

However, I don't believe that an inflationary spiral is building up in the U.S. While the labor market is running close to full capacity (especially in high tech industries), Congress is considering loosening visa restrictions on foreign technology workers. *And it's hard to believe that consumers will blindly accept price hikes when the Internet offers endless price discounting and comparison shopping.*

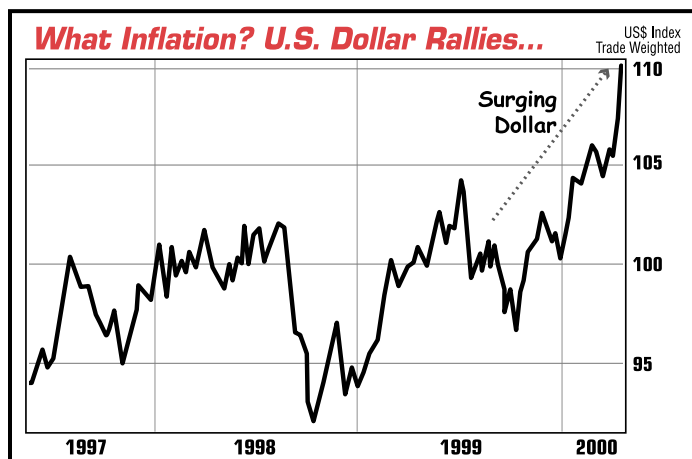


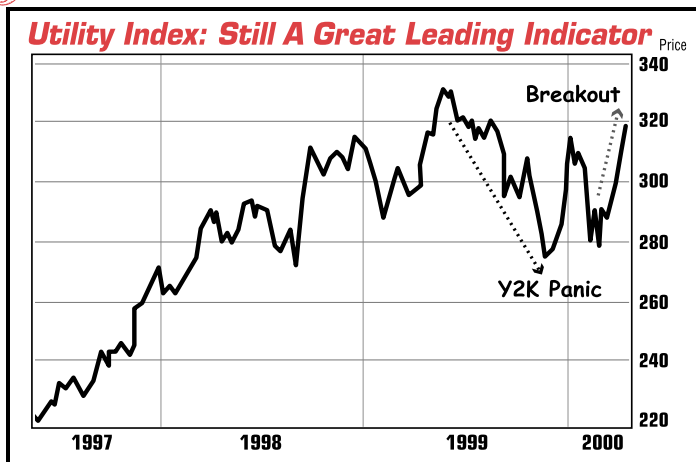
To mitigate any Y2K-related bank runs, the Fed flooded the U.S. financial system with liquidity in the fourth quarter of 1999. The surplus cash ended up in the equity market, triggering an explosive rally in Internet and biotech stocks in December, January, and February. Rapid growth in the money supply neutralized the short-term impact of rate hikes, creating an "Iron Man" hyperbull market that contributed to inflationary pressures.

But the "Y2K liquidity bubble" was a one-time event. The temporary effects have already dissipated. In the absence of easy liquidity, Greenspan's rates hikes will inevitably restrain inflation.

The technical behavior of the market is inconsistent with an inflationary spiral. If inflation were careening out of control, the U.S. dollar would collapse. But the dollar is surging. The Euro has fallen to a record low. On a trade-weighted basis, the dollar is exploding higher in a seemingly unstoppable uptrend. Its strength is clear and convincing evidence that an inflationary spiral does not exist.

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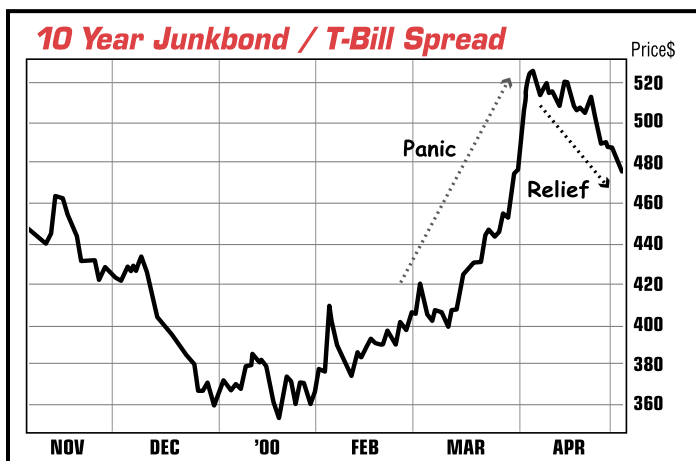


Another leading indicator of inflation is the Utility Index. Utilities are highly interest-rate sensitive. *In a monetarily functional economy, the Utility Index should lead broader market indices higher.* The Utility Index has carved out a “double bottom,” breaking above January’s peak after establishing a solid floor at 280. I have identified a 15-month cycle in the Utility Index that has persisted since 1982. **In my opinion, the current bull market in utilities will last for another year.** It is highly unlikely that Utilities would exhibit bullish technical behavior in front of an inflationary spiral...

Finally, gold remains weak. Personally, I like gold at US\$280 from a ten-year prospective. But bullion is likely to remain a dog over the next several years. The spread between T-Bills and the gold lease rate has turned profoundly positive. In other words, it pays to borrow in gold and lend to governments. *A wide, positive T-Bill/gold lease rate spread turns gold hedging and short selling into very profitable activities.* In this scenario, it is unlikely that gold will stage a sustainable rally. Gold remains an excellent coincident to leading indicator of inflation.

Long live inflation

While structural inflation does not exist, widespread fear of inflation does. If you are afraid of inflation, the last thing you want is bonds. It’s better to be an owner



than a lender in an inflationary environment. Paradoxically, in the absence of real inflation, inflationary fears are bullish for the stock market.

Given the strength in the dollar and utilities, and the weakness in gold, I am forced to turn bearish on inflation. With the absence of actual inflation, but the presence of inflationary fears, baby boomer retirement cash will continue to supply the equity market with liquidity. In this scenario, *the blood-bath in NASDAQ represents an extremely healthy shakeout.*

The clearest barometer of overall U.S. economic health is the **spread between junk and treasury bonds**. When the credit spread is rising, lenders are afraid to take risks, draining capital from the most vibrant part of the economy. When the spread is contracting, lenders are willing to take risks, infusing the most vibrant part of the economy with capital. While the spread has surged after the post-Y2K January low, it has given back over 30% of the move. This is very bullish for the economy. It also takes pressure off the Fed to keep hiking interest rates.

Who cares

I recommend aggressively returning to U.S.-correlated tech stocks. But market leadership will pass from dot-coms to entirely new themes. I am building up positions in ELBTF and other small-cap technology stocks. *Based on my renewed confidence in NASDAQ, I am upgrading ELRNF and AVAN to buys.* I will reveal the details of my current research into Gore-proof opportunities in nanotechnology, agribiotech and “Third World” Internet infrastructure in future *Taipan* issues and conferences.

James Passin is a Portfolio Manager with Firebird Management and Contributing Editor to Taipan. A fund managed by Passin is currently a shareholder in ELBTF. Passin’s views are strictly his own and not necessarily those of Firebird or Taipan.

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It's 2 a.m.: Do you know where your kids are? Position your portfolio for huge gains with this wireless stock!

by Briton Ryle

All big-brother, overbearing-parent arguments aside, precisely locating a cell phone has its advantages. Not only are there a bunch of neat applications, the government has passed the "911 laws", which require wireless carriers to be able to locate every subscriber phone in their networks to within 50 meters. Nothing says loving like legislated demand.

