



# Feeding the pigs in the Year of the Rabbit

By James Passin

PROFITS

COURAGE

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TAIPAN

1999 has been an excellent year for *Taipan* subscribers. Since the beginning of January, our recommendations are up an average 44%. We have doubled the performance of the record-setting Dow Jones Industrial Average. Six positions have generated triple-digit profits.

We have been strategically positioned to clean up from the cyclical rebound in commodity prices. While mainstream investors were capitulating to the idea of deflation, *Taipan* recommended loading up with inflation-sensitive plays like SGUZY and SASOY.

The geniuses who called for US\$2 oil and the end of the world missed one of the greatest buying opportunities in recent financial history (and are paying the price every time they refuel their SUVs). Our "Global Commodity" portfolio is up 73% year-to-date.

### *All the way to the bank*

The recovery in pricing power is the result of a global resynchronization of economic growth. A "harmonic convergence" is pulling Asia out of recession and raising U.S. interest rates. This is consistent with the Inflationary Rally scenario I predicted in last year's *Taipan Forecast Issue*. Our Asian, New Zealand, and Russian picks have soared on the back of the central bank-engineered reflationary spiral.

Considering the extremely high valuation of the U.S. market, it is timely to take a hard look at our picks and decide on our overall market strategy.

Don't get me wrong. The market's not going to crash tomorrow. *In fact, I am bullish towards the market over the next few months.*

But the market's not cheap. In terms of price/earnings ratios, the market has never been more expensive. The bond yield/earnings yield ratio of 2 is absolutely nuts! Almost every gundealer and barmaid I meet is a daytrader (not that I spend too much time in bars and gun shops). It's getting harder and harder to find compelling deals in the U.S. market. Historically, the trio of rising interest rates, high valuations,

and heavy public participation has not marked the smartest times to load up on stocks.

The recent decline in NYSE reported short interest suggests that the last remaining bears are giving up. The capitulation of the bears generally represents the final leg of the topping process (in this scenario, it makes sense to buy heavily shorted stocks like CLCX and look for quick trading opportunities).

In my opinion, the recent strength in the

Dow Transport Index, industrial cyclicals, and small caps is an illusion designed to trap bulls in the market. **My maximum upside target for the Dow is 12,000-13,000.** The catalyst for the eventual bear market will be a further tightening of monetary conditions.

There's no rush to sell. But

unless you have a very long-term time horizon, I recommend taking profits on U.S.-correlated stock positions during big market rallies.

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### *Sources of cash*

Given our heavy weighting towards Israeli high tech, it makes sense to lighten up on fully valued positions. **Orbotech (ORBK-NASDAQ)** is a great company, but the stock has achieved my 1999 target of US\$60.

Given the highly cyclical nature of the PCB capital equipment business, it makes sense to sell

(over, please)

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when there are buyers and wait for the next cyclical downturn. ORBK has strong technical resistance at US\$60. Given the declining volume, it is unlikely that ORBK will break above the \$60 level. Consequently, I recommend **liquidating ORBK at the market**. Look for buying opportunities on any pullback into the US\$40s. ORBK is up 145% since my initial coverage in February 1998.

**Elbit Systems (ESLTF-NASDAQ)** has rallied 50% on merger announcements and solid financial results. While ESLTF is a fun company to visit (if you like testing virtual warfare theaters), the stock does not have much upside from current levels. *ESLTF has exceeded my 1999 target of US\$17.* Unfortunately, defense companies don't enjoy the same super-high p/e ratios awarded to pure tech companies. Parent company ELRNF, 35% owner of ESLTF, has repeatedly stated that it plans to exit the defense business. That means selling ESLTF shares. While I doubt that ELRNF will dump ESLTF shares into the market, the potential overhang should cap the stock below US\$20.

**I recommend selling ESLTF above US\$17.**

While it is tempting to sell **Elbit Ltd. (ELBTF-NASDAQ)** following the 600% rally since my initial coverage in September 1998, this would represent an egregious mistake. *ELBTF still has tremendous upside.*

Partner/Orange, Israel's GSM cellular operator, is planning to do an IPO within five months. A public flotation would unlock the value in ELBTF's 16.5% Partner stake.

ELBTF will also benefit from the money flowing into bandwidth and cable internet plays. ELBTF's Peach subsidiary is radically undervalued compared to Worldgate (WGAT-NASDAQ), a direct competitor. If Peach were valued at the same US\$840 million market cap awarded to WGAT, ELBTF's 60% stake would be worth US\$22 per share.

I estimate that ELBTF's full net liquidation value exceeds US\$30 per share—representing a 150% premium to current market price. Given

ELBTF's solvent financial position, there's no need for the company to raise capital in the market—keeping the supply of stock restricted (in fact, major shareholders have been adding to their positions). If Peach takes off, ELBTF will achieve a sustainable trading range in the US\$30s. **I recommend remaining fully invested in ELBTF and adding to your position on any weakness...**

### *The thorn in our side*

**Hurricane Hydrocarbons (HHLFQ-NASDAQ)** has turned into a total disaster. The stock is down 68% year-to-date. At current levels, HHLFQ has a market cap of just US\$16.5 million and debt with a face value of US\$180 million. Compared to HHLFQ's massive oil reserves (436 million barrels of proven + probable) and production (over 70,000 barrels per day), this low valuation is almost incomprehensible.

The catastrophic decline in the stock price reflects HHLFQ's totally insolvent financial position. I freely admit that I was blind-sided by the rapid deterioration in HHLFQ's balance sheet liquidity. The former CEO issued what I believe are misleading comments during the initial rot in the company's operational performance. Furthermore, I suspect that HHLFQ may have been capitalizing some overhead costs (using capital raised by the two bond offerings to finance overhead and boost earnings). The 50% decline in world oil prices crushed the local Kazakh price, squeezing HHLFQ's EBITDA margins and converting HHLFQ's debt load into a crushing burden. By the time HHLFQ's problems became evident, it was too late to sell the stock.

HHLFQ's board is negotiating with major noteholders and shareholders to recapitalize the company. The plan is to merge HHLFQ with the Shymkent refinery and convert debt to equity. I believe that common shareholders will get 5%-10% of the new company. Assuming that common shareholders will get 5% of the company, the market is implying a total enterprise value of US\$330 million — a reasonable and conservative estimation considering the earnings power of a debt-free vertically integrated oil company with good assets and a North American stock exchange listing.

Assuming HHLFQ successfully pulls off the recapitalization, the stock has 5x to 10x upside from current levels over the next three years. If common shareholders get more than 5%, the stock has





significant immediate short-term upside. However, the stock is too risky to buy until the recapitalization is complete. (NASDAQ has suspended the stock; however, the stock is still actively traded on the Toronto Stock Exchange.)

### *Seeds in the desert*

I am bullish on the Middle East. Excluding Israel and Turkey, the Middle East remains off the radar screens of mainstream investors. The resurgence of oil is bullish for the oil-exporting Gulf economies. As "petrodollars" flood through the Gulf, the general level of economic activity in the region should pick up.

