TAIPAN

FORESIGHT COURAGE PROFITS

July 2001
Volume 14 Number 7

INSIDE:

Continue Taipan's phenomenal 2001 profit streak with these exciting plays:

Blood in the streets means money in the bank:

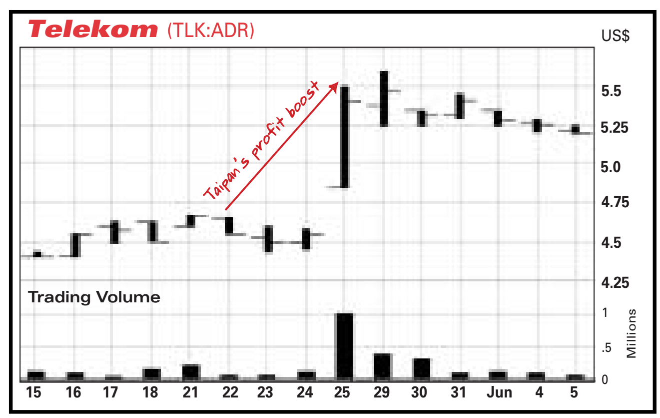
You could see a 77% gain on our Indonesian telecom pick by August!

by Christian DeHaemer

Last month, *Taipan* recommended that you buy our favorite blood-in-the-streets emerging market telecom. As usual, you had the information in your hands as early as could be: the June issue of *Taipan* was posted on the web on May 22—right on schedule! **Three days later, P.T. Telekomunikasi Indonesia Tbk., which goes by the name of TELKOM and trades in New York as an American Depository Receipt (ADR) under the symbol TLK, jumped 20 percent.**

What caused this miraculous surge in investor confidence?

It was none other than our good old friend, *positive earnings*. TELKOM reported a net profit increase of 19% to US$78.7 million in Q1. This isn't pro forma EBITA or any other Wall Street trickery, but real, solid numbers.



Telkom stated that its revenue from telephone operations rose 14% to 1.385 trillion rupiah, up from 1.21 trillion rupiah last year. Revenue from telephone operations was the biggest contributor to the company's total operating income, which rose 16% to 2.589 trillion rupiah, up from 2.228 trillion rupiah.

At this writing, US$1 equals 11,185 rupiah. The rupiah has been falling steadily against the dollar since October of 1999 because of political uncertainty in Indonesia. But it seems to have hit a temporary low. *Any bounce back in the rupiah towards its assumed fair value of 8,000 would benefit our position.*

Blind, dim and on the way out

Longtime followers of the Indonesian situation will know that the blind, crippled cleric who is now the president of the country, Mr. Wahid, is as lame in his leadership as he is in his stroke-addled mind.

His 19 months of inept rule have pleased few. Mr. Wahid won power as a quick fix to the three-decade dictatorship of former autocrat Suharto.

The irony is that while political uncertainty hovers like a hangman over the Jakarta Stock Exchange—the stock market is down 16 percent for the year!—the underlying economy of this oil-exporting nation continues to improve.

Short-term interest rates are at

(over, please...)

TAIPAN

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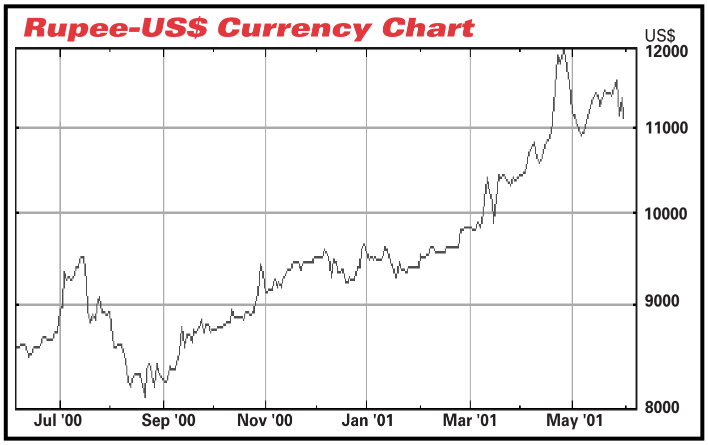


16%… lower than most credit card APRs in the U.S. The GDP has grown 4% in the last year, industrial production is up 4.5 percent, the trade balance is up 26 percent, the current account balance is up 5.5 percent, and Indonesia has 22 billion in foreign reserves.

Veep leap

Without delving into the minutiae of Indonesia's pseudo-parliamentary government, it looks as if the current vice president, Miss Megawati, will take power within months. And under the current legislative schedule, Wahid will be impeached in August.

The only detail to be worked out is whether he will accept a figurehead position—or spurn his followers (less than 10% of the population) for the pleasure of burning down what is left of Jakarta.

In the end, I don't believe it will matter. Miss Megawati is a nationalist, with the generals and parliament firmly in her camp. Resolution of the political instability seems increasingly likely.

In the best-case scenario, the new government will strengthen the rupiah against the dollar and reinvigorate demand for TELKOM stock in New York and London. This should push TLK above US$7.50.

The worst-case scenario is that we sell at our stop-loss of US$4.50, the price we got in at. In the immortal words of Foghat, you can take a free ride.

ACTION ALERT

Continue to hold TLK ADRs for big gains on any positive news out of Indonesia.