Most assume the Global Positioning System (GPS) is the solution for mobile positioning services. But the fact is, there's a technology that'll do the job just as well as GPS for a fraction of the cost.

CellPoint (CLPT:OTC-BB), a Swedish company, can locate any phone in a GSM (Global System for Mobile Communications) network down to 50 meters, depending on network density. This should satisfy the 911 law requirements. The CellPoint System uses the GSM network to locate users, so there are no expensive network modifications, cell phones don't need any extra gadgets taxing the battery, and best of all, there's no expensive satellites to maintain.



Making fun of satellites

It's easy to make fun of satellites. All you have to say is "Iridium". Dead as a company, Iridium will probably gasp its last breath sometime later this decade when its worthless satellites begin bombarding innocent fishing boats in the Indian Ocean.

It's not really fair to use Iridium as the standard for satellite-based cellular services. But a cruddier business plan is hard to imagine. (How Motorola could've put up several hundred million after they heard the words "US\$9 a minute" is beyond me...)

But satellite-based carrier Globalstar is clearly on a better track. It's slashed the per-minute rate to as low as US\$1.39

a minute. And its relationship with AirTouch/ Vodafone puts success in the realm of the possible.

But Globalstar is a carrier. GPS is just one of the value-added services Globalstar can offer. GPS may be the best solution for mapping, global fleet tracking, or just about anytime mobile positioning outside of traditional cellular networks is required.

But where applications and services are concerned, a re-write of Ockham's razor is appropriate—all things being equal, the simplest and cheapest solution is usually the best. For most cellular applications and services, satellite solutions are overkill. For location-based services, a network solution like the CellPoint System offers the best cost-to-performance ratio.

And the CellPoint System performs better than GPS in urban environments. GPS must have a direct line-of-sight to work. If you're in a tunnel or parking garage, forget it. The CellPoint System can locate your phone even if it's in a briefcase and you're deep in the bowels of an office building.

The "apps" market

Wireless has a lot of room to grow, especially in the U.S., and value-added services like mobile positioning will help drive the market. Europe is an example of what lies ahead. The penetration rate of cell phones there is astounding. Scandinavian countries boast a 70% and higher penetration rate. In England and Italy, one out of every two people uses a cell phone. Even Germany has a penetration rate around 30%.

The U.S. penetration rate is on par with Germany's, around 30%. It's easy to imagine cellular phone use doubling in the U.S. over the next few years. One reason for the popularity of cell phones in Europe is multiplying usefulness—the more phones sold, the more useful each existing one becomes. And the more ways they can be used, the more are sold, and so on.

In Finland, you can buy a soft drink from an enabled Coke machine right from your cell phone. Strolling around London, CellPoint's Finder! might alert you that a certain friend is right around the corner, close enough to invite her for a cup of coffee. And Starbucks may even send you a coupon for an espresso. (Of course, this also will allow you to dodge ex-girlfriends, people you owe money to, or that wizened philosophy professor who still haunts your Freudian nightmares...)

A fundamental element in maximizing the value of the cell phone in Europe has been the unified GSM standard.

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A single standard allows for seamless roaming, wider coverage and more value-added services.

Now, I'm not here to argue whether CDMA or GSM is the superior system. There's plenty of evidence that CDMA (Code Division Multiple Access) is better for wireless data. My point is only that GSM enjoys much broader deployment. As you read this, GSM subscribers worldwide are surpassing the 300 million mark, a 70% increase over 1999. Compare that with the 50 million worldwide users of CDMA, and you can see where the business opportunity is right now. In the U.S., GSM subscribers are being added at a rate of five a minute. GSM is the de facto world standard, and will have an estimated 1 billion users, fully two-thirds of the market, by 2005.

These numbers may change. But it'll take a while. Building brand new networks is expensive and costs precious time. What we'll see is a slow migration to third generation (3G) cellular networks that are robust enough to handle data.

Best solution: the CellPoint System

The CellPoint System, based on a proprietary algorithm, is deceptively simple. It uses the Short-Message System (SMS), a standard in GSM networks. SMS is a real time text chat feature, sort of like ICQ, Instant Messenger or AOL Messenger for cell phones.

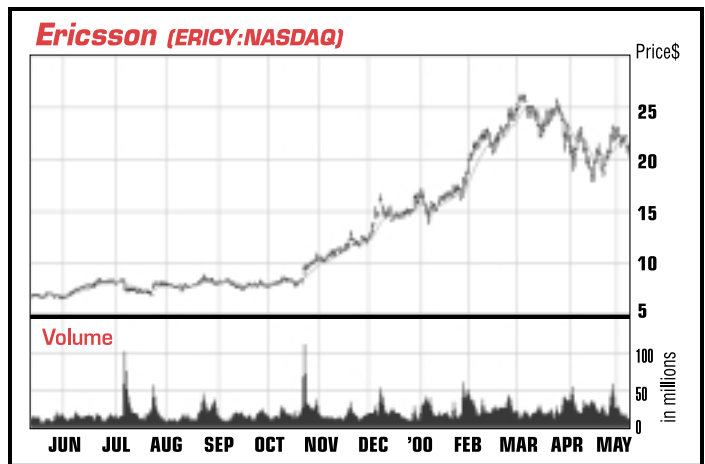
For nearly 2 years, cell phones have come with an "SIM (Subscriber Identity Module) toolbox" embedded in them. The SIM toolbox "knows" which transmitter in the wireless network it's using, allowing short messages to be exchanged back and forth. So in a sense, phones already know roughly where they are. CellPoint makes that information useful.

The great thing about using SMS is that there's no loss of bandwidth for the carrier. SMS runs on a separate, underutilized channel so it won't interfere with voice transmission. And because the messages are so short there's minimal battery use.

Where's the money gonna come from?

Neat technology and cool applications are one thing. Making money is another. CellPoint is actively marketing business and consumer applications for its services. The company is on record saying that it expects to sign 12 carrier contracts in 2000. Two distribution partnerships, with **Yahoo (YHOO:NASDAQ)** and **Ericsson (ERICY:NASDAQ)**, are done deals. Now, here's some more of what CellPoint has to offer. Business apps are the most boring, so I'll start there.

CellPoint has a vehicle tracking application (Automatic Vehicle Location or AVL) for companies that need to monitor fleets of vehicles. A small GSM transmitter module, the GT-1 Terminal, is attached to each vehicle, allowing very precise locating. Delivery drivers will no longer be able to say they were stuck in traffic when they



were actually taking the scenic route. And if a driver gets lost, the dispatcher can easily locate his position on a map through the CellPoint Internet interface and give specific directions. There are currently 15,000 GT-1 terminals in operation.

Of course, tracking is impossible if delivery routes stray too far from a GSM network. But in Europe or on the East Coast of the U.S., where GSM coverage is nearly universal, the CellPoint System is a low-cost alternative to GPS. And the CellPoint System is actually compatible with GPS, if need be. The GT-1 terminal can also be used to locate stolen or distressed vehicles. And businesses can use the system to locate members of its mobile work force.

The Strategis Group estimates that by 2003, 3.4 million vehicles will have AVL technology on board. If CellPoint can take even 10% of that market, hardware sales could reach US\$60,000,000 over the next few years.