This regional economic acceleration should manifest

itself in shipping volume. **Aramex (ARMX-NASDAQ)** should continue to enjoy robust sales and earnings growth in its core Middle Eastern markets. At 0.5x sales, 1.8x book value, and 10x FY99 earnings, the stock is preposterously undervalued. The stock has been dead in the water for months, but it's only a matter of time before Wall Street "discovers" the stock. **I continue to rate ARMX as a Strong buy.**

**Suez Cement (SZCD-London)** also has been quiescent. The GDR (it's like an ADR, but trades outside of the U.S.) has been trapped in the mid-teens for months. SZCD's new cement factory is online, increasing capacity by 50%. Economists estimate that a supply deficit will be sustained in the Egyptian cement market over the next three years. At 9x

*continued on p.4*

## WHAT TO BUY AT WHAT PRICE

Computer Learning Centers (CLCX-NASDAQ)	Buy	Strong buy under US\$6
Genus (GGNS-NASDAQ)	Buy	Strong buy under US\$3
Fisher & Paykel (FAP-NZSE)	Buy	Strong buy under NZ\$6.00 (US\$3.30)
+ Uproar Ltd. (UPRA-Vienna OTC)	Buy	Speculative buy under €27 (US\$28.25)
Herzfeld Caribbean Basin Fund (CUBA-OTC)	Buy	Strong buy under US\$5.00
Uni-Charm (8113-Tokyo)	Buy	Buy under US\$48
Elbit Systems (ESLTF-NASDAQ)	Sell	Sell over US\$17
Commodity Trust Fund Ltd (CMT-London)	Buy	Strong buy under US\$1.40
Commodity Trust Fund Ltd. Warrants (CMT-London)	Buy	Speculative buy under US\$0.15
Elbit Ltd. (ELBTF-NASDAQ)	Buy	Strong buy under US\$11
*TyumenAviaTrans ADR (TYAVY-Pink Sheets, 902511104)	Buy	Speculative buy under US\$2
Hurricane Hydrocarbons Warrants (HUHY-TSE)	Hold	Hold
Restaurant Brands (RBD-NZSE)	Buy	Strong buy under NZUS\$1.30 (US\$0.70)
□ Sasol (SASOY-NASDAQ)	Buy	Strong buy under US\$5
Avant Immunotherapeutics (AVAN-NASDAQ)	Buy	Buy under US\$3.00
△ Ashanti Goldfields (ASL-NYSE)	Buy	Strong buy under US\$10
△ Orbotech (ORBK-NASDAQ)	Sell	Sell at the market
□ Hurricane Hydrocarbons (HHLAF-NASDAQ)	Hold	Hold
*Orckit (ORCT-NASDAQ)	Buy	Buy under US\$21
□ Mosenergo ADR (AOMOY-Pink Sheets, 037376308)	Hold	Strong buy up to US\$2
Aramex (ARMX-NASDAQ)	Buy	Strong buy under US\$11
Suez Cement (SZCD-LN, CUSIP: 864690102)	Buy	Strong buy under US\$16
Elscint (ELT-NYSE)	Hold	Hold for merger
Elbit Medical Imaging (EMITF-NASDAQ)	Buy	Buy under US\$9
□ Surgutneftegaz ADR (SGUZY-Pink Sheets, 46625F104)	Buy	Strong buy up to US\$6
* Xoma (XOMA-NASDAQ)	Buy	Buy under US\$6.50
Elron Electronic Industries (ELRNF-NASDAQ)	Buy	Buy under US\$17.00
Williams Controls (WMCO-NASDAQ)	Buy	Strong buy under US\$3.50
□ Exponent (EXPO-NASDAQ) (Formerly FAIL)	Buy	Strong buy under US\$7

\* Speculative — maintain adequate stop-loss provision.

△ Sell covered calls against position

□ Dollar-cost average during price weakness

+ Recent stock split

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

• Positions may be modified in the free Weekly *Taipan* Hotline: 410-528-8228 and at <http://www.taipanonline.com/htmlcode/members/hotline/hotline.html> •



earnings, you can't go wrong with SZCD. The 10% dividend helps you wait.

## *Pacific waves*

What's good for the Gulf states is good for New Zealand. Gulf states are major importers of New Zealand lamb. New Zealand is also benefiting from both a pickup in exports to Southeast Asia and a renewed influx of Asian tourists. When I toured New Zealand in March 1999, Asian tourists were everywhere...

The gloom-and-doom espoused by the few analysts that follow New Zealand is slowly evaporating. The economy is clearly on a recovery track. Lumber and fish prices are rising, correcting the trade imbalance and infusing the economy with cash. I remain a firm believer in high quality New Zealand stocks.

**Restaurant Brands (RBD-NZSE)** just reported outstanding financial results. After-tax profits increased 125% in 1H FY99 to NZ\$3.1 million. Despite RBD's return to earnings growth, the stock remains undervalued. At current

## 1999 TAIPAN PORTFOLIO MID-YEAR UPDATE

COMPANY	SYMBOL	ENTRY DATE	ENTRY PRICE	CURRENT/EXIT	DIVIDENDS	CALL PREMIUM	P/L
<b>GLOBAL TECHNOLOGY</b>							
Elron	ELRNF	Jan 99	\$16.06	\$27.38	\$0.06	\$—	71%
Elscint	ELT	Jan 99	\$12.13	\$11.13	\$—	\$—	-8%
Elbit Medical Imaging	EMITF	Jan 99	\$10.88	\$8.94	\$2.00	\$—	1%
Orbotech	ORBK	Jan 99	\$47.25	\$59.50	\$—	\$1.50	29%
Aladdin	ALDN	Jan 99	\$10.00	\$8.63	\$—	\$—	-14%
Elbit Ltd.	ELBTF	Jan 99	\$3.50	\$12.03	\$—	\$—	244%
Orckit	ORCT	Jan 99	\$16.13	\$27.88	\$—	\$—	73%
Elbit Systems	ESLTF	Jan 99	\$12.00	\$17.88	\$0.06	\$—	49%
Uproar	UPRA	Apr 99	\$21.50	\$25.00	\$—	\$—	16%
						AVG	51%
<b>GLOBAL SERVICES/VALUE-ADDED MANUFACTURERS</b>							
Aramex	ARMX	Jan 99	\$11.75	\$9.38	\$—	\$—	-20%
Restaurant Brands	RBD	Jan 99	\$0.53	\$0.87	\$0.06	\$—	75%
Fischer & Paykel	FAP	May 99	\$5.94	\$6.00	\$—	\$—	1%
Unicharm	8113	Jan 99	\$48.00	\$49.00	\$—	\$—	2%
						AVG	15%
<b>GLOBAL COMMODITY</b>							
Commodity Trust Ltd.	CMT	Jan 99	\$1.07	\$1.38	\$—	\$—	29%
Commodity Tr. warrants	CMTW	Jan 99	\$0.60	\$0.14	\$—	\$—	133%
Hurricane Hydrocarbons	HHLFQ	Jan 99	\$1.19	\$0.38	\$—	\$—	-68%
Hurricane warrants	HUHY	Jan 99	\$0.35	\$—	\$—	\$—	-100%
Ashanti Goldfields	ASL	Jan 99	\$9.38	\$6.03	\$—	\$—	-36%
Surgutneftegaz ADR	SGUZY	Jan 99	\$3.00	\$10.00	\$—	\$—	233%
Suez Cement	SZCD	Jan 99	\$15.00	\$14.25	\$—	\$—	-5%
Sasol	SASOY	Jan 99	\$4.00	\$7.31	\$—	\$—	83%
Mosenergo ADR	AOMOY	Jan 99	\$1.50	\$5.38	\$—	\$—	258%
TyumenAviaTrans	TVAVY	Jan 99	\$0.50	\$1.50	\$—	\$—	200%
						AVG	73%
<b>U.S. SMALL CAP TECH.</b>							
Xoma	XOMA	Jan 99	\$3.25	\$7.50	\$—	\$—	131%
Shaman	SHMN	Jan 99	\$2.03	\$0.25	\$—	\$—	-88%
Avant Immunotherapeutics	AVAN	Jan 99	\$1.91	\$1.91	\$—	\$—	0%
Williams Controls	WMCO	Jan 99	\$2.38	\$3.00	\$—	\$—	26%
Exponent	EXPO	Jan 99	\$6.00	\$6.88	\$—	\$—	15%
Genus	GGNS	Jan 99	\$2.75	\$3.28	\$—	\$—	19%
Computer Learning Centers	CLCX	Jul 99	\$5.00	\$6.00	\$—	\$—	20%
						AVG	18%
<b>EMERGING MARKET FUNDS</b>							
Morgan Stanley India Fund	IIF	Jan 99	\$7.00	\$9.50	\$—	\$—	36%
MS Russia Fund	RNE	Jan 99	\$9.39	\$12.59	\$—	\$—	26%
Herzfeld Caribbean Fund	CUBA	Apr 99	\$5.00	\$5.78	\$—	\$—	16%
						AVG	26%

### MID YEAR UPDATE

Average: All recommendations: 44%; Dow: 21%; NASDAQ composite: 26%; Russell 2000: 9%



levels, RBD is trading at just 9x FY00 earnings-and it pays a healthy 6% dividend yield. RBD's KFC and Starbucks restaurants were packed with customers during my recent due diligence investigation in the North and South Islands. RBD's top and bottom line will continue to grow rapidly on the back of the New Zealand consumption ramp-up.