MICROCAPS UPDATE

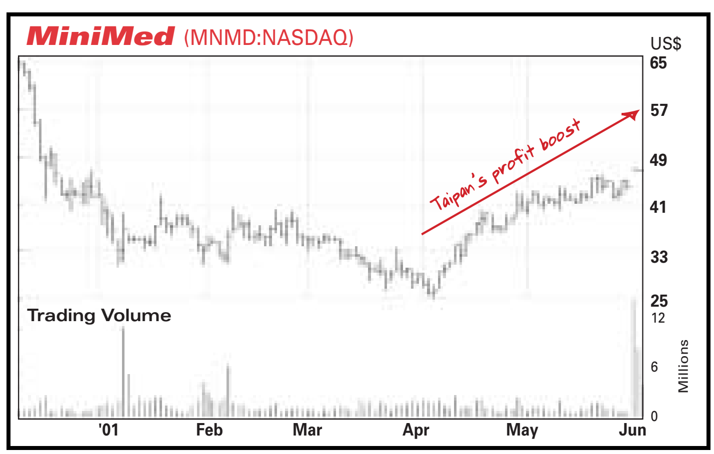
It didn't take long:

Taipan's cornerstone play on diabetes treatment gets bought out at a 37% premium to our original entry price! You could have made 86% if you followed our advice in early April!

by Brian Hicks

Medical device giant Medtronic is buying. And that's great news. It's even better news if you bought shares in one of *Taipan's* cornerstone diabetes plays in early April… **when we recommended you buy MiniMed (MNMD:NASDAQ) at levels under US$35.**

Because Medtronic (which generates half its sales from defibrillators and pacemakers) is paying nearly US$3.1 billion to buy MiniMed's strong presence in the market for treatment of the 16 million Americans with diabetes.



About 4.6 million Americans with dia-

betes must receive insulin through injections or pumps to regulate their blood glucose. Diabetes costs the nation about US$98 billion annually, including US$44 billion in direct medical costs.

The best way to monitor blood-glucose levels is through a system that continuously monitors and administers insulin. And that's what MiniMed's systems do.

Apparently Medtronic wants it really bad. *The company will pay US$48 per share in cash for MiniMed.*

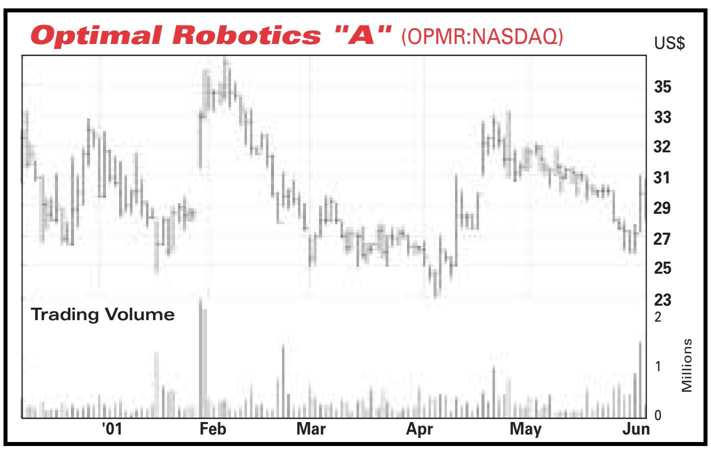
And why not?

The number of Americans with diabetes has jumped from about 12 million in 1994 to about 16 million today. About 800,000 new cases of diabetes are diagnosed each year in the U.S., up from about 600,000 new cases per year in 1991.

Sure, we told you that our 2-year price target for MiniMed was US$55… *which would have been a 57% gain over our recommended* entry level. But honestly, we love being wrong in situations like this: we'll take a 37% gain in two or three months any old time. Heck, if you acted on our recommendation when the issue arrived, **you had the opportunity to buy in at US$26. Then you'd have bagged a cool 86% gain.** Not bad in a market prematurely declared dead on arrival in early 2001.

Another record quarter for Optimal Robotics

Optimal Robotics (OPMR:NASDAQ) recently announced record results for the first quarter of fiscal year 2001.



The company reported record revenues of US$19.6 million for the first quarter, compared to US$12 million for the same period a year ago. That's an increase of 63%.

Net profit for the quarter was a record US$2.5 million, an increase of 259%, compared to a net profit of US$701,218 for the first quarter of 2000.

Optimal Robotics delivered 797 U-Scan self-checkout terminals (or 200 U-Scan systems) in the quarter, an increase of 74% over the 460 U-Scan terminals (or 115 U-Scan systems) delivered in the first quarter of 2000.

Thanks to these stellar numbers and other positive developments, Optimal Robotics recently broke above US$30.

In addition to the better-than-expected fundamentals, there are reports that beta testing at Wal-Mart is going well.

The maker of self-checkout systems for grocery stores has seen robust institutional buying in the past three months.

Being there first

One thing I always tell individual investors: there are two types of stocks—those that Wall Street loves… and the ones that you should buy.

They are mutually exclusive.

What does this mean?

If you've been with *Taipan* for a few years, you know that **my prime directive is to uncover, analyze and purchase stocks not yet followed by the Street.**

I won't get into how the Wall Street game is rigged against you, but in essence, you want to buy before mutual funds begin acquiring positions in the stock.

Optimal Robotics is an excellent example.

When I originally recommended OPMR in 1998 for US$11 a share, the stock had zero institutional sponsorship. Today, more than 74 institutions hold OPMR.

In the past three months, institutions bought 6.5 million shares, while selling only 1.8 million—for a net gain of 4.7 million.

This is bullish, no matter how you look at it.

The same goes for **Aviron (AVIR:NASDAQ)**. Institutions bought 8.4 million shares in the past three

months… and sold only 3.3 million.

Buyers outnumbered sellers 92 to 35.

In short, when mutual funds begin buying, it's *Taipan* members who are doing the selling… and usually at a fat premium over our entry price.

No end in sight for tainted meat—Titan powers higher

Europe is still in a foot-and-mouth disease crisis. In fact, more animals are being led to slaughter than ever before.

I don't think it is a coincidence that **Titan (TTN:NYSE)**, our meat pasteurization play, is experiencing a major rally.

In fact, the recent IPO that Titan owns 84% of—SureBeam (SURE:NASDAQ)—is up more than 100% since mid April.