Consolidating a unique position

In February, CellPoint acquired Unwire, the only other company in the world with GSM positioning technology. With its strong patent portfolio, Unwire is creating and marketing telematics applications for GSM positioning.

Telematics refers to remote systems management. Unwire's deal with PM-LUFT AB of Europe will help explain how telematics works. PM-LUFT AB manufactures, installs and maintains industrial ventilation systems for shopping malls, office complexes, etc. Using the CellPoint System, PM-LUFT AB can be alerted to ventilation system failures as soon as they happen. Repair teams can be on site fixing the system before there's a noticeable change in temperature.

Also, temperature can be monitored and adjusted from a remote location. As you can imagine, there are hundreds if not thousands of uses for this technology. PM-LUFT AB has already ordered 500 units, with several thousand more expected to be installed.

In May, Unwire and Ericsson announced a joint venture to market telematics solutions to Southeast Asia. Ericsson will work with Unwire to develop applications based on the



CellPoint System. As a worldwide GSM network provider with a foot in the door in Asia, this deal is nothing less than gigantic for CellPoint. Ericsson has already committed to buying several hundred programmable GSM terminals from Unwire. One of Ericsson's solutions has already been demonstrated in Malaysia in April of this year.

Value-added services

For PM-LUFT AB, telematics is a value-added service that makes the company stand out from the crowd. It's easy to see that the extra attention it can pay to installed systems could make the difference in winning lucrative contracts. The same can be said for consumer services.

These days, price competition is so fierce, service companies have to provide a little extra to keep customers coming back. Companies like Sprint and MCI used to try to buy customers. (I myself must have pocketed US\$500 in carrier bribes.) In the telecommunications industry, switching repeatedly from carrier to carrier is known as "churning."

Value-added services can reduce churn by as much as 50%. CellPoint has a range of value-added services available or in development that carriers can implement cheaply, easily and rapidly. My favorite is CellPoint Finder! CellPoint has teamed up with Yahoo! Europe to co-market Finder! under the name Yahoo! Find-a-Friend. (You can tell this will be a synergistic alliance from the liberal use of the exclamation point.)

What's coming down the pike

After the introduction of the Finder! Service, we can expect to see several other location-based services offered. Say you need directions to a restaurant or you need to find the nearest gas station or hotel. Maybe you just want to pull up a map of your surrounding area. Targeted advertising will also be available in the near future.

Also coming down the pike is revenues. CellPoint is just making the transition from life as a development-stage company, so revenues have just begun over the last two quarters. Some may view this as risky, I view it as an opportunity.

Since CellPoint is the only company in the world that has GSM mobile positioning, we may well be looking at the 800-pound gorilla as it learns to walk. Location-based services are expected to be a US\$25 billion dollar market by 2005, with carriers shelling out US\$9 billion on 911 services alone. That's a lot of cash to spread around.

As I said before, the company expects to sign 12 carrier contracts this year. It's in active negotiations with 10 right now. The company believes that after 18 months, carrier contracts should generate US\$1 million a month. So, after a year and a half, each contract should be worth around US\$4 million *per quarter* and total revenues may well top

US\$160 million annually.

One company already under contract is **France Telecom (FTE:NYSE)**. Last year, France Telecom contracted with CellPoint to test the services, with a rollout scheduled for April/May 2000. The CellPoint System has been operational on Sweden's Tele2 network for over a year. The company has a few other irons in the fire, but none are generating significant revenues yet.

The earnings picture

The latest earnings are from the quarter ending December 31, 1999. Sales were US\$272K, not much, granted, but substantially more than the US\$81K from the previous quarter. And the company told me directly that they are comfortable with estimated sales of US\$500K for the quarter ending June 30, 2000. Personally, I think this number is low and I'll tell you why.

For each contract, CellPoint gets paid a minimum every month, plus a fee per user per month. It generated US\$272K without any significant commercial contracts. France Telecom has 5.4 million subscribers. If the rollout of CellPoint's services is on schedule and successful, significant revenues could start coming in by the end of the fiscal year in June.

Plus, revenues from the Ericsson deal will be booked over the next two quarters. I look for Q4 revenues to be in the US\$750K range, with fiscal year sales around US\$1.3 million. Not stellar, but not bad for the first year of commercial service. Starting in Q2 of the next fiscal year, revenue growth will accelerate quickly. **Based on the company's estimates, I'm setting a two year price target of US\$110.**

What to do about all this

I've been watching this company since December. I watched the NASDAQ bubble bounce the price to over US\$90 a share. As with everything else, it got whacked down to the low US\$30s. With the amount of volatility in the market, and with the summer doldrums right around the corner, I don't think there's any need to rush out and buy a whole bunch. This is one to nibble on.

CellPoint is a thinly traded stock, averaging just 37,000 shares a day. I've watched 200 shares boost the price by a dollar. *If all of you run out and buy your whole position at once, this stock is going to go through the roof.* Use a stealth approach. **I recommend picking up a hundred or two hundred shares any time it dips below US\$30.** We should get several opportunities to implement this strategy over the summer. And remember, *use a limit order for all of your buys.* If the price gets out of hand, just wait for it to come back.

Contact information: The Rowe Group handles North American investor relations. That number is 877-880-1195.



Don't Hide in the Tax Closet: *Find out what your friendly, neighborhood, gun-totin' tax collectors are planning for you now...before it's too late*

by Charles R. Wolpoff

You've seen the picture. In the dead of night, little Elián, terrified, cowering in the closet with an automatic assault weapon pointed at his face.

Within hours, this picture was superceded in the media by an "everything is wonderful" snapshot of the six-year old child smiling in the arms of his father. We're supposed to assume Elián's as happy as a Cuban clam.

That's hard to believe. But we're also supposed to make a similar leap of faith when it comes to taxes.

It's tax season and the government has a gun pointed to your head, forcing you to fork over huge chunks of your wealth. But it's not just one gun—it's three or four. The feds, the state, the city, the property district.

But when the sun comes up, we're all supposed to be cheerful Stepford citizens, absolutely thrilled about doing our civic duty.

The problem is, our "civic duty" keeps getting more expensive, and many taxpayers don't realize it. It was appropriate that the feds took little Elián late at night. Governments do like to act under the cover of darkness, when it's hard to see what they're doing.

That's certainly how federal, state and local governments like to handle the "revenue" issue. They do their best to pick your pockets when you're not looking. And let's face it: *Chances are you're not looking right this minute.*

To government, tax season lasts twelve months

April 15 has come and gone. No one's talking about taxes anymore. It's as if your thoroughly obnoxious brother-in-law, after mooching off you and your wife for weeks, has finally blown town. No one in your household dares mention his name, or even think about him...until the same time next year.

Heck, your taxes are done. The files are put away. Your CPA's check is in the mail. And the very last thing you want to think about is taxes.

Problem is, power-hungry, revenue-thirsty politicians, judges and bureaucrats actually do like to think about taxes all year long. In fact they like to think you're not paying attention, so they can raise taxes without simultaneously raising the ire of too many citizens. And even if you do notice and get angry, they're betting you'll eventually forget it about and happily pay up with an Elián-like smile.

They know that even the small portion of the population that tends to think long and hard about money issues still ignores taxes. The typical money-conscious

consumer worries about getting the raise he's been promised. Or kicks himself for not having jumped on that recent Taipan pick that climbed 50% in a month.

But not too many people devote much attention to whether their tax burden is going up.