The return of the Kiwi consumer is coinciding with a massive rally in Japanese stocks. This is no coincidence: powerful feedback mechanisms exist to translate rising Asian stock prices into rising consumer confidence. As stock prices come back from the dead, companies are encouraged to expand their capex budgets. This leads to more jobs and more profits. The entire Asian region may have entered a Circle of Prosperity.

In this scenario, it makes sense to invest in companies that are leveraged to domestic Japanese consumption. My top play on Japan remains **Uni-Charm (8113-Tokyo Stock Exchange)**. The liquification of Japan seems to have ignited a long-awaited boom in adult diaper sales. Uni-Charm is up 25% in yen over the six months. The strong technical behavior of the stock suggests further upside.

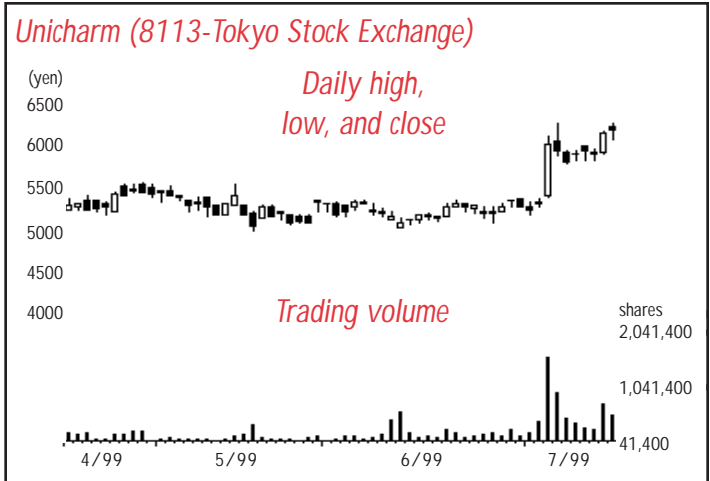
I recommend buying Uni-Charm through Peter Schiff, Euro Pacific Capital, tel. 310-448-8000 or tel. 800-727-7922, fax 310-448-8008.

## *Super-tech stocks for the next millennium*

While I am skeptical about the long-term viability of U.S. stock market valuations, technology is not about to roll over and die. Revolutionary discoveries in molecular biology and subatomic physics will continue to change the structure of daily life. Advances in cheap processing power are enabling innovations that were inconceivable 40 or 50 years ago.

Biotech remains a powerful sector for wealth generation. My colleague Brian Hicks points out that a number of top-tier biotech stocks are hitting 52-week highs. **Xoma (XOMA-NASDAQ)** is no exception. XOMA is within one or two months of wrapping up its pivotal Phase III trial for Neuprex for meningococemia. XOMA's market cap of US\$370 million is low considering the blockbuster potential of Neuprex (if Neuprex is approved by the FDA, it will become the only company in the world with a product approved for sepsis-related illnesses). XOMA's recent US\$11 million licensing deal with Allergan for its ophthalmic Neuprex product represents yet another vindication of the technological platform — and its huge commercial potential. I continue to rate XOMA as a speculative buy with a 1999 target of US\$14.

I also remain very bullish towards bandwidth. The populist profusion of the internet has created a structural demand for bandwidth. Existing bandwidth is inadequate to meet the demand for high speed internet applications. The problem is "the last mile": it's too expensive to hook up every home and business with fiber. DSL represents a solution by providing high speed internet connections over existing copper wire. **Orckit (ORCT-NASDAQ)** is not only the cheapest stock in the entire DSL universe, but it has the strongest market position in the world. **ORCT remains a Speculative Buy with a US\$60 target.**





# Optimal Robotics (OPMR-NASDAQ) is revolutionizing the supermarket industry: Check it out for yourself

by *Brian Hicks*

Can you remember when you first started seeing credit card and debit machines at every check-out station? Experts argued on TV that it would never work: "Customers don't want to finance groceries." Nothing could've been more absurd (these systems and services are now a US\$5 billion-a-year industry in the U.S.). I use my credit and debit card all of the time.

Why? Convenience.

Besides, I hardly have to interact with the cashier. Don't get me wrong, some cashiers are nice to talk to. But some of them are downright nasty. Especially if you ask them for paper bags... instead of plastic.

Hey, the less interaction, the better — I think. And it's that attitude which is driving one company to make your grocery shopping the quickest and easiest experience ever.

There's now a system that lets you scan your own products, bag them yourself, and pay for it (using cash, credit or debit) without ever seeing a cashier. It's called the U-Scan Express System... by **Optimal Robotics Corp. (OPMR - NASDAQ)**.

## *U-Scan, I scan, we all scan*

Optimal Robotics has designed an automated self-serve transaction system for the retail industry. Those are words you have to love — automated and self-serve — especially when it comes to grocery stores.

That's why the initial application has been in supermarkets. That means it lets customers scan, bag and pay for their purchases with little to no assistance from store staff. Think of it as an ATM with retail applications.

Typically, the transactions are small express lane transactions of 15 items or less. In-and-out.

## *What's in the U-Scan Express*

The U-Scan Express is comprised of a CPU, scanner, touch screen monitor, keyboard, receipt printer, and magnetic stripe reader.

The robotic checkout has a touch screen, like many ATM machines, that displays instructions for scanning items. Voice instructions also tell customers what to do at each step.

The scanner sits above a scale that has been programmed to read how much each item weighs. A scale under the bags determines whether what ends up in the bag was actually what was scanned.

It even asks customers for appropriate identification when alcohol or tobacco products are scanned.

The concept was the result of available technology, such as automated POS (point of sale) system components, and the trend in self-service ATM machines. ATMs and kiosks are increasingly popular — especially in grocery stores.

## *And you can't beat the machine*

There is triple check security built into the system. For

one, there is an overhead surveillance camera at each self-checkout station. Secondly, a supervisor is monitoring three or four checkout terminals. Lastly, there is a load-cell scale underneath the bagging system which is sensitive to a hundredth of a pound.

Customers, after scanning an item, are prompted to place it in a bag and the weight of the product is matched up against the weight contained in the database.

Any discrepancy, and the system alerts the manager.

## *And believe it or not — customers love it*

One of the surprises to come out of acceptance testing of U-Scan Express by major retailers was this: There are no specific demographic groups that use the system more than others. Young/old, blue collar/white collar, plastic/cash users — there has been an across-the-board acceptance.