There continues to be a buzz about Mad Cow and foot-and-mouth diseases.

And although Titan's meat pasteurization system doesn't directly address these diseases, the meat-eating public definitely wants safer meat to consume.

Titan is currently up about 50% in the *Taipan* portfolio… and I think it will go higher in the coming months.

Continue to hold.

FUTURE FILE

The Final Frontier: Get an early start on the commercialization of space

by Michael Riska

Space is starting to heat up again. After spending the last decade watching the glorified airplane that is the space shuttle make routine flights to the sky's periphery for mundane tasks—like fixing broken telescopes and watching bean sprouts grow in zero gravity—it's time for some real action.

And real action is what we're getting this year: we've seen NASA successfully engineer the hot, throbbing rendezvous of the NEAR probe with the asteroid Eros; obnoxious billionaire Dennis Tito has been catapulted beyond the stratosphere on his own dime, making him the world's first space tourist; and a mission to Mars is finally looking like a reality.

It's an exciting time for the space industry, and if you've got your eye on the horizon, here's a company that could profit mightily in the coming decade…

At the moment, the bulk of the commercial space industry is being run by large, highly diversified, and enormously boring conglomerates like **Lockheed Martin (LMT:NYSE)**, **General Dynamics (GD:NYSE)** and **Boeing (BA:NYSE)**. These companies have reserved suckling privileges at NASA's teats for generations, and are sure to be major players far into the future. But they're so diversified that for every dollar they make on the pillaging of space, they're going to lose 50 cents on a failing Dairy Queen in Nebraska that only the oldest moles down in the accounting catacombs even know is on the books.

So why not speculate on a pure-play startup? For under a dollar, you can buy shares in **SpaceDev (SPDV:OTC-BB)**, a San Diego space development and exploration venture that offers fixed-price commercial space services. SpaceDev is the first company of its kind to be publicly traded on the stock market. So far, they've been paying the bills by designing orbital maneuvering gear and secondary payload micro-kick rockets for the Air Force, and by partnering on some small deals with Boeing. But they just landed a US$1 million contract as part of the Mars Sample Return project—to study options for a Mars prospecting mission in 2011.

This is the beginning of the road to the big leagues.

Which leads to what SpaceDev really wants to do: survey and harvest mineral resources from space. There are vast mineral reserves in space just waiting to be exploited. And, while retrieving them may be expensive, in the end it will be more beneficial—and even more profitable—to mine asteroids than it is to rip the tops off mountains in West Virginia. A single two-kilometer-wide asteroid could yield *trillions* of dollars worth of platinum, iron, nickel, cobalt and other minerals.

SpaceDev's **Near Earth Asteroid Prospector (NEAP)** mission is scheduled to fly in 2002, and will be visiting some of the over 1000 asteroids that orbit relatively near the earth. Since SpaceDev is not beholden to any government agencies, the missions will be funded by renting space for payloads (both scientific and otherwise) on the probes. The University of Arizona and Dojin, Ltd. have already signed up.

Obtaining raw materials in space will be an incredibly lucrative business, not just because of the inherent value of the minerals themselves, but because they will provide the building materials for all other projects that occur in orbit and beyond. Space stations, hotels, even launch pads for interplanetary missions will all be built from materials mined in space. **For under a dollar a share, this one's worth betting on for the long haul… although, as you can well imagine, it is a purely speculative play.**

ACTION ALERT

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Take your profits and run:

Lock in impressive gains on these two 2001 Taipan IPO picks— and get ready to reinvest your profits in this hidden gem!

by Siu-Yee Ng

Talk about slowdown. The IPO market has practically ground to a halt. But two of the IPOs *Taipan* introduced you to this year managed to get out the door with flying colors. Both have had impressive gains.

Tellium, Inc. (TELM:NASDAQ) was *Taipan's* IPO pick in the 2001 forecast issue. After a long wait, Tellium finally debuted on May 17, 2001, at an offer price of US$15. And its IPO surprised everybody on Wall Street. As of June 6, 2001, Tellium was steadily trading at US$24—a *Taipan* IPO gain of 60%. Sell now to lock in your profits!

Riverstone Networks (RSTN:NASDAQ) is another technology company that has surprised all investors—that is, all except for *Taipan* readers. Riverstone debuted on February 16, 2001, pricing at US$12. Investors had another opportunity to buy when it dipped below the IPO price. And now it's trading at US$22.50. **That's an IPO and aftermarket gain of 87%.**

Since its IPO, Riverstone has reported strong fourth-quarter results. Just when you thought all Internet infrastructure companies were taking a bath, Riverstone reported a 175% increase in Q4 2001 revenues compared to the same period last year. *To make the deal even sweeter, Riverstone posted a 326% year-over-year revenue gain.*

Considering the volatility in this market, here's what you should do now: **take your profits and run! Sell above US$24 for 100% profit!**

IPO D.O.A.?

It's difficult to raise money in the public market now that IPOs have fallen out of favor. By June 1, 2001, only 31 IPOs had debuted, compared to a whopping 189 in the same period last year.

But that's actually good news: only the strong deals are getting out the door. Of those 31 IPOs, 24 are trading above the offering price, and only seven are down. That's not a bad percentage.

What exactly happened to the IPO market? It's quite simple. Many companies quickly burned through the cash that the equity market was more than happy to supply. But after building their infrastructure, many companies realized they just didn't have the customer base or financial resources to continue operations.

And, in the current market, the big culprits are the investment bankers.

Investment bankers have to figure out what sells. And then they sell until no one wants it anymore. That's exactly what happened in 1999 and early 2000. They sold the stuffing out of Internet companies, until the bubble burst. Not only were some companies questionable to begin with, many were also competing for the same customers.