And that's exactly what the government's counting on.

Take this two-step approach to cutting your taxes

If you want to check the increasingly greedy government money grab, you need to two do things:

1. Continually find and execute strategies to pare down your tax bill;
2. Vigilantly monitor the latest moves by your federal, state, and local money grabbers. Yes, as your eyes are focused on the daily NASDAQ roller coaster ride, your elected representatives are trying to slip their hands deeper and deeper into your pocket.

We plan to give you in future issues what we've given you in the past: effective, shrewd—and legal!—strategies to cut your taxes.

But we'll also keep our eyes on the Night Movers, who are trying to raise your taxes faster than we can cut them for you.

Now, it's true that some more or less enlightened officials are actually trying to cut your taxes. You want to know about them too, because they need all the support they can get.

Even tax trends taking place outside your city, county, or state may be important to you, because those trends wend their way into your neck of the woods before you know it.

We've tried to give you this information in **The State Tax Report**, in which we rank the State Tax burdens from 1 to 50. But even as we were writing it, we realized that the subject of state and local taxes is a moving target. It seems that somewhere in the country, there's always some tax law being changed.

So we would like to take this opportunity—at a time when government officials would like to think you're not looking—to tour the country and see what's going on.

What are the current trends? Mostly, we see state and local governments continuing to find ways to feed their voracious habit. But there is some good news amidst the rubble.

Sometimes, when state or local governments go too far, courts have come to the rescue of taxpayers. But the justice system can also stab taxpayers in the back.



Government's word games don't always work

Clearly, governments realize that raising "taxes" can be unpopular. So call them something else. Such as "fees." Not only does that let them off the hook for raising taxes, but it also might allow them to avoid complying with all the rules that levying a tax would impose.

Take **Chattanooga, Tennessee**. The city imposed a "franchise fee" of 5% of revenues on telephone companies operating in the city. Don't be misled by the fact this "fee" was imposed on a company. Raising "fees" on a business can hurt the company's stockholders, customers and employees.

Chattanooga officials called this levy a "fee" instead of a "tax", knowing full well that state law forbids cities from taxing providers of telecommunications services for the privilege of doing business in a city. In order to be valid, any charge would have to come under the city's police powers. These powers allow the city to defray the cost of providing services. In other words, if the fee was imposed merely to pay for certain costs incurred by the city, then it's not a tax. But if imposed to raise revenue, it is a tax.

According to the law, in order to avoid the stigma of being a tax the "fee must bear a reasonable relation to the objective to be accomplished". With this phrase, the state law gave Chattanooga a loophole you could drive seven trucks through.

A 1%, 2%, or 3% fee might very well have passed muster in the courts. But when BellSouth Telecommunications took this issue to the state's Court of Appeals, the court decided that a 5% fee was just too damn greedy, because it bore no relation to the burden on the city.

A court also came to the rescue of taxpayers in Jefferson County, Alabama. Back in 1967, the county decided to take its pound of flesh from everyone engaged in business within its borders. So it imposed an "occupational license tax" on businessmen. Trouble was, professionals such as lawyers, CPAs, and doctors—people who tend to be powerful in the community—already were required to pay a license tax to engage in their professions. So they were exempted from the occupational license tax.

It should come as no surprise that this "restraint" by the county did not last. Unable to contain its greed, twenty years after the initial tax was imposed Jefferson County tried to extend the tax to everyone—including those already paying license taxes.

This double tax was too much for the court, which struck the whole fee down because it violated state law. Now Jefferson County can't impose this tax at all. Don't shed any tears, though. The Alabama lawmakers will make every effort to pass a bill that will help Jefferson County bring back its "sock it to the businessman" tax.

Meanwhile, Alabama voters just approved a constitutional amendment allowing an increase in the corporate

income tax.

Has democracy been repealed in YOUR state yet?

We've seen how courts can give the taxpayer a break. On the other hand, there are courts that seem to go out of their way to break the spirit of taxpayers. In fact, sometimes it seems like judges really have it in for us pitiful folks, doomed forever to hand over large chunks of wealth to tax collectors.

That seems to be the case in **Washington State**.

Back in November, Washington's citizens voted for an Initiative called I-695. No, that's not a new expressway, although it affects the revenues available for roads. This measure repealed high and very unpopular automobile license fees and replaced them with a simple US\$30-per-car annual tab.

Now, the supporters of this initiative weren't dummies. They realized that even if this provision passed, the state could simply turn around and increase some other tax, or create a new one.

So they added a second part to this measure. It required a public vote on any tax or fee increase. Think the taxpayers were being a bit paranoid? Well, even after the provision passed, the city council in a town called Lynwood, using a loophole in I-695, voted a 5% tax on movie tickets to replace revenue they lost because of the lower car tab.

I-695 seems like a perfectly reasonable initiative, a great example of citizens standing up and saying enough is enough. Right?

So how did lawmakers and others react to democracy in action? With hysteria, of course. Yes, you've seen it before. Any anti-tax movement is labeled radical, destructive, and the harbinger of Armageddon. Among the initiative's biggest opponents were unions (that's the way to stand up for your taxpaying members) and big business, who'd rather have individuals pay for the infrastructure they use. In fact, a spokesman for utility companies expressed a particularly disdainful view of taxpayers who supported the measure: "These people are radicals. It doesn't matter if they are left-wing radicals or right-wing radicals."

That's right. Anybody who wants to cut taxes is a "radical." Unfortunately, this view may reflect all too well the opinion of politicians, the mainstream media...and more than a few judges.

Of course the issue was taken to court.

And a Washington judge ruled that I-695 was unconstitutional.

The reasoning he pulled out of his hat was that the initiative improperly dealt with two separate issues. And I-695 was both an initiative and a referendum, also a no-no. Initiatives, you see, focus on specific legislation. A referendum allows citizens to veto laws that have been enacted

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ed. And I-695 was both. Can't have that.

True, even after ruling the law unconstitutional, he allowed the US\$30 tab to stand for now until an appeal goes through. That's because it would be too complicated to go back to the old formula. But that's kind of strange, since the court also said that it was not within its power to uphold one part of the law and not the other. Go figure.

This case isn't totally finished. In fact, it's likely to go all the way to the U.S. Supreme court. Still, there are huge lessons to take from this, even if you don't live in Washington.

This "single subject" argument is just one of many procedural devices being used across the country to stop anti-tax crusaders in their tracks. Thus, tax-cutting measures must be very carefully drafted.

Know the tax law, because courts won't always bail you out

Okay, so a court overturns a tax-cutting initiative. At least courts will protect the taxpayer if it finds the imposition of a particular tax is illegal, right? Right?

Not always.

Now, let's be clear about something. There are good reasons for challenging a tax and bad ones. Every day it seems there's another case where a tax "protestor" is laughed out of court for using all sorts of bogus arguments judges have heard for decades. So we're not suggesting you glom onto the nonsense peddled by quack tax "experts" of the type who continue to insist that the 16th amendment—the one that imposed the income tax—is unconstitutional. That piece of pseudo-philosophical nonsense has been peddled in the courts for years. It's never succeeded. And if the courts don't buy it, you might as well move on to something else. Don't waste taxpayers' money by taking hopeless arguments to court.

On the other hand, we've seen states and localities continue to push the envelope of what constitutes a legal or illegal tax. And you have every right to force government to obey the law.

Trouble is, even then you won't always succeed.