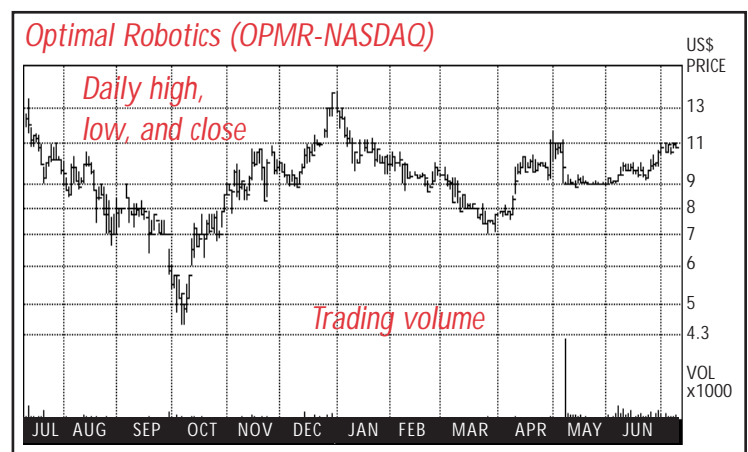
When first introduced, it was assumed that this type of system would be used primarily by younger, upscale, technologically savvy consumers. This turned out to be false.

With the prevalence of ATMs and pay-at-the-pump systems, all demographic populations have grown accustomed to self-service options and view them as a convenience.

Another surprise: The rate at which consumers gravitated to U-Scan Express was much quicker than expected. Retail chains that have tested U-Scan Express originally set targets of 35% to 50% of all express lane transactions as an important measure of successful consumer acceptance. Those targets were met in a matter of weeks.

The tests also showed the following:

- Age was not a barrier. With the system's built-in voice prompting and ease-of-use, seniors had no problem using the system.
- Payment type was not a barrier. The system takes all forms of payment.
- Level of education was not a barrier.





Based on the successful studies and consumer acceptance of the U-Scan Express systems, Kroger Co. has initiated an accelerated rollout of the U-Scan Express.

In March of 1998, Kroger Co., the largest supermarket chain (with over 1,390 food stores and 831 convenience stores), signed an agreement with Optimal Robotics to purchase and install a minimum of 200 U-Scan Express systems over the next 15 months.

Kroger already has more than 30 stores equipped with the U-Scan Express systems.

But that's not all. Optimal Robotics is targeting supermarket chains with an annual sales per store in excess of US\$12 million. And that's the gold mine. There are roughly 8,900 stores in the U.S. that do in excess of US\$12 million per year.

Assuming Optimal Robotics could get just 1 U-Scan Express in half of these stores, we're talking about US\$750 million in revenues. But let's be honest, it will take some time for the U-Scan Express to be fully accepted.

If Optimal could penetrate the market 5%, it could reach US\$66 million in annual sales. And remember, I'm only talking about supermarket chains. I'm not talking about big retail chains like Wal-Mart and Target, which are also on the list.

### *Big Blue on board*

In July 1998, OPMR announced that IBM signed an agreement to jointly market and sell U-Scan Express in the U.S. This is a very important agreement because IBM will sell the U-Scan Express systems to its existing retail point-of-sale (POS) customers.

The IBM POS platform is the most widely used POS platform for retailers in North America. And the U-Scan Express integrates seamlessly with IBM POS terminals. It's a perfect fit.

### *A market cap poised to explode in 2 years*

At a current per-share price of US\$11.00, Optimal Robotics trades at a market valuation of roughly US\$100 million. If the company can penetrate the market by 1% or even .5%, the market valuation could go up three-fold from its current per-share-price. This would put the stock around US\$30, or a market cap of just US\$210 million.

There's practically no competition. That's right, Optimal Robotics's U-Scan Express has no competition in the retail sector. And the fact IBM has partnered with OPMR is the best testimonial I need to know the U-Scan Express is the best technology in the market.

Now I have to warn you, Optimal Robotics is a speculative play. This market hasn't rewarded small-cap companies for innovative technologies and possible monopolies in a niche industry — other than the Internet.

Currently, OPMR is trading around support. I need to see if it breaks support. If it does, we'll buy at lower levels. However, if the market rallies — and Optimal rallies and breaks resistance, the stock is headed for new highs. The hotline will update you on the status.

So, keep **Optimal Robotics (OPMR - NASDAQ)** on your radar list. From a proprietary technology angle, OPMR will be a major player in the POS market in the retail industry. **And we**

**could easily triple our money in the next 12 to 24 months.**

### *● Micros Systems explodes to the upside — up 36% in the past two months*

I continue to rate **Micros Systems (MCRS - NASDAQ)** one of the best small-cap, growth stocks in the market. In fact, it was the only hospitality enterprise company to make Business Week's Hot 100 Growth Companies.

To bring you up to date, Micros develops and sells the most popular point-of-sale and ordering terminals for the restaurant and hotel business. And now the company is developing a Palm version of the OPERA. This will allow hotels to be more responsive to guest needs by using the mobile handheld device in real time.

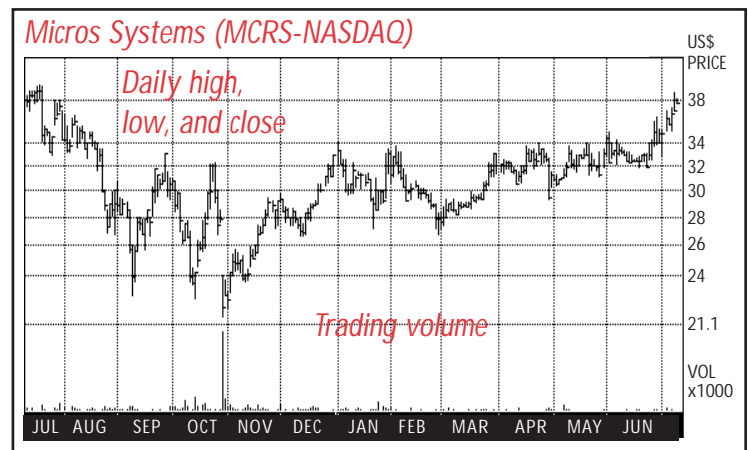
Micros' leadership position is demonstrated through its top and bottom line growth.

Micros' 5-year sales growth rate of 38.3% blows away the industry average of 8.4% and the S&P 500 average of 17%. Yet MCRS trades at a trailing-twelve-month p/e ratio of 26 while the industry trades at 60.

Earnings are expected to grow 25% from US\$1.61 this year to US\$2.02 in fiscal year 2000.

At a 1-year forward p/e multiple of 18, Micros trades at a severe discount to broader market, even though it is exhibiting robust growth at all levels.

**Based on a p/e of 25 on next year's earnings, MCRS would trade at US\$50.50 a share. That's my 12-month target.**



### *● Univision (UVN-NYSE) powers to new highs on DirecTV Deal*

**Univision Communications (UVN - NYSE)** and DIRECTV announced an agreement to add Univision Television Network — the leading Spanish-language television broadcast company in the U.S. — to its lineup on July 20, 1999.

The highly rated Spanish-language services will be available to more than 5 million DIRECTV subscribers. DIRECTV will add Univision and Galavision to all Total Choice programming packages at no additional cost to subscribers.

As a result of the agreement, Univision will add an estimated 5 million subscribers for the network. This is based on a highly conservative monthly affiliate fee assumption of US\$0.10 per subscriber, which will generate at least US\$6 million in incremental revenue and EBITDA in the year 2000.

Univision and Galavision enable DIRECTV to deliver



programming to new audiences and provides Univision Communications Inc. with the ability to deliver its programming to more of the nation's 30 million Hispanic viewers.

Univision Communications reaches 92% of U.S. Hispanic households through its owned-and-operated stations, 28 broadcast affiliates and 939 cable affiliates nationwide. The Company's operations include Univision Network, the most-watched Spanish-language television network in the United States. Univision Television Group, which owns and operates 13 full-power and 8 low-power television stations, including full-power stations in 12 of the top 15 U.S. Hispanic markets; and Galavision, the country's leading Spanish-language cable network.