There was an oversupply problem. And in the aftermath, many companies are now folding up shop, while others are consolidating. This will eventually be the driving force behind a market recovery. The bad will die off and the good will consolidate, bringing supply and demand back into balance.

Search no more

This year's IPOs have seen more modest and stable gains. But the gains have been steady. The IPO market is still a great place to look for the next Microsoft or IBM.

And here is one to keep an eye on: a yield-optimization software company that actually made a profit last year.

HPL Technologies is profiting from the driving demand for more and better electronic products that use semiconductor devices, also known as integrated circuits or "chips."

You see, by identifying production failures early in a semiconductor product cycle, customers can improve the quality of their products, reduce production costs, and meet volume production requirements. Higher levels of revenues and profitability are the result.

Let me explain how all this works.

The efficiency of the semiconductor production process is commonly characterized in terms of "yield," which is the percentage of properly functioning devices produced at each stage of the process. Each new semiconductor design is characterized by a unique "production yield learning curve."

Initial yields are typically low. But with "yield learning"—the process of identifying defects and their causes and resolving the problems—yields will improve.

Since sales prices and profit margins are typically much higher in the early phases of a new semiconductor product cycle, a small acceleration of the production yield learning curve can have a meaningful effect on a semiconductor company's revenue and profitability.

Although semiconductor companies understand the critical importance of yield analysis, and have spent considerable time and money on improving yields, most do not have the expertise to develop integrated and comprehensive yield-optimization software tools.

Handy helper

Worldwide spending on production equipment by semiconductor companies is expected to grow from US$34.6 billion in 1999 to US$72.8 billion in 2004, for a compound annual growth rate of 16%.

Because semiconductor companies invest hundreds of billions of dollars in the production process, a high level of efficiency is essential if they are to maximize return on invested capital.

And according to Dataquest's May 2001 report, worldwide semiconductor revenue is expected to grow at an average rate of 15% annually from 1999 through 2004, from US$171 billion in 1999 to US$347 billion in 2004.

Given the substantial costs of developing and maintaining internal yield-optimization technologies, and the accelerating trend toward industry specialization, you can see why HPL's yield-optimization software solutions will become increasingly important.

Their software integrates data sets from the design, fabrication and test stages of the semiconductor production process. Semiconductor companies can then synthesize that data into a unified format, conduct analyses to suggest yield enhancements, and view and manipulate the information through a user-friendly interface.

In effect, the semiconductor production process can be modified to avoid or minimize the factors that limit yield, and production resources can be focused on corrective action.

Where? Armenia?

It's pretty common for U.S. companies to set up facilities abroad, where labor and production costs are cheap. And HPL has chosen Armenia, a country with a highly skilled workforce.

Under the Soviet Union's central planning system, Armenia built up a developed industrial sector, supplying machine building equipment, defense electronics and optics, textiles, and other manufactured goods to sister republics in exchange for raw materials and energy resources.

After voting for independence in 1991, the country has faced political and economic problems.

But even in the midst of instability, the Armenian government has still been able to lay the foundation for a market economy by liberalizing prices and implementing an aggressive privatization program.

Now, this is still a country with serious problems, such as mass unemployment, low purchasing power and living standards, and a huge foreign trade deficit. But HPL has been able to harness Armenia's skilled labor to produce its software. I don't expect any drastic changes in Armenia—at least in the near term. But the political risk factor is something to keep an eye on.

Sales are up

HPL licenses its software products and sells related services through its direct sales force, its exclusive distributor, Canon, and semiconductor equipment OEMs that bundle HPL's software with their hardware.

Direct sales accounted for approximately 54% of its revenues in the year ended March 31, 2001, and indirect sales accounted for the remaining 46%.

Due to the nature of its sales cycle, a relatively small number of customers have accounted for a large portion of HPL's revenues in each of the past three fiscal years.

HPL had four customers that individually accounted for at least 10% of its revenues in fiscal years 1999 and 2001, and three such customers in the year ended March 31, 2000. In the aggregate, these customers accounted for 77%, 44% and 74% of its revenues in fiscal years 1999, 2000 and 2001, respectively.

I hate to see a company depending on such a small number of customers. So HPL will need to broaden its customer base.

In the past three years, HPL has licensed software products or provided consulting services to more than 30 semiconductor companies, either directly or through a distributor. Customers include Agilent Technologies, Credence Systems, Teradyne, and Advanced Micro Devices.

Generating profits

How many new issues can actually say they are profitable? But HPL's fiscal year 2001 was profitable. With HPL's continued expansion, it's hard to predict whether the company will be able to sustain a profit.

But in view of increasing international sales, it's smart for HPL to continue its expansion.

Sales to customers located outside the United States accounted for approximately 5%, 13% and 48% of its revenues in fiscal years 1999, 2000 and 2001, respectively. And international sales are expected to grow.

Total revenues increased a whopping 262% to US$13.4 million in fiscal year 2001, up from US$3.7 million for the prior year. Of this increase, approximately 81% was owing to a rise in software license revenues—primarily from sales of its YIELDirector products, which were first introduced for sale in the second half of the year.

Not all of the terms of HPL Technologies' IPO have been set. But it plans to raise US$86.3 million dollars under the proposed ticker symbol HPLA. This is a small offering that may generate steady gains in the aftermarket. The lead underwriter is UBS Warburg LLC.

ACTION ALERT

Contact **HPL Technologies** at 2033 Gateway Place • San Jose, CA 95110 • tel. 408-437-1466 • fax 408-501-9210.

Take from the rich, and put it in your own pocket:

Buy DIMEZ as a pure play on the 5th Amendment

by James Passin

Don't get me wrong here. I am not ungrateful to be getting a few hundred bucks of my own money back from the taxman. I appreciate the sentiment. But overall, I can't help but consider this year's tax rebate as some sort of a cruel hoax. Tax reform or not, you and I will still have to work almost half the year for free just to cover federal, state, and local taxes. In exchange for this privilege, the government degrades the value of our remaining income through inflation, while using the proceeds generated by our indentured servitude to fund wholesale redistribution schemes that result in an endless cycle of mass dependency and budgetary expansion.