For example, in **Patchogue, New York**, a property owner complained that the village imposed an illegal sewer tax on his property. This tax had been imposed on him since 1992. The taxpayer asked that the taxes he paid be refunded back to 1992, the first year he paid the tax.

Think the issue here is whether the tax was properly imposed? Could this be simply another wacko protestor wasting the court's time?

Well, we've got news for you. In this case **THE VILLAGE ADMITTED THE TAX WAS ILLEGAL**. Yet the court allowed the taxpayer to receive refunds only for tax years after 1996, but not for the earlier years. Why? Because he hadn't protested the tax when he paid it!

You see, the court figured that, by not protesting, the

taxpayer was "voluntarily" paying the tax. To quote the court: "A payment of a tax or fee that is illegal must be made with an appropriate protest for the payment to be deemed involuntary."

Forget the fact that the taxpayer claims he protested the tax all along. The court bought the village's argument he hadn't "formally" protested the tax until November 1997. According to the court, "A formal challenge requires more than a general oral complaint to a government official." So the moral of the story is that, if you think you're being taxed illegally, complain in writing to the appropriate officials, even if you must pay in the interim to avoid potential penalties. But, please, if you do complain, make it a valid complaint, backed by bona fide legal research (preferably with the help of a CPA or attorney). Don't give the courts more reasons to think that complaining taxpayers are total dunderheads.

Let's finish with a little good news.

Take **Maryland**, one of our Tax Hell Holes in the ranking compiled by our State Tax Report. Yes, there's actually some tax hope in this mostly one-party (Democratic) state. The state's inheritance tax, which can be as high as 10%, will no longer apply to lineal descendants (that is children, grandchildren, etc.), parents, grandparents, and siblings. (Spouses were already exempt). This is one small step in the right direction. In addition, the state is copying a trend started by a few other states. It is providing a one-week sales tax holiday for clothing and shoes priced under US\$100. But this won't take place until next August (plenty of time for the legislature to change its mind).

Despite these encouraging signs, it's still a little distressing that more tax relief was not provided, in light of the state's huge US\$1 billion surplus. And the state is still aggressively going after "use taxes" owed by Marylanders who buy products—particularly furniture and cigarettes—out of state.

Some **Rhode Islanders** are getting a bit of relief from property taxes. Property owners can seek relief if their income doesn't exceed a certain amount. Up until the 1999 tax year, that amount was US\$25,000. Now, it's US\$30,000. Because of this increase in the limit, applications for relief have increased by 18%.

Finally, in **Virginia**, Governor Gilmore kept a campaign promise by vetoing several laws that would have increased taxes. You might remember Gilmore as being one of the most outspoken opponents of an Internet tax. Is it too late to draft a "Gilmore for President" campaign?

Of course, we're kidding about that last comment. After all, we're a nonpartisan publication. Besides, since Gilmore opposes taxes, doesn't that mean he's too much of a "radical"?

*To order a copy of **The State Tax Report**, which ranks the states—1 through 50—on their overall tax burden, call 800-433-1528. The price is US\$49.95. We pay for shipping. Offer not valid outside of the continental U.S.*



Resonate is poised for big sales, but can it generate enough to cut its loss?

by *Siu-Yee Ng*

To stay competitive in 2000, many companies are taking their business to the Internet. With the growing complexity of eBusiness sites' underlying infrastructure, enterprises must now continually address the availability and performance of their eBusiness applications.

Addressing issues like IP traffic management and quality of service, including application performance and response times, the cost of downtime and poor service levels, administration costs, and control and management of rapid growth and complexity is critical for a company's success. Zona Research estimates the cost to U.S. eCommerce companies associated with poor or degraded services was US\$4.35 billion in 1999.

Services that use Internet-based technologies, whether deployed across the Internet, intranets or extranets, are commonly referred to as eBusiness applications. Whether they are used within a traditional corporate enterprise or are the defining element of a dot/com company, they are managing an increasing portion of many companies' interactions with their customers, suppliers, partners, employees and other parties.

Availability, performance and response time of these applications is critical since it directly impacts the operational success of a company's business.

The standard computer communication protocol underlying the Internet, TCP/IP, or Transmission Control Protocol/Internet Protocol, has enabled an entirely new distributed computing environment consisting of groups of independent computer server systems all communicating using TCP/IP. This is the preferred platform for new eBusiness application deployment.

Faster is better

Over the past several years, companies have attempted to address these issues by using server load balancing and traffic management products in conjunction with systems and network management products. But companies have found that such products, even when used in combination, still do not adequately solve the problems.

Some of these products focus on external network performance issues. Internet caching technologies as well as content delivery services, which store commonly accessed data at a location separate from its source and closer to the requester, are both popular techniques to improve content download times and overall response time. These techniques, however, do not address the challenges of executing Internet-based transactions that usually require data to be changed or modified in real time.

Systems management and some network management software products are being used in corporations to monitor and report on the health and status of applications and server systems. They help diagnose and notify systems administrators of problems and failures. Many of these products trigger alarms when a change occurs in system or network status, so that system administrators can take corrective action.

Corporations are increasingly aware that the service availability and scalable performance provided by server load balancing, traffic management and systems management products do not adequately address the increasing challenges of conducting eBusiness.

Hardware-based products may introduce performance bottlenecks because the computing power necessary for sophisticated traffic management functions consumes all available processing capacity in these devices, resulting in delays.

In addition, some products represent new potential failure points themselves, limiting their effectiveness as high-availability alternatives. Even if they can ensure that a service is available and responding to requests, they may not be able to ensure that the service responds fast enough to satisfy users' expectations or provide minimum service levels and response times.

eBusiness applications must be able to handle problems such as traffic surges, intermittent delays or network service interruptions. These problems generally occur without warning and have an immediate impact on availability and service levels. They need to be quickly detected, diagnosed and isolated, and corrective action often must take place within seconds in order to maintain an on-line presence and adequate levels of service.

Even when these products are used together there is generally no automated, integrated way to take corrective action to restore service. In an attempt to address the limitations of existing products, some users have resorted to internally developed "redundant" alternatives that attempt to integrate the capabilities of independent, standalone traffic management and systems management products. These alternatives, however, may be unreliable and often require manual user intervention to restore a failed service.

Such intervention, when performed by site operators, often takes too long and is prone to errors. So an opportunity exists for a comprehensive, standards-based Internet services management solution that transparently

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optimizes the performance, availability and service response times of eBusiness applications. To reduce costs and simplify administrative overhead, this solution should also facilitate the administration and control of the distributed computing environments that support these eBusiness applications.

According to the Internet Research Group, the traffic management market is expected to grow from less than US\$100 million in 1999 to approximately US\$800 million in 2002. This is still a fairly new market, and one that's in high demand.

Opportunity knocks

Resonate Inc. (RSNT:NASDAQ) develops and markets a family of software products and services to ensure the availability and performance of eBusiness applications. The products form a platform that integrates enterprise traffic management and systems management capabilities, which together provide real-time monitoring, reporting and automated service level control of eBusiness applications and the computing resources on which they operate.

This platform is uniquely suited to the requirements of eBusiness applications. The company's distributed software architecture is more feature-rich, flexible, scalable and fault-tolerant than either server load balancing and traffic management alternatives or systems and network management options.