### *Good riddance to ADFlex*

Well, it looks like **ADFlex Solutions (AFLX - NASDAQ)** will be one of my worse recommendations. The company is being acquired by Innovex for US\$3.80 a share.

There's no sense in sugar-coating the fact that this buyout price is well below *Taipan's* entry price last year.

Under the terms of the agreement, Innovex will commence a cash tender offer to purchase all of the outstanding shares of ADFlex for US\$3.80 per share. By its terms, the tender offer, unless extended, will expire on Aug. 3, 1999.

Upon completion of the tender offer and following the post tender offer merger, ADFlex will become a wholly-owned subsidiary of Innovex, which will continue to trade on the Nasdaq under the symbol INVX. The transaction will be recorded using purchase accounting rules.

The combined company will be the largest flexible circuit manufacturer in North America. On a pro forma basis, based on

twelve month trailing revenues, the new company would have had annual revenue of approximately US\$230 million.

This acquisition, and the fact AFLX is turning a modest profit this quarter, were the reasons the stock began a recent, powerful rally from the low US\$2s.

The company just announced that it expects to report a small operating profit on net sales, which will be up nearly 20 percent over net sales in its first quarter.

Net sales are expected to be within the range of consensus analysts' estimates and earnings per share are expected to exceed the estimates. **I see no benefit in selling under the buyout price, especially if you have a sizeable position. I'm waiting for the cash buyout to end this bad experience.**

### *Buying shares in the off-season... MedImmune breaks to a record high*

MedImmune has been one of the best performing first-tier biotech stocks of the entire group. The stock is within striking distance of its record high of US\$74. And all indications suggest that this level will be taken out before the end of the summer.

Summer is the off-season for RSV — the leading cause of respiratory illness and pneumonia in children. But since MedImmune's Synagis has a monopoly on the treatment, institutions are quietly accumulating MEDI on the cheap.

Institutions are raising eps estimates as Synagis continues to outpace revenue projections. Fiscal year 2001 eps estimate stands at US\$2.56. Fiscal year 2000 eps estimate stands at US\$1.85. With earnings estimated to grow 38% between 2000 and 2001, MEDI trades at a p/e multiple of 28 on 2001 estimate.

**I continue to see upside potential in MEDI, and raise my 12-month price target to US\$97.25.**



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## Staid, dull, boring — and ready for a double!

by *Christian DeHaemer*

● *Sun Microsystems (SUN:NASDAQ) is up 40% in six months since I first recommended it on TaipanOnline.*

● *Last month's pick Oracle (ORCL: NASDAQ) ran up 26% on earnings growth before you received your newsletter. I suggest you buy on the pull back.*

*The Sun/Oracle partnership is leading the Internet software world. While, these two companies won't be a ten-bagger, they should continue to beat the market over the long haul.*

● *Sold at the top — 162% in a month on PLD Inc.!*

● *Sold at the top — 55% in York Research!*

● *TSRI remains a buy under US\$8.50 — all computer staffing stocks are currently undervalued due to Y2K freeze. No investment manager will buy them. A surge in January won't mean spit for their 1999 bonus. Forget the canned beans — stock up on these companies!*

There is nothing I like better than a company that is doing extremely well in an industry that's been pummeled by Wall Street. Except, maybe, those real police chase shows on Fox.

The computer service industry is in the belly of the beast. It seems that every company has scapegoated the Y2K freeze for any and all earnings blips. Those of you who read last month's article concerning Oracle are familiar with this phenomenon. (Those of you who missed this poignant and sophisticated piece of financial literature can check it out on [taipanonline.com](http://taipanonline.com).) And I'm not just saying that because I wrote it.

I apologize in advance that this month's pick has nothing to do with ballistics, lasers, satellites or naked females. This decided lack of undervalued story stocks could be an indicator — as the living dead in *Barron's* like to say — of an overvalued market.

Overvalued or not, that didn't stop us from pulling in 162% in a month on PLD Inc., or 55% on York Research in 8 weeks. You have to play to win, and this month we've uncovered an extremely undervalued company with plenty of upside and almost no risk.

### *Red tape cutters*

This month's pick is simple. **Steven Myers & Associates or SM&A (WINS-NASDAQ)** is a consulting company. Their expertise is in helping large government contractors win bids, grants and contracts. It's a niche market with no real competitors.

Over the past year, SM&A has helped companies like Raytheon, Lockheed Martin, Motorola, Boeing and Litton win 95.1% of the government work they apply for — that's approximately US\$18 billion in new contract awards for their clients. The previous year's win rate was 89.6%. This compares well to the rest of the industry's 30% rate. Obviously,

their product is sound.

### *Not chained to the dog*

I should mention that none of these companies represents more than 27% (Lockheed Martin) of SM&A's total revenue stream. It is important for consultants to be diversified so that losing one big client doesn't sink the ship.

SM&A is also involved in systems solutions. Their team of geeks supplies NASA, the Air Force, Army, DARPA, Boeing and Raytheon among other with high tech help.

A separate IT division supplies big name companies like Hewlett-Packard, MCI and Draper among others with complex systems and operations.

### *Growing revenues like weeds*

It's not the big names that have me stoked about this company — it's the heart-pumping, edge-of-your-seat growth SM&A has exhibited over the past three years. Three-year revenue growth is 63%. First quarter revenue growth year over year was 136%. Three-year net income was up 117%. First quarter income year over year was up 76%. Three-year EPS — up 110%. First quarter EPS, year over year — up 50%. **Power! power! power!**

### *138% Q1 revenue growth and a p/e of 13?*

With growth like this you'd be hard put to explain why SM&A has a P/E ratio of 13. That's not a typo. It is ridiculous, however. Part of the problem could be that this company has only 750 employees and a market cap of US\$130 million. It's

HISTORICAL QUARTERLY RESULTS REVENUE (Thousands of U.S. Dollars)				
	1996	1997	1998	1999
1st Qtr	MAR 7,546	7,229	10,659	25,314
2nd Qtr	JUN 7,824	8,544	13,462	
3rd Qtr	SEP 4,092	10,866	22,284	
4th Qtr	DEC 6,237	10,323	22,044	
<i>EARNINGS PER SHARE (U.S. Dollars per share)</i>				
1st Qtr	MAR 0.070	0.090	0.120	0.180
2nd Qtr	JUN 0.050	0.080	0.160	
3rd Qtr	SEP 0.000	0.100	0.100	
4th Qtr	DEC 0.010	0.100	0.160	

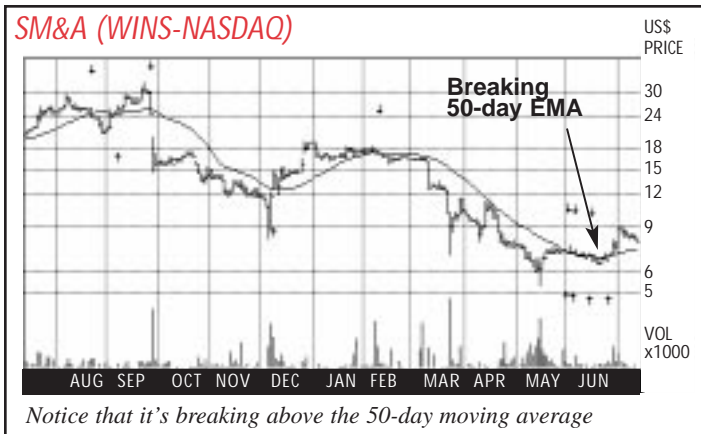
**Big growth**



on the lower end of the small caps in a market obsessed with index funds. But that's not the whole story.

It could be the traditional 12-18 month sell off after an IPO. I've seen this again and again. The firm, in this case DL&J, that takes a company public slowly sells off their inventory after the initial gain. Then they get their buddies in at the low — which is about the same time the company starts complaining — so the firm puts some fire under the stock to avoid getting a blemished reputation as an IPO specialist.