Call me a crank… a reprobate… call me a shameless opportunist. But when I see an opportunity to take something back from the government, *I get excited.*

The very idea of "justice" has been so corrupted by the intellectual demagoguery of the liberal élite that people now associate it, not with the concept of equitable relief, but with the image of courtroom antics by greedy tort lawyer extortionists (and their Erin Brokovich/Pretty Woman "hooker with a heart of gold" client bait).

Let's beat those guys at their own game.

Dime Bancorp (DME:NYSE) is a plaintiff in one of the 115+ cases against the government for breach of contract and taking of property without compensation during the S&L crisis cleanup. Based on a review of cases with similar fact patterns, I believe that DME has an excellent chance of winning damages. I have discovered a pure vehicle for playing this litigation: **Dime Bancorp Litigation Tracking Warrants (DIMEZ:OTC).**

But before I tell you why this is not only an opportunistic but also a prudent speculation to make, let me refresh your memory about what went on back then.

SnL

In the late 1970s and early 1980s, inflation spiraled out of control. Interest rates surged. Eventually, rates rose so high that the yield on short-term demand deposits exceeded fixed mortgage rates—a catastrophic situation for thrifts or savings and loans (S&Ls). S&Ls live on the spread between the rate needed to attract deposits and the yield on available lending opportunities. When this credit spread inverted, S&Ls began racking up losses.

The federal government requires banks and S&Ls to maintain certain minimal capital requirements. This minimum capital requirement is the percentage of assets that must be backed up by actual capital. But in those days, record high interest rates were eroding capital reserves. As industry fundamentals deteriorated, Wall Street became leery of providing debt or equity capital infusions. Weak S&Ls hurtled towards failure.

Since the federal government insured all deposits, it would have been on the hook to bail out failed S&Ls. (Consider the irony: the government was a primary contributor to the S&L crisis by creating the moral hazard of federal deposit insurance, not to mention by driving rates higher with loose monetary and fiscal policies.) Consequently, the agency in charge of regulating S&Ls was desperate to find a politically acceptable solution.

First, the government took the easy step of lowering minimum capital requirements. Then it began encouraging relatively strong S&Ls to absorb the weaker ones. To give S&Ls an incentive to acquire failing institutions (and thereby bail out the government), it made an irresistible offer: an acquirer could count goodwill, or the excess of acquired liabilities over acquired assets, as "supervisory regulatory capital."

This "supervisory regulatory capital" could count towards minimum capital requirements. S&Ls could depreciate this "goodwill" over a 40-year period. The government was able to arrange mergers based on the economics of this magical accounting trick.

In 1989, FIRREA (the Financial Reform, Recovery, and Enforcement Act) was signed into law. FIRREA disallowed the use of goodwill as regulatory capital. The very S&Ls that were levered up by the government suddenly found themselves in violation of minimum capital requirements. This breach of contract by the government caused tremendous value destruction, forcing S&Ls to shrink balance sheets and liquidate assets at fire-sale prices.

American dream

In the 1990s, numerous lawsuits were filed against the government for breach of contract. Few took the S&L cases seriously until 1996, when the Supreme Court held that the government was liable for breach of contract in the flagship Winstar case. Following the Winstar case, all related cases were assigned to the U.S. Court of Federal Claims.

In one of the first Winstar-related cases, that of Glendale Federal Bank, Chief Judge Loren A. Smith found that the government was liable for US$908.9 million in damages. Other judges in the Claims Court have been less aggressive in awarding damages. But in every case I have reviewed, at least some damages have been awarded to the plaintiff.

Recently, a Federal Appeals Court ruling boosted the Winstar-related cases. The U.S. Court of Appeals for the Federal Circuit ordered a judge to allow Golden State

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Bancorp (the surviving Cal Fed entity) to present evidence supporting its expectancy damage theory. To date, no judge has awarded Winstar plaintiffs expectancy damages.

For years, Wall Street banking analysts have mentioned Dime Bancorp as having one of the strongest Winstar cases. I'm not a lawyer, but I know an overlooked opportunity when I see one.

Dime bag

To deliver value to shareholders by monetizing its off-balance-sheet litigation asset, DME spun off its litigation against the government through the vehicle of litigation tracking warrants. *The warrants (DIMEZ:OTC) entitle the holder to receive DME shares equal to 85% of the net after-tax value of any recovered damages.*

DME is claiming damages under three non-overlapping damage theories: **reliance**, **restitution**, and **expectancy**. Reliance is "the contracting party's interest in being reimbursed for loss caused by reliance on the contract by being put in as good a position as he would have had if the contract not been made." Restitution is "the plaintiff's interest in having restored to him any benefit that he has conferred on the other party." Expectancy is "the interest in having the benefit of his bargain by being put in as good a position as he would have been had the contract been performed."

DME is claiming US$512 million under the reliance theory, US$740 million under the restitution theory, and US$980 million under the expectancy theory. Expectancy is the most speculative, as it requires DME to prove and quantify lost potential profits—a very difficult task. But the recent "Cal Fed" decision by the Appeals Court raises the odds that DME will at least be able to present evidence in support of expectancy damages.

Assuming DME wins at least some damages, DIMEZ warrant holders would be entitled to the following distribution: *(gross amount of damages - legal fees - taxes) * 85%*. This distribution would be in DME shares, not cash (cash would be paid for fractional shares). Legal fees could total US$30 million or more. The current tax rate would be approximately 46%.