Resonate currently has over 250 customers worldwide, ranging from high volume Internet sites to large corporate enterprises deploying eBusiness applications. Some of the company's key customers include Charles Schwab, DoubleClick, eBay, E*TRADE, Federal Express, Morgan Stanley Dean Witter Online and Yahoo!/Geocities.

A market study performed by International Data Corporation indicates that the company's customer base represents more than 57% of all online brokerage accounts; 89% of all person-to-person Internet auction revenues; 75% of third-party online ads served; and 34% of all online personal home pages. In other words, Resonate is already far ahead in the game.

Directing traffic

Products include *Central Dispatch*, which directs traffic across a site's local area network; *Commander*, providing automated, real-time control of service levels; *Global Dispatch*, for managing traffic across a wide area network; the *Enterprise Services Console*, a unified management interface and integration point for Resonate's products; *Resonate Managed Services*; and *Dispatch SLB-Now!*, a free server-load balancing product.

The company released *Global Dispatch* in the first quarter of 1998 and *Commander* in the third quarter of 1999. From inception through 1999, Resonate derived approximately 85% of its product revenue from its Central

Dispatch product.

Although its revenue increased in each quarter during 1999, costs also increased due to the development of technology, products and services, continued recruitment of research and development personnel, the need to build a sales force and a professional services organization and to expand its general and administrative infrastructure.

In the fourth quarter of 1999, Resonate derived approximately 75% of its product revenue from sales of *Central Dispatch*, from which the company expects to derive a significant portion of its revenue for at least the next two years.

Resonate only recently introduced *Resonate Managed Services*, from which it has yet to derive significant revenue. It's still too early to tell how the market will accept this new service. There are certain risks involved. Potential customers may be unwilling to outsource monitoring and service level control of their eBusiness applications and the infrastructure that supports them. For example, clients may be reluctant to give Resonate's professional services engineers the ability to adjust configuration of their infrastructure.

Scalable sales

Resonate markets and sells its software products through its direct sales force and indirect channels. Indirect channels consist of hardware platform vendors, independent software vendors, value-added resellers and systems integrators. The company derives a significant portion of its sales in both channels from customers that have significant relationships with third-party system integrators.

Its current relationships with these systems integrators typically are structured as non-exclusive co-marketing and resale arrangements. Also, Resonate has entered into a limited number of reseller arrangements in which its products are embedded in the reseller's products, for which it receives a royalty from the reseller. To date, revenue from these reseller arrangements has been insignificant.

Resonate depends upon its relationships with Brokat Infosystems, IBM and Sun Microsystems to help distribute and market its products.

To achieve broader distribution of its products, Resonate expects to continue investing in the development of indirect sales channels. For the year ended December 31, 1999, it derived 79% of its revenue from its direct sales force and 21% from indirect channels.

Resonate intends to expand into international markets. The company has a limited experience in marketing, selling and supporting its products internationally. Prior to 1998, it derived no revenue from sales to customers outside North America. Sales to such customers represented 14% of Resonate's revenue for the year ended December 31, 1998, and 15% for the year ended December 31, 1999.



Mo' money

Resonate's total revenue was US\$445,000 in 1997, US\$2.7 million in 1998 and US\$9.9 million in 1999, and was comprised of sales of software products and related service fees from implementation, consulting, training and support. Product revenue was US\$394,000 in 1997, US\$2.4 million in 1998 and US\$8 million in 1999. Services revenue was US\$51,000 in 1997, US\$322,000 in 1998 and US\$1.9 million in 1999. Product revenue accounted for 88.5% of revenue in 1997, 88.1% in 1998 and 80.7% in 1999, and services revenue accounted for 11.5% of revenue in 1997, 11.9% in 1998 and 19.3% in 1999.

Increases in Resonate's revenue year-to-year were due to the introduction of new products and wider acceptance of its products because of increased investment in sales and marketing organizations and the development of additional distribution channels.

To date, the company has generated revenue principally from licensing its software products, and, to a lesser extent, providing professional services, including assistance in implementing and integrating its software products and providing maintenance, training and consulting services.

In future periods, the company expects revenue from its indirect channels to increase as a percentage of total revenue. Its license agreements generally provide that customers pay a software license fee for one or more software products for a specified number of servers.

The amount of the license fee varies based on which software product is purchased and the number and processing capacity of servers on which it is deployed. Customers can purchase additional licenses to use previously purchased products at additional locations or on additional servers. In addition, Resonate recently began offering its software products on a subscription basis. Revenue from subscription licenses has not been material to date.

In 1997, Yahoo!/GeoCities accounted for 22% of the company's total revenue and Interactive Futures accounted for 11%. In 1998 and 1999, no individual customer accounted for 10% or more of its total revenue. It's good for any company not to rely on a small number of customers for a major portion of its revenues.

Resonate intends to use the net proceeds from the IPO for working capital, general corporate purposes and to fund its anticipated operating losses. The company has the right idea to use the funds for further expansion.

Taking a second look

When looking at a company, especially a new issue, it's important to size up the management team. After all, this is the backbone of the enterprise. It took me a while to determine whether Resonate's team was strong enough to lead the company. This team has not worked long togeth-

er, so we'll see if any clashes develop.

The president and CEO has served since August 1998 and has been a member of the board of directors since October 1998. Prior to taking this position, he was the president of his own consulting firm, which provided interim management services to several venture capital firms. He was also the president and CEO of Computer Aided Service, Inc., an automotive service software company.

The corporate vice president of Resonate has served since August 1998 and has been a member of the board of directors since 1995. Prior to this, he served as Resonate's president and CEO.

The vice president and CFO has served since September 1999. Prior to joining, he was the CFO at Mohr Davidow Ventures. He was also the president and CFO of Red Brick Systems, a provider of data warehousing solutions.

The vice president of marketing has served since March 1999. Prior to that, she was vice president of marketing for Diffusion, Inc., a vendor in the customer relationship management market.

The vice president of engineering has served since March 1999. Prior to that, she was the business unit manager at Legato Systems, a developer of enterprise-strength storage management software for the enterprise computing market.

The vice president of worldwide sales has served since February 2000. Prior to that he served in various capacities with Hewlett-Packard Corporation, most recently as vice president and general manager of sales and marketing for Hewlett-Packard's Customer Support and Professional Services Group.

The chairman of the board has served since January 1996 and has been a director since December 1995. He is a managing member of TechFund Capital, a venture capital fund. In 1993, he created TechFarm Management, Inc., an incubation company for new technology companies, including Resonate. He founded and has been involved in the start-up of numerous Silicon Valley companies, including CHIPS and Technologies, Inc., a semiconductor and related device company, 3dfx Interactive, and Cobalt Networks. He currently serves as Chairman of the Board of 3dfx Interactive and Cobalt Networks, and is a member of the boards of directors of Palm Computing, the portable computing platform and device company, and Bell Microproducts, a computer components company.

Other directors include a former president and CEO of Informix Corporation who was also employed with 3Com Corporation; a managing partner of Flatiron Partners, a venture capital firm; a former president of network services at Sun Microsystems who also served as president at Solaris Software; and a partner of Kleiner, Perkins, Caufield & Byers, a venture capital firm, who also served

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as vice president of the Microsoft Network.

In a nutshell

Resonate, Inc. is in a high demand market. Internet traffic management is still in an early stage of development and Resonate's family of software is well positioned to grab a portion of this growing industry.