It also takes a company's management time to adjust from a private company to a public one. If the company has a long history of never having to care about shareholders, this transition usually results in a new CFO. Press releases get decidedly more hyperbolic.



## Buy out

The share price also reflects a couple of complicated acquisitions last summer, which were followed by partial liquidation. These buyouts included shares available to be sold by the purchased company in April. This excess liquidity resulted in a high proportion of short sellers. As you tell from the chart on the next page, the shorts came flocking. The share price was just beginning to come back from the flight to quality last fall before this set of circumstances pushed it down.

## Contrary indicator

The shorts have been coming out of the woodwork of late, which I like to use as a contrary indicator. The latest numbers show SM&A with a short position of 598,114, more than twice the position of a month before of 278,654. They have to cover at some point, and since this is a long-term play I'm willing to get in now. The share price is up two points after putting in a double bottom at six — the lowest it has ever been.

## Big, hard staff

It's important to mention the staff in this type of business. In this particular case 45% have higher degrees and 80% hold clearances at the secret level or above. As anyone who has worked in the defense industry can tell you — they don't give these things away. A security clearance adds a 30-40% premium on the value of any worker. Needless to say, the barrier to entry in this field is extremely high.

And in case you were wondering about the quality of leadership, SM&A's CEO, Steve Myers, recently won Ernst &

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- \* James Passin, editor of *Taipan* and *Taipan Trader*, has a worldwide network of contacts among hedge fund managers, economists, bankers, traders, brokers, and Washington insiders.
- \* Christian DeHaemer, co-editor of *Taipan* and editor of *The Hammer*, is one of the world's truly gifted stock bargain hunters. DeHaemer will show you how to find inexpensive stocks today that will deliver growing profits past 2000.
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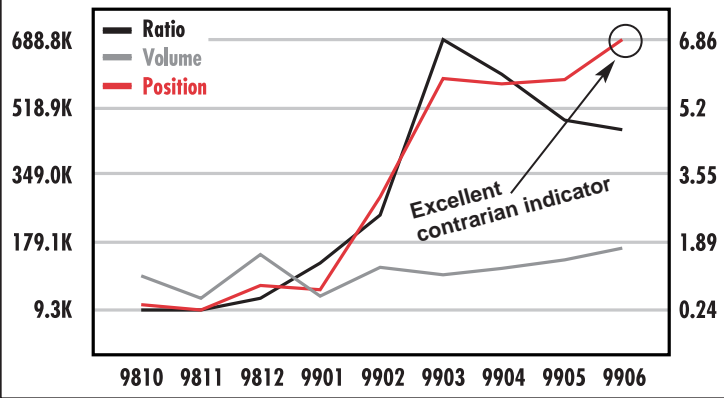
- \* Doug Casey, editor of *International Speculator*, has achieved legendary status in the investment community for bringing his readers staggering profits in stock, bond, commodity, and real estate markets around the world. Find out how his next ten-bagger is going to change the automotive, computer, audio and TV industries.

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## Short position



Yong's 1999 entrepreneur of the year award for his region of Orange County, CA. This makes him eligible for the national award to take place in November. I don't know about you, but that makes me as giddy as a warden at his first execution.

This factoid doesn't mean much, except that Myers has friends and you can assume that the company isn't a Bre-X.

## Cheaper than a pig in Pakistan

Not only is this company undervalued — but they have recently completed a 600,000 share buy-back program at an average price of US\$7.63 and authorized the purchase of another 200,000 shares. Not too shabby considering the price is now above US\$8. Is this America or what? I need some apple pie.

One of the big risks concerning any company which grows through acquisition as well as internally is the effect on share holder value. Let's turn to our old friend EPS one more time.

In 1997 the EPS was 37, in 1998 it reached 0.56 and in 1999 it is estimated to be 0.75. That's a 33% gain year over year — still more than twice the trailing p/e ratio or three times the forward (99) p/e ratio. (There is some seasonality with defense budgets, so it is helpful to look at year-end numbers.)

## Comparables

SM&A has no publicly traded competitors in the government contracting consultant area. However, since SM&A now draws a large portion of its income from the computer consulting industry we can compare it to two companies of similar size and make up.

Modis Professional Services (MPS-NYSE) and Metamor Worldwide, Inc. (MMWW-NASDAQ) are medium sized computer systems service and consultant companies.

MPS grew sales 29% to US\$483 million last quarter. Net income grew 10% to US\$24 million. This company also grows through acquisitions. MPS has a price/sales ratio of 0.79 and a price/earnings of 19.57 with a market cap of 1.24 billion. ROA = 4.08%, ROE = 6.72%.

MMWW grew revenues 36% to US\$249 million last quarter. Net income rose 41% to US\$9.8 million. P/E is 19.03, P/S is 0.94, P/B is 1.84. This company has a market cap of US\$775 million and considerable debt with a debt/equity ratio of 1.18.

Our champion, SM&A, grew revenues 138% last quarter — to US\$25 million and net income 70% to US\$3 million. P/E is 13.82, P/S is 1.62 and P/B is 2.33. SM&A has a market cap

of US\$133 million and a debt/equity ratio of a modest 0.11 — excellent for a company that just went through a series of acquisitions. Furthermore, they recently received a 100% increase to their revolving line of credit, which now stands at US\$50 million annually.

SM&A's ROE is 22.01, ROA is 17.38 with gross margins at 40%. Those numbers blow its peers away.

## Can't touch this

At 3.7 times MMWW's revenue growth and 4.5 times MPS's revenue growth, you would expect that SM&A would have a p/e ratio at least double its competitors. But in fact it trades at a 40% discount to its peers!

That's simply wrong. Especially in an industry as a whole that is blatantly undervalued compared to its growth rates and the forecast demand build-up after Y2K. Not to mention the increasing demand for IT professionals projected over the next ten years.

Given these multiples SM&A should trade at a share price of US\$25.50 today! That's not even taking into account the company's near monopoly in its field and the effect of a federal budget surplus on defense spending.

With its latest domination in Kosovo the American military machine is as strong as it's been since Reagan was in office. Even if Al "Internet Inventor" Gore gets elected he'll have a tough time making defense cuts. Not that any politician is cutting anything these days.

## Happy New Year, Hector!

After January 1, 2000, the interest in these companies will recover and the average p/e will return to equality with its growth rates, **in SM&A's case that would mean a 16-fold increase!**

That's possible, but unlikely. It is possible, however, that you could see SM&A return to its highs of 32 nine to twelve months from now. But being the conservatives we are at *Taipan* and due to the fact that it is a relatively unknown small cap — with a thin and therefore volatile float — I put WINS at a share price of US\$18 nine months out — or a conservative 25% of SM&A's top-line growth rate.

**BUY SM&A (WINS:NASDAQ) under US\$8.50 today, for a easy potential double by spring.** Current price US\$7.87. Contact information: Investor Relations Address: 4695 MacArthur Court, Eighth Floor, Newport Beach, CA 92660 Phone: (949) 975-1550 Fax: (949) 975-1624.

## SHARE INFO

IN MILLIONS

Market Cap	133.17
Shares out	16.39
Float	4.30
Shares short	0.59
Percent of float	7.3
Insiders own	74%



# Cash in on a piece of Microsoft's market with its competitor Red Hat, Inc.

by *Siu-Yee Ng*

The Internet, as everybody knows by now, has no central location, but is a collection of attached sites and networks. Due to its decentralized nature, there are several ways of getting access to information on the Net.

Each has grown over the past 30 years in response to a different need: e-mail, for instance, makes one-to-one communication possible; Usenet serves as a global message board; File Transfer Protocol is for sharing software and files. There are others, but all the glitz today follows the Web.