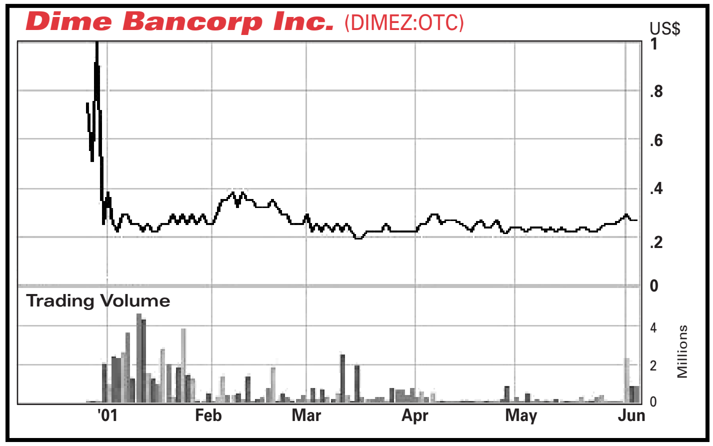
If DME hits the jackpot, winning the full amount claimed under every damage theory, DIMEZ holders would receive an estimated US$983 million, or US$8.70 per warrant. Since cash is better than DME shares, this value has to be discounted. Applying a 10% discount, DIMEZ holders would receive US$7.80 in value per warrant in the jackpot scenario.

Jackpot investing

Of course, litigation like this often drags on for years, so you have to discount the present value of a future payout. I think it's safe to assume that the appeals process could drag on for four years. Applying a 5% discount rate, the present value of the jackpot scenario is US$6.38 per warrant. To determine the expected value of the warrant, you should multiply the odds of winning a damage award by the present value of the payout.

The odds that DME will win expectancy damages are slim, but greater than zero. I would guess that DME has a 5% chance of winning expectancy damages. But the odds that DME will win reliance or restitution damages are much higher.

If you assume that DME has a 50% chance of winning reliance, a 50% chance of winning restitution, and a 5% chance of winning expectancy, then the DIMEZ warrants have an expected value of US$0.72 (for reliance) + US$1.06 (for restitution) + US$0.14 (for expectancy), totaling US$1.92 per warrant. Even if you dropped the odds of winning reliance or restitution to



25%, you still get an expected value of US$1.03 per warrant—4x the current market price.

Look at it this way: DME is suing for billions of dollars, the court awarded almost one billion in damages in a case with similar fact patterns, and yet DIMEZ's market cap is only US$31 million (there are 112,975,607 warrants outstanding).

In my opinion, DIMEZ is trading at a deep discount to the expected value of the litigation. DIMEZ's fair value is conservatively in the US$1 to US$2 range, based on the assumptions outlined above. If DME wins significant damages and you hold until the distribution of the award, you could receive as much as US$7.80 per warrant, compared to the current US$0.28 price.

Of course, you could also receive nothing, in the event that the court does not award damages. The warrant will be worthless if DME loses the case and fails to win on appeal. Even if the court awards damages to DME and the award holds up on appeal, the damages would have to exceed US$110 million for you to earn a profit on expiration against the current warrant price (including estimated legal fees, taxes, etc.).

Weak hands

84% of DME's float is held by institutions. Major shareholders include mutual fund giants like Fidelity and Vanguard. Many mutual funds are prevented by their charters from owning derivative instruments such as litigation tracking warrants, or they are too large to worry about managing a tiny, illiquid position. Following the distribution of the warrants in December, large blocks hit the market. At the same time, few visible buyers were stepping in to absorb the supply.

The bearish supply/demand dynamics may have artificially depressed DIMEZ. Recently, the warrants have stabilized in the mid-US$0.20 range after fluctuating in a range between US$0.17 and US$0.37.

Based on my analysis of DIMEZ's expected value, I believe it is trading at least 75% below its fair value. DIMEZ has zero correlation with NASDAQ, an excellent characteristic in this market. My fund has a position in DIMEZ, a reflection of my belief in DIMEZ's risk-adjusted upside.

DIMEZ is an extremely high-risk speculation. DIMEZ holders face the risk of total loss. Value will fluctuate widely based on legal events over which DME has no control. The interests of DME executives could potentially diverge from the interests of DIMEZ holders.

I recommend reviewing DIMEZ's Form 424B3 prospectus on www.freeedgar.com before investing. Since DIMEZ is illiquid, avoid buying it after a short-term spike in price.

ACTION ALERT

Read DIMEZ's Form 424B3 prospectus on www.freeedgar.com before investing. You can also contact DME at Dime Bancorp • 589 Fifth Avenue • New York, NY 10017 • PHONE: (212) 326-6170 • FAX: (212) 326-6169

Napster manufacturing: The future dimension of digital downloads

by Jay Salomon

We may not be up to teleporting disassembled sequences of human molecules across your living room quite yet. But *Taipan* guarantees that you will soon be able to download more than music and movie files from the web. The brouhaha over Napster is only the tip of the iceberg, and while the courts have thrown a monkey wrench into its future, nothing will ever be the same again.

Thanks to a process known as "fabbing," you will literally be able to download everything from screws to Porsches into what used to be the comfort of your own home… all via a device that translates 3-D data files into physical products.

Remember the good old times, when the ultimate means of purchase was to find that one friend who could "get it for you wholesale?" Tomorrow's friend can either get it for you free, or arrange a transaction not only completely without the traditional middlemen, but also without anything being produced or assembled outside your own home!

Long time no see

If you've stuck with *Taipan* over the last decade, you remember how we have followed the fortunes of two companies at the cutting edge of fabbing. And what a bizarre contrast they present: Ennex, the fabbing visionary and cheerleader. And 3Dsystems, the breadwinner.