Let's look at some of its competitors whose IPOs debuted in the last two years. **Arrowpoint Communications (ARPT:NDAQ)** debuted on March 31, 2000, pricing at US\$34.00, opening at US\$65.00 and breaking US\$150.00 shortly after the debut. Cisco Systems recently announced plans to buy Arrowpoint. **Foundry Networks, Inc. (FDRY:NASDAQ)** debuted on September 28, 1999, pricing at US\$25.00 and opening at US\$109.00. After a 2-for-1 stock split, FDRY still managed to break US\$200.00 in after-market trading. **F5 Networks (FFIV:NASDAQ)** debuted on June 4, 1999, pricing at US\$10.00, opening at US\$13.00 and going as high as US\$160.00. Looking at Resonate's competitors, one may conclude that this market is a strong one.

Resonate's revenues have been increasing, but losses also continue to mount. I hate to see a huge loss off a small sales base. But considering that the products are still new, it may not have that much of an impact.

Goldman, Sachs & Co. is the lead underwriter, another plus. Resonate's proposed ticker symbol is RSNT and it plans to trade on NASDAQ.

Resonate has a lot to offer, and depending on market conditions when the IPO debuts, the company could double and maybe even triple. Like all small caps, this is a speculative play, especially with venture capitalists in the management team.

For more information, please contact Resonate, Inc., 385 Moffett Park Drive, Suite 205, Sunnyvale, CA 94089, phone: 408-548-5500, fax: 408-548-5679.

Cutting Edge's Annual Biotech Symposium: August 23-26, 2000, Phoenix Park Hotel, Washington D.C.

I'm writing to invite you to a once-in-a-lifetime event. One that I'm personally organizing, and that I believe you'll recognize as an outstanding opportunity. Its sole purpose is to provide you with a comprehensive array of investment options in the biotech industry as we enter the 21st century.

Sure, you already know there's an Internet gold rush currently in force. But there's also another gold rush going on - one you probably haven't heard about. Biotech companies - especially the ones involved with gene therapy and the Human Genome Project - are stampeding to the U.S. Patent and Trademark Office patenting every scrap of DNA and genetic information possible.

In fact, about 15 DNA patents are granted every single day. Yet even with this kind of fantastic phenomenon occurring, the market has completely forgotten about biotech stocks. It's been almost a decade, and finally the biotech sector is gaining ground. Back in 1991, the biotech industry promised breakthroughs that sent shares soaring almost 150%. But this enthusiasm didn't last, and by the first five months of 1992, the sector had lost 40% of its value.

What can we expect from the recent biotech surge - another bust? No - this time it's for real. Unlike 1991, major players like **Amgen (AMGN:NASDAQ)**, **Biogen (BGEN:NASDAQ)** and **Genzyme (GENZ:NASDAQ)** are now generating profits and have drugs on the market and in the pipeline.

Many of the companies have grown up since 1991, and those infant companies trying to bring products to market seek financing from the pharmaceutical industry and from the private and public sector.

Of course there are fundamentals at work, but this hardly explains the recent race to invest in biotech. The roots of the biotech rally can be traced back to January 1999. A series of press releases and stories about the scientific progress towards deciphering the way human genes are constructed sparked a new interest. Now that the gene map has been decoded and researchers can develop new drugs, there will be potential for explosive growth for pharmaceutical companies as well as companies that make tools for genomics.

Please join Siu-Yee Ng, Brian Hicks, James Passin and many other gurus in the industry at the Annual Cutting Edge Biotech Symposium on August 23-26 in Washington D.C. We'll give you the scoop on what we can expect from the biotech IPO market and what hot IPOs are in the pipeline. Will the current biotech boom continue, and what stocks are hot now? We'll meet with top management and learn what to look for when investing in biotech. All these questions will be answered.

The first 25 people to register will receive *The Secrets of the Rogue Trader* and *Better than eBay: the Hottest IPOs for the 21st Century* - a US\$149 value. So don't delay, make your reservations as soon as possible.

To book the conference call Agora Travel immediately at 800-926-6575 or 561-243-6276; fax 561-278-8765; email tours@gate.net.



Beyond size, what else matters?

by J.K. Riffin

Believe it or not, something still matters after the beating the Internets have taken over the past month. Obviously, size still counts, as Web giants **AOL** (**AOL:NYSE**), **Yahoo** (**YHOO:NASDAQ**), **Amazon.com** (**AMZN:NASDAQ**), and **CMGI** (**CMGI:NASDAQ**) hung on to maintain a chunk of their sector-leading values. And profitability and cash flow still seem to matter as **CDNow** (**CDNW:NASDAQ**), **DrKoop.com** (**KOOP:NASDAQ**) and a rash of other bootstrapping, money-losing dot-coms took near-lethal body blows.

The carnage appears to be over, however, and recovery has commenced. Although you can still see some knees shaking here and there, earnings continue to meet or exceed expectations. And there are many quality IPOs still in the pipeline. In fact, the first quarter of 2000 saw more than twice the number and value of IPOs than the first quarter of 1999. More than half of these deals were Internet companies, which averaged a 60% return.

So with everything bottoming out, where are the best spots for you to jump into the Internet game?

First, note that the weak are being pimp-slapped off the corner. Millions of unique monthly visitors just won't cut it anymore. Underlying this trend is the more inevitable one toward consolidation. Stock prices have been slashed, and technology and standards are rapidly narrowing the playing field down to fewer and bigger competitors.

Not that this is anything new. The combined market value of the 25 largest U.S. companies in 1999 was US\$5.3 trillion, compared to US\$740 billion in 1989 and US\$275 billion in 1979. The same thing is happening to the Internets players. Even without Time Warner, AOL comes in at about US\$130 billion, which translates to roughly 13% of total market value for all Internet sector companies. Together, AOL, Yahoo! and CMGI make up a little more than 25% of the total; the top 50 Internet companies comprise about 75% of the market.

While size surely matters, we're now in a place where many previously overvalued Internet issues are suddenly undervalued. And rapid consolidation of the right pieces could result in some new players at the high end. But you also have to realize that many elements in the sector have begun to mature. While new users continue flocking to the Internet, the *usage* habits of existing users are evolving. This is affecting the general interest portals, where the challenge is to remain useful in fulfilling consumers' vast and varied information needs.

Portals, general vs. vertical

Although we just got used to calling them portals —

the current parlance in some circles is now "eNetwork" — I'm talking about Web sites with more than a million unique monthly visitors that are sustained by advertising, commerce and possibly subscription revenue. Whether users start or end up there is relatively insignificant. What matters about portals is their ability to attract users, keep them interested and turn their mouse clicks into money.

Vertical portals have fast been gaining ground on the general portals, either as competition or potential partners. Vertical portals with particularly deep and expert content often work with general interest portals, syndicating special interest content to achieve name recognition. In the long haul, vertical portals capture more time per user than general interest portals. And because of their focused nature, vertical portals are more rapidly turning content and traffic into commerce. Basically, the more topic-specific the information, the more likely that an actual transaction will follow.

Among the vertical portals, what matters is affluent audience demographics, depth and stickiness of content, and closely related, contextual commerce opportunities. The most successful vertical portals ensnare their visitors in an endless transaction cycle, involving product browsing, research, buying and selling. Following are three successful vertical portals currently trading near their 52-week lows. All three have excellent track records in developing and executing the vertical portal business model.