The Net only became a consumer phenomenon in the early 1990s—over 20 years after the Internet first began to take shape. Despite Al Gore's paternity claims, the two crucial milestones were the invention of the Web (more specifically, the hypertext protocol on which the Web is built) and the graphical Web browser. Suddenly, the Internet was a collection of pretty images and formatted text, rather than a programmer's jungle of UNIX commands.

## *It's a geek, geek, geek, geek world*

Until recently, the Net was mostly the province of academic types and Mountain Dew-fueled misfits. But in recent years, the deluge of newcomers to cyberspace has transformed the way the Net works.

The rapid growth of the Internet in recent years has accelerated the development of open source software. Unlike proprietary software, open source software has publicly available source code and can be copied, modified and distributed with minimal restrictions.

Under the open source software model, software is created through the collaborative efforts of large communities of independent developers. Developers work alone or in groups to write code, make it available over the Internet, solicit feedback on it from other developers, then modify and share it with others for general use. This continuous process results in the rapid evolution and improvement of open source software.

## *Odyssey of the minds*

Red Hat, Inc. (RHAT-NASDAQ) is a developer and provider of open source software and services, including the Red Hat Linux operating system. Their Web site, REDHAT.COM, is a leading online source of information and news about open source software and one of the largest online communities of open source software users and developers.

In addition to offering extensive content for the open source community, REDHAT.COM serves as an important forum for open source software development and offers software downloads and a shopping site. The company also provides professional services including technical support, training and education, custom development, consulting and hardware certification.

Linux is a software code developed by Linus Torvalds in

the early 1990s in Finland. Through the Internet, thousands of people develop the Linux program, which is found free on the Internet. Red Hat sells US\$40 to US\$100 versions of its product, which include an easy-installation feature, a Windows-like interface, and a host of supporting programs.

## *Crash and burn*

Red Hat Linux is the company's principal product. Since its introduction in 1994, Red Hat Linux has emerged as the most popular Linux-based operating system in the world. Red Hat Linux represented approximately 56% of new license shipments of Linux-based server operating systems in 1998, according to the International Data Corporation (IDC).

Red Hat's historical business has been based on the sale of Official Red Hat Linux. Using a standard telephone connection, a user can download Red Hat Linux from the Internet free of charge in approximately 36 hours. To avoid this significant download time, users can purchase the shrink-wrapped version of Official Red Hat Linux.

Sales of Official Red Hat Linux have represented their principal source of revenue since its introduction in October 1994. The company's software products are sold through distributors to enterprise and retail accounts; directly to individual users and enterprises through the REDHAT.COM Web site and call center; and from OEMs which license the software directly.

The lure of Linux is its stability and power. The program will not crash your computer every other minute like Microsoft Windows. Sounds like the ideal program, but the drawback is the lack of software used with the Linux program. Some software is available, but is still a step away from being user friendly. Another drawback was the lack of technical support, but this is changing. Red Hat is selling its technical support from US\$1000 to US\$60,000 a year based on the number of users and for services such as customized programming.

Earlier this year, IBM started shipping its Netfinity line of network server computers with the free operating system Linux pre-installed. IBM has an agreement with Red Hat to offer IBM customers technical support.

## *Hats off*

Total revenue increased 109.3% to US\$10.8 million in the fiscal year ended February 28, 1999, from US\$5.2 million in the fiscal year ended February 28, 1998.

Software and related products revenue is comprised primarily of sales of Official Red Hat Linux and related software products and sales of publications about Linux-based operating systems. Software and related products revenue increased 95.1% to US\$10.0 million in the fiscal year ended February 28, 1999 from US\$5.1 million in the fiscal year ended February 28, 1998.



Software product revenue increased to US\$9.0 million during the fiscal year ended February 28, 1999, from US\$3.9 million for the fiscal year ended February 28, 1998. The increase in software products revenue was due to higher sales of Official Red Hat Linux, which, along with other Linux-based operating systems, continues to emerge as a viable software platform in the end user, educational and enterprise arenas.

Related product revenue, which is comprised of revenue from sales of books and other products, decreased to US\$1.0 million during the fiscal year ended February 28, 1999, compared to US\$1.2 million in the fiscal year ended February 28, 1998. During the fiscal year ended February 28, 1999, Red Hat reduced the number of publications published and distributed to focus their efforts on their software products.

Gross profit increased 129.2% to US\$6.7 million in the fiscal year ended February 28, 1999, from US\$2.9 million in the fiscal year ended February 28, 1998. As a percentage of total revenue, gross profit increased to 62.6% in the fiscal year ended February 28, 1999, from 57.1% in the fiscal year ended February 28, 1998. These increases were primarily due to an increase in royalties received for licensing their trademarks to third parties of US\$0.7 million in the fiscal year ended February 28, 1999, for which the company incurred no direct costs.

### *Getting the job done*

Management is a little weak but working thus far. The CEO and co-founder had a low profile career in the computer-leasing business. The Chief Operating Officer prior to Red Hat was president for several software companies — Relativity Technologies and Sapiens International. The executive vice president and chief technology officer not only co-founded Red Hat but was also a participant in the design and development of Red Hat Linux and founded Red Hat Development Laboratories.

There are only three directors and two are venture capitalists. This worries me a little. We'll keep an eye on any new additions.

Companies with which Red Hat has strategic alliances or investment relationships include Compaq, Dell, IBM, Intel, Netscape, Novell, Oracle and SAP.

But notable investors include Landmark Communications' Batten family, Benchmark Capital, Greylock Limited Partnership, and Intel.

Goldman Sachs & Co. is the lead underwriter, and their track record this year with returns on IPOs has been impressive.

It looks as if E\*TRADE Securities, Inc. will have shares to distribute as well. Red Hat, Inc. (RHAT-NASDAQ) is expected to debut the week of August 9.

### *IPO FOLLOW-UP:*

● You were able to collect some short-term profits on Korn/Ferry International (KFY-NYSE). This was a recommended sell at US\$16.00 but it went high as US\$17.00. Not bad for a 39% profit in four months.

● Another great winner with TheStreet.com (TSCM-NASDAQ). You collected a 68% IPO profit - selling above US\$32.00.

● GoTo.com (GOTO-NASDAQ) debuted on June 18 pricing at US\$15.00. It opened at US\$26.00, went above US\$70.00, and is currently trading at US\$54.00. Don't buy at this level. Remember to log on to the Taipan site for specific buy entries.

● Barnesandnoble.com (BNBN-NASDAQ) priced at US\$18.00, fell below the offer, and is currently trading at US\$18.50. Neilson has reported that 20 million Americans have conducted an online e-commerce transaction and that 48 million Americans are using the Internet to make shopping decisions. The U.S. book market was US\$25.8 billion in 1996 and is expected to grow to US\$31.4 billion by the year 2000.

And we haven't touched the global market; the Internet is the perfect source for getting more consumers. According to Euromonitor, worldwide book sales were approximately US\$82 billion in 1996 and are expected to grow to approximately US\$90 billion by the year 2000. Barnesandnoble.com has great potential and remains an aftermarket buy under US\$20.50.

### **FREE IPO PROFITS ON THE WEBSITE**

Remember to log on to the Taipan Web site for IPO updates and weekly picks. We had some big winners on picks like Wit Capital (WITC-NASDAQ). Wit, priced at US\$9.00, went as high as US\$39.00, and is currently trading at US\$36.00.

Phone.com (PHCM-NASDAQ), priced at US\$16.00, went above US\$78.00, and is currently trading at US\$73.00. Juniper Networks (JNPR-NASDAQ), priced at US\$34.00, went above US\$160.00, and is currently trading at US\$126.00.

These are just some of the big winners. There's a new pick each week with updates. As a Taipan subscriber, this is yours for the taking. Don't miss the opportunity to cash in on some profitable IPO buys and check in on my latest picks and updates on <http://www.taipanonline.com>.