Talking to Marshall Burns, founder of Ennex, you will find his vision is so infectious that you almost forget your own lack of technical expertise. You just want to sign up and join in. But without a visit to the 3D website, you might be concerned that the ultimate fabbing payoff won't materialize in this lifetime…

3-D imaging

On May 29, 3Dsystems announced the sale of its 2000th solid imaging system. In fiscal 2000, it shipped 387 systems globally, with revenues of US$109.7 million. Q1 2001 revenues of US$27.9 million have already come in at 21.3% more than a year before.

The list of 3D's customers is proof positive that the company has become totally mainstream since we first introduced you to its potential back in 1993. Clients include GM, Ford, Porsche, Allied Signal, Martin Marietta, Northrup Grumman, Texas Instruments, Bose, Pitney Bowes, and Black & Decker, to name just a few. And these users apply fabbing across the manufacturing spectrum… automotive, aerospace, electronics, consumer, entertainment, and medical.

If this is an industry in its infancy, what will adolescence look like?

Nuts and bolts

A fabber (short for "digital fabricator") is a "factory in a box" that makes things automatically from digital data. Fabbers generate three-dimensional, solid objects you can hold in your hands, submit to testing, or assemble into working mechanisms. They are used by manufacturers around the planet for low-volume production, prototyping and mold mastering. They are also used by scientists and surgeons for solid imaging, and by a few modern artists for innovative computerized sculpture.

Fabbers are categorized by the manner in which they operate on their raw material. "Subtractive fabrication" carves material away from a solid block by milling, turning or electrodischarge machining (EDM).

Subtractive fabbers have been automated since the late 1940s, and are often called computer numerically controlled (CNC) machines.

"Additive fabrication" successively adds material to build up the desired object. Methods to accomplish this include selective curing and sintering as well as aimed deposition. The first of these was not introduced until 1987.

"Formative fabrication" neither adds nor removes material, but applies opposing pressures to the material to modify its shape. Techniques in this—the "tomorrow" method of fabbing—will include automated bending and reconfigurable molding. Hybrid machines are available that combine two or more of the above categories; in fact, no purely "formative fabbers" are available today.

The next step

Fabbers are a US$10 billion dollar industry worldwide in terms of annual sales. Almost all of this is in the traditional subtractive category, with additive fabbers (like 3D) accounting for only about US$200 million in 1998. Sales of subtractive fabbers were essentially flat in the 1990s. Most fabbers on the market today are industrial equipment costing between US$45,000 and US$800,000.

Any new excitement over fabbing will come from small, fast, inexpensive, and easy-to-use machines that will revolutionize the market.

Already, a community of fabbers called the Rapid Prototype Mailing List congregates on the Internet. Members of RP-ML have occasionally traded or exchanged 3-D design files for use in fabbers.

These "Napster" fabbers will have the capability of flexible production in homes and small studios; there, they can link directly to the designer through digital files or live hookup. This cuts out the "traditional manufacturers."

Like the record companies, these manufacturers make their money by controlling distribution of the physical manifestations of creative designs. Just as Napster brings the musician out from behind the record label, fabbers on the Internet bring product designers out from behind the manufacturer, and leave them directly facing the users of their designs.

This creates the quandary of who-is-going-to-be-paid-for-what in the future. *Taipan* believes radical new business arrangements will be the result.

For more information,

ACTION ALERT

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WORLD INVESTOR

Twice-trashed Israeli techs are the sweetest spot in the rebounding market

by Adam Lass

Buy low and sell high. It seems so obvious, and yet so many get it wrong.

Every trade has two players, a buyer and a seller. Both figure to be on the winning end of the deal. But usually, one guy is going to come out ahead. In practical terms, being a contrarian means buying stuff no one else wants, and doing it when the herd is screaming "sell"!

You should be watching for that moment of maximum pain, buying seats on the plane when everyone else is bailing out without parachutes.

If you're looking for good companies crushed by outrageous fortune, then Israeli tech stocks are the easy winners, handicapped as they are by both the U.S. downturn and a permanent low-grade war on their doorstep. Here are two ideal candidates: both of them are strong Israeli companies with strong products, long customer lists and vastly undervalued stocks.

Beating the bear

You could easily call my first pick "bear-proof," as it has already profited from the demise of the Soviet bear and the latter-day exodus of huge numbers of Jews from the former USSR to Israel that it heralded. Now it's about to repeat that performance as the U.S. bear market keels over.

The Soviet Union's collapse in the early '90s lead to an influx of more than 1.5 million Russian Jews into Israel. Unfortunately for the ailing Russian economy, this exodus included a sizable number of highly trained engineers and scientists. But this was good news for Israel, as they complemented the hordes of skilled personnel already trained by Israel's top-notch universities, armed forces and industries.

This Russian influx continues to power Israel's dramatic technological renaissance, with help from government and private capital. Israel is now a leading developer of new technologies, especially in the IT, med-tech and semiconductor industries.

Their pain, our gain

Based outside of Nazareth in northern Israel, ACS-Tech 80 Ltd. (ACSEF:NASDAQ-SC) continues to benefit from this renaissance, along with the many Fortune 500 companies that have opened development facilities in Israel. These include AT&T, GE, Intel, Motorola, Rockwell, Samsung and Siemens.

With headquarters in Israel, operations in the United States and distribution worldwide, ACS-Tech 80 develops and markets leading-edge motion control products. Their advanced motion controllers and control modules offer sophisticated multi-axis capabilities that cost-effectively deliver speed and accuracy.

In October 1999, ACS Electronics and Technology 80 merged complementary strengths to form ACS-Tech 80. The blending of each company's experienced staff, leading-edge technology, and product lines has created one of the industry's largest and most agile motion controller vendors. The company will officially change its name to ACS-Tech 80 Ltd. during the next annual shareholders meeting.