Local play

It seems so obvious, but the Web has somehow lost sight of the fact that American consumers spend 80% of their time and money within 20 miles of home. When you add it up nationally, local and regional merchants spend just as much money on advertising as the national companies.

Ticketmaster CitySearch (**TMCS:NASDAQ**) aims to own this local-content market. CitySearch creates and maintains local city guides on the Web, each providing up-to-date and detailed information of local interest. Everything is there, from news to entertainment to shopping, professional services, community activities and weather. Bring in Ticketmaster, with its capability to sell tickets to almost any venue in the country, and you just scratch the surface. The company plans to ultimately direct its Web visitors to online grocery purchases, restaurant reservations, taxi paging and more.

By attracting and retaining the local user, the company is rapidly developing a retail advertising venue that sur-

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passes the local newspaper in terms of reach, targeting and usability. At the same time it offers low-rent advertisers a favorable alternative to the yellow pages.

CitySearch built it, and the users are coming. Media Matrix reported in April that Ticketmaster CitySearch had surpassed a 10% national reach for the first time, the first locally-oriented service to do so. In addition, users are spending on average nearly 15 minutes per month at Ticketmaster CitySearch. That's more than the company's competition, namely AOL Digitalcity, KR Real Cities and Cox Cities.

The company's stock recently bottomed out at US\$13; it's currently hovering around US\$20. With its market cap still north of US\$1.6 billion, watch for Ticketmaster CitySearch to acquire other struggling dot-coms as a way of adding customers and building out commerce offerings, especially in the areas of music and online grocery shopping.

Words for nerds

CNET Networks (CNET:NASDAQ), a multimedia company providing both Internet and television programming about the new digital world, has grown rapidly over the past three years. Its television programs alone reach more than 9 million viewers each day. The company's network of Web sites — including C|NET.com, news.com, computers.com, browser.com, builder.com, download.com, gamecenter.com, shareware.com and shopper.com—attract nearly 15 million page views per day.

What's particularly impressive about CNET is that, aside from achieving profitability in a relatively short amount of time, they've managed to do so in a crowded arena where others have failed or are struggling. Wired magazine, and its Web counterpart Hotwired.com, were the early leaders and trend-setters in expressing all of the various implications of the new digital age. But a failed 1996 IPO bid and subsequent sale to Condé-Nast have put a damper on Wired's revolutionary rhetoric. Ziff-Davis, and its offshoot ZDNet, also preceded CNET with their vast array of trade publications addressing the corporate and individual infotech industries.

CNET seems to fully grasp the fact that in order to use the Web you must first be using a computer. Web users are an essentially captive computer-using audience; like it or not, sooner or later, they will all need to fiddle with their machines. CNET provides a variety of avenues to help users stay current on industry news and events, download free and for-pay software and evaluate new computer-related products. And perhaps better than any other computer-related Internet property, CNET has been quite successful in turning viewers and readers into buyers.

After falling to US\$22 in the tech correction, CNET's stock price has rebounded to the mid-30s. As CNET continues to exceed expectations in leveraging its commerce revenues, it will stand out among the Internets as a profitable opportunity and its stock will likely return to (or

exceed) its former higher-flying levels.

Homes, sweet homes

Nothing lubricates the big-ticket purchase like free, customized data, and no one on the Web provides as much real estate information as **Homestore.com (HOMS:NASDAQ)**. Public since late summer of 1999, Homestore.com maintains a network of Web sites providing real estate information, products and services, including Homestore.com, REALTOR.com (existing home listings), HomeBuilder.com (new home listings), SpringStreet.com (rentals), and CommercialSource.com (commercial properties).

At the moment, the company's revenue primarily comes from subscriptions paid by professionals to list properties on the Homestore network. All of the property listings are available to Web users for free. Web users access these listings directly through one of the Homestore.com sites, or through other Web sites (such as general portals or real estate agencies) that have syndicated the listing content from Homestore.com. Growing streams of revenue also are coming in from advertising sales and commerce. The company's plan is to assemble the best available package of real estate information on the Web, then help facilitate all transactions that may result.

For instance, in the future the company plans to provide mortgage lending and other financial services, as well as referrals to home improvement products and service providers. Homestore.com is working in a market worth over US\$150 billion.

The company's first quarter earnings exceeded consensus expectations. And a recently announced deal with AOL should double the company's user base month-to-month. The five-year pact makes Homestore.com the exclusive national provider of residential home listings, professional and home moving services, and apartment listings on AOL, CompuServe and Netscape Netcenter.

Homestore.com's stock has followed a trajectory similar to the other vertical portals—after a January high of US\$138, the stock has dropped to the US\$20 range. Between its solid leadership position and successful execution to date, this company's stock is a lock to ride the market's recovery and return to popularity.

The big get bigger, the smart get vertical

Think of a combination magazine, national chain of retail stores, mail order catalog and special-interest cable channel... this is the capability of a vertical portal. Internet content is at its most efficient when there's a commerce proposition behind it (or, put another way, a Web site cannot live on subscriptions and advertising alone). And Internet advertising only gets interesting when you're at or near the top of the heap in either traffic or targeted audience. Want to make money on Internet-based content? Get vertical.



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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.

Company	Exchange/Symbol	Status	Action
Human Pheromones	NASDAQ:EROX	open	hold
SunMicroSystems	NASDAQ:SUNW	open	hold
Media Arts	NYSE:MDA	closed	sell
Oracle	NASDAQ:ORCL	open	hold
Safeguard Scientific	NASDAQ:SFE	open	hold
Internet Capital Group	NASDAQ:ICGE	open	hold
Cell Robotics	NASDAQ:CRIL	open	buy under US\$5
Talk.com	NASDAQ:TALK	open	hold
Clearworks.net	OTC BB:CLWK	open	buy
VerticalNet	NASDAQ:VERT	open	hold
Valance Technology	NASDAQ:VLNC	open	buy
Fox Entertainment	NYSE:FOX	open	hold
Barnes and Noble	NASDAQ:BNBN	open	hold
*Red Hat, Inc. "	NASDAQ:RHAT	open	hold
Interwoven	NASDAQ:IWOV	open	hold
Akami Technologies	NASDAQ:AKAM	open	hold
FreeMarkets	NASDAQ:FMKT	open	hold
Sangamo Biosciences	NASDAQ:SGMO	open	buy under US\$11.50
Silicon Laboratory	NASDAQ:SLAB	open	hold
Web Methods	NASDAQ:WEBM	open	hold
ADFlex Solutions	NASDAQ:AFLX	open	hold
AVI Biopharma	NASDAQ:AVII	open	hold
Aviron	NASDAQ:AVIR	open	strong buy under US\$20
Closure Medical	NASDAQ:CLSR77	open	hold
Micros Systems	NASDAQ:MCRS	open	hold
Modtech	NASDAQ:MODT	open	buy
Printrak	NASDAQ:AFIS	open	hold
MedImmune	NASDAQ:MEDI	open	hold
Pharmaceutical Product Dev.	NASDAQ:PPDI	open	buy
Orbital Sciences	NYSE:ORB	open	buy
Visx	NASDAQ:VISX	open	buy
Millennium Pharmaceuticals	NASDAQ:MLNM	open	hold
CheckFree Holdings	NASDAQ:CKFR	open	hold
Univision	NYSE:UVN	open	hold
Optimal Robotics	NASDAQ:OPMR	open	hold
Ballistic Recovery System	OTC BB: BRSI	open	buy
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