# A truly Worldwide Web

by J.K. Riffin

If you were watching the Internet phenomenon unfold from the space shuttle, you might conclude that the Jean Valjeans of this "revolution" are intensely focused on their own navels.

With so many entrepreneurs and investors clustered in Silicon Valley, Boston, New York, Seattle and Washington, D.C., Internet activity has almost exclusively been dedicated to re-engineering American industries and wiring American consumers. You might get the impression that the leaders of the Internet revolution view the rest of the world as good for little more than monetary crises and NATO bombings.

Well, despite ugly-American myopia, fascination with the Internet is spreading overseas with wildfire fury. Internet usage and acceptance rates in Europe, Latin America and Asia are approximately what they were in the United States two to three years ago. However, with the demonstrated success of first-mover American Internet companies such as Amazon.com, Yahoo! and America Online, among others, the growth in international Web consumer activity will increase at a greater rate.

According to International Data Corp., 12% of European adults (34 million) use the Internet, versus 32% (64 million) in the U.S. The number of European Internet users is projected to triple over the next four years to more than 100 million users.

More than 80% of all Web sites are hosted in the U.S., and dominant American e-commerce and portal Web sites are making significant inroads within overseas markets. In Sweden, for example, the three most popular Web sites are the Microsoft Network, AltaVista and HotMail. The relatively high number of English-speaking Europeans has enabled American Web sites to cross over, and remains at least a short-term barrier to entry for independent European e-commerce and portal Web sites.

Through the short term, most Internet-related investment opportunities in Europe remain with the obvious large market cap companies that are engaged in building and expanding the continent's Internet infrastructure.

Matters are different, however, in Latin America and Asia, as several companies are emerging to rapidly leverage unique market characteristics.

## *Early Star in Latin America*

There are nearly five million Web users in Latin America, according to a recent International Data Corp. study. Over the next three years, Internet usage in Latin America is expected to increase nearly five-fold to more than 34 million users.

According to a recent Saatchi & Saatchi survey, 90% the region's current Web users are from upper-middle and high social classes. Compared to the relative chaos in U.S. Internet advertising, this is a no-brainer for e-tailers and advertiser-driven portal sites.

And, as we already know, the Internet offers these premium customers the most convenient method of buying goods. In Brazil, nearly 40% of all Internet users have purchased merchandise via the Web. Brazil accounts for nearly half of all Latin American Internet users, with the other half

split among Mexico, Colombia and Argentina.

StarMedia Network (STRM-NASDAQ) was the first Latin American dot-com to market, raising US\$105 million in its May, 1999 IPO. In its first day of trading, StarMedia shares almost doubled in value. The company's current market capitalization is nearly US\$3 billion.

StarMedia offers South Americans, Latin Americans and U.S. Hispanics one-stop shopping for Spanish and Portuguese content and merchandise, enabling many Latin consumers to purchase goods from outside the region for the first time. E-commerce revenues in Latin America are expected to increase from approximately US\$300 million in 1998 to over US\$8 billion by 2003 according to Visa International and IDC. Nearly a third of StarMedia users have already made online purchases, and 59% are likely to make a purchase on the Web in the near future.

The company is continuing to forge successful strategic partnerships with established players, including 1-800-FLOWERS.com, ShopSports.com, barnesandnoble.com, Outpost.com, and CDnow. StarMedia recently announced a unique partnership with SkyBox Services Corporation, which allows StarMedia customers to register free of charge for the SkyBox shipping service and immediately receive a U.S. address, enabling customers to shop StarMedia's online partner stores in seconds.

Despite all the fanfare surrounding its reception, StarMedia will face stiff competition. Microsoft Corp. (MSFT-NASDAQ), America Online (AOL-NYSE) and Yahoo! (YHOO-NASDAQ) all have launched portals in Brazil. However, StarMedia already has demonstrated a keen understanding of the interests and buying habits of its demographic target.

Over the next few months, look for additional "me, too" players like Elsitio.com and From2.com to rush IPOs to market. Argentina's El Sitio International recently raised US\$44 million in venture capital to further its efforts to become a leading Web destination for Spanish and Portuguese speakers. Online for two years, Elsitio.com has 150 employees in offices throughout South America and the U.S. and provides news, entertainment and access to electronic commerce. Miami-based IT services company From2.com enables e-commerce companies to close international transactions. From2.com recently announced plans to go public by the end of 1999.

## *Asian Internet ready to pop*

International Data Corp. estimates that, although there are currently less than two million Internet users in China, the number will bloom to nearly 40 million in the next four years. Japan's Internet market is now the second-largest in the world after the U.S. in terms of the number of users, with over 9.7 million users at the end of 1998, up 43% from 1997.

At the center of this explosive growth are two companies, Softbank Corporation and China.com. Originally a large software distributor, Softbank Corporation (TSE:9984) is one of the world's large Internet holding companies, rapidly acquiring significant stakes in more than 60 Internet-related companies,



including Ziff-Davis Inc. (ZD-NYSE), Yahoo! Inc. (YHOO-NASDAQ), E\*TRADE Group, Inc. (EGRP-NASDAQ), and Japanese affiliates Yahoo Japan Corporation (4689-JOTC), GeoCities Japan Corporation, ZDNet Japan, Broadcast.com Japan K.K., E-Loan Japan K.K., and E\*TRADE Japan K.K.

The combined market capitalization of seven of Softbank's largest Internet holdings total about US\$14 billion. Softbank's own share price has doubled since January, as the Internet-fueled boom has overflowed into the Tokyo exchange.

Softbank is focused on Japan, where the company has become the local partner with several of the most successful brands in the Internet industry. In November, Softbank will open an Internet-based, Japanese-language bookstore allowing customers pick up and pay for books at any of Japan's ubiquitous 7-Eleven convenience stores.

Softbank's ultimate plan is to spin out its operating units and become a pure holding company. With significant clout in the portal, e-commerce and online trading market spaces within Japan, look to Softbank as the harbinger of future Internet activity in Asia.

For China.com (CHINA-NASDAQ), the future is now. The company's US\$85 million IPO last month served notice that the Asian Internet market is for real. Operating four major Internet Web sites, the company offers Internet connectivity and Chinese and English language content to audiences interested in services involving the People's Republic of China, Hong Kong and Taiwan.

Though China.com had only US\$3.5 million in 1998 revenue, and lost US\$11 million in that same period, the company is poised to leverage the dramatic increase in Internet usage projected for the Asian markets. In addition to its content and portal offerings, China.com also works with U.S. Internet advertising firm 24/7 Media, Inc. (TFSM-NASDAQ) to provide Internet advertising services to other Asian Web sites.

In the months ahead, look for Sina.com Inc. to be the next China.com. In May, Sina.com, completed a healthy US\$25 million round of financing from investors including Goldman Sachs, Flatiron Partners, and the Economic Development Board of Singapore. The company has quickly assembled strategic partnerships with established Internet companies including CBSMarketwatch, Critical Path, Alta Vista and Excite.

Sina.com already boasts more than 100,000 registered users, and is actively working to position itself as the Web portal for the 1.5 billion people of Chinese descent around the globe. Today, 92% of Sina.com members have advanced degrees, with an average household income of US\$46,000.

### International Reality Check

It is somewhat ironic how the early international dot-com plays are targeted for Latin America and Asia. Sooner or later, Europe will surely provide its share of emerging content opportunities. In the meantime, the Internet revolution continues to defy traditional social and geopolitical boundaries to deliver goods and services to pent-up pockets of consumer demand, wherever they may be.

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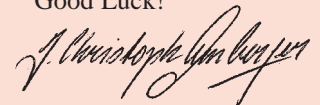
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