Machines in motion

The merger of ACS and Tech 80 brings together two complementary product lines that serve both ends of the motion control marketplace. ACS specializes in advanced, stand-alone motion controllers and control modules (motion controllers with integrated digital amplifiers) for high-performance motion control applications. Tech80's host-dependent motion controllers and encoder interfaces offer solutions for low- and mid-range board-level applications. The products are stocked in both locations to enable quick delivery of manufactured components.

ACS-Tech 80 employs more than 75 professionals, 50 in Israel and 25 in the United States. Nearly half of the staff is devoted to research and development. R&D teams are maintained in both locations, which allows the company to concentrate efforts where the best expertise is located. The teams provide expertise in real-time software development, motion control, digital and analog electronics, ASIC design and power electronics.

This combination of technical expertise and a can-do sales team is clearly visible in ACSEF's numbers. Q4 00 saw revenues increase 57% to US$4,649,000, compared to US$2,962,000 for Q4 99, while net income increased 201% to US$860,000, compared to net income of US$286,000 for the same period last year. Q4 00 earnings per share were similarly chunky, coming in at US$0.28, compared to US$0.10 for Q4 99.

Money in motion

The annual picture is even sweeter: revenues for the twelve months ended December 31, 2000, increased 157% to US$16,545,000, compared with US$6,428,000 for the previous twelve months. Net income was US$2,922,000, compared to a net loss of US$833,000 the year before.

Earnings per share were US$0.91, versus a loss of US$0.30 in the prior year. The net loss in 1999 resulted primarily from a one-time write-off of in-process research and development, and an immediate write-off of part of the acquired goodwill from discontinued products following the acquisition of Technology 80 Inc., which was completed on September 30, 1999.

ACTION ALERT

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Plans in motion

ACSEF recently opened a sales office in the Netherlands under the name ACS-Tech 80 Europe BV. Its purpose is to support the growing business activities with Assembleon (formerly Philips EMT)—which has selected ACS-Tech 80 motion controllers for its next generation of electronic fast component mounters—and to promote its

European presence and operations.

ACSEF also recently transferred US$250,000 to Netzer Precision Motion Sensors Ltd. in return for a bridge loan that is convertible at a discount into shares of Netzer of the same class issued in Netzer's next equity financing. In 1998, the company invested US$1,100,000 in Netzer, and currently holds 18.5% of Netzer's outstanding share capital. Netzer is engaged in the development and production of advanced motion sensors based on a patented technology.

Compared to other companies in the same field, ACSEF blows the competition away: at 4.30, its P/E is about a fourth of the industry average of 16.88. P/S is similarly impressive at 0.79, compared to a trade figure of 3.39.

ACSEF's monstrous 157.39% annual sales growth dwarfs the trade's puny 9.22%, and this growth was achieved without sacrificing profits: gross margin is almost double the trade's at 56.12%, as is net profit at 18.69%.

ACSEF is a classic *Taipan* play: cool products, clear-headed management, tons of growth and strong profits. If it does nothing over the next 12 months but achieve industry norms, you can expect a fourfold increase in the stock price.

Buy ACS-Tech 80 Ltd. (ACSEF:NASDAQ-SC) below US$4.50, with a 12-month target of US$16 and the usual -25% trailing stop.

My second double-crushed Israeli play, Eltek, manufactures printed circuit boards and advanced circuitry solutions for the Israeli and European electronics industries. Their products use HDI (high-density interconnect) technology, which reduces line width and spaces to .002 inch and holes to a diameter of .003 inch.

The engineers at Eltek concentrate their expertise on providing state-of-the-art technological solutions, fast turnarounds and short production runs of high-end PCBs for advanced electronics applications. Eltek's products include rigid and flexible multilayer boards (with up to 30 layers) for medical diagnostic equipment and scanners, airborne equipment, military avionics, electro-optic equipment, ground radar and aerospace applications, back-panels, Teflon and hybrid boards for radio frequency microwave applications, and special solutions for heat distribution.

Popular

Eltek's management knows what it does well and when it can't compete, so it avoids getting bogged down by high-volume orders, outsourcing them instead to its Asian partners. The list of customers satisfied with this approach and the overall quality of Eltek's work includes some of the industry's heaviest hitters, like Siemens, Motorola, GEC Marconi, Ericsson Saab Avionics, Alcatel, General Electric, and many more.

And that list is about to expand dramatically. Eltek has just announced an agreement with Global Logistics, Inc., a New York-based independent distributor of electronic components and PC boards serving the high-tech industry. Under the agreement, Global Logistics will serve as Eltek's U.S. distributor of advanced PCB products.

According to Eltek President and CEO Arieh Reichart, the agreement mark is the beginning of an exciting chapter in Eltek's history, marking Eltek's initial penetration into the lucrative U.S. market for high-end printed circuit boards. Reichart expects to capitalize on that through Global Logistics' customer base, which includes Motorola, Analog Devices and Alcatel.

Room to move

A quick perusal of Eltek's comparative values reveals a perfect *Taipan* buying opportunity: a company whose stock price has been crushed by its peers' troubles—even though it stands head and shoulders above those peers. Its P/E is 3.94, a miniscule 1/6 of the industry's 21.94. Price over sales is similarly depressed at 0.51—a sure sign of ample room to grow.

Sales are up 38.54% year over year. Perhaps more important, Q3 01 is 31.51% higher than Q3 00, a growth rate that is better than double the faltering S&P 500's 13.77% figure. Gross margin is par for trade at 25.67%, but net profit is better than double that of the competition at 12.79%. All ELTK has to do to double your money is hold the line in sales growth (an easy feat, considering the new distribution deal) and nail a normal P/S of 1 or 1.2.

Buy Eltek Ltd. (ELTK:NASDAQ-SC) below USUS$3.75, with a six-month target of USUS$7.50 and a -25% trailing stop.

ACTION ALERT

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