



Beat the Wall Street insiders at their own game

Make money while the rest of the world takes a bath

by *Christian DeHaemer*

The IPO market has provided the stage for the single greatest transfer of wealth to the legally larcenous liars of Wall Street since the Hoover administration. Over the past few years we have seen untold trillions gambled away on over-hyped fad stocks. Whether it was Netscape, WebMethods or TheGlobe.com, some fool was always placing market orders at the top.

Things eventually reached a height so absurd that from this vantage point it seems unscalable. I don't mean to insinuate that anyone buying WebMethods at US\$305 is still in it today at US\$95. You just have to know when to get out of a losing proposition.

Not that buying into an investment Macarena is always bad. Those few with perfect timing or the necessary luck can make a killing. But most people go about it the wrong way.

The only reason for buying a company with no upside catalyst is because you believe it is so inexpensive in comparison to its peers that you can buy now and wait for a catalyst to appear. This is the exact opposite of what happens in the aftermath of an IPO. Read on, and discover a secret so simple and profitable that you'll wonder why you aren't already using it on a daily basis. But first, some simple background information.

Go thin, you're in

I've been talking about eflation for a couple of years. It's the process by which supply and demand, short sellers and thin floats combine to send a stock through the ionosphere.

When a company goes public, it issues a large number of shares (say ten million at US\$13), but at first only offers 1.5 million for sale. This is called the float, i.e., the number of stocks available for public trading.

Now, if it's a good company with a solid business plan and a future packed with growth potential, you can expect it to garner

a great deal of media interest. Company hacks will be on the hallucinogenically happy CNBC telling the world about how they are going to revolutionize the way their business is done.

The "Brain" tosses them softball questions about their home town and favorite flavor of ice cream.

CBSMarketwatch

showcases them at the top of the headlines. The small number of shares and big buzz insures that the stock gallops out the gate. The insiders, their family and friends, and the brokerage company that took them public rejoice. On their way home they will all buy themselves red convertible Porsches.

The small amount of stock available will then be taken over by the short sellers, who realize that there is no way a doughnut company (**KREM:NASDAQ**) with US\$12 million in annual income and 3% margins should have a market value of US\$1.25 billion. This pushes the number of shorts to extremes and sucks up the available shares. Thirty-five per-

(over, please)

"Short Capstone in late September or early October with a plan to cover after Christmas."

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cent of the Krispy Kream shares are now in the hands of short sellers.

This sets the stage for a classic short squeeze. The shares move up, the momentum guys take them higher, more shorts try to borrow the shares that aren't available. And up it goes until something cracks, or the supply of shares increases...

Supply demands a body count

Like any market, the NASDAQ must adhere to the laws of supply and demand. The selloff over the summer can be directly correlated to an enormous increase in supply. And according to Thomson Financial Securities, there are 280 companies that are planning to go public before the end of the year.

These companies presumably believe that there is US\$36 billion in loose change waiting to be dumped back into new ventures. The number of companies that want to go public in Q4 this year is the same as went public in all of 1998.

Furthermore, due to the deluge of IPOs last spring, there is a flood of lockup shares waiting to be dumped into the market in September. In fact, 1.8 billion shares from 45 different companies will be free to trade this month.

October is a different story, with the number dropping to around half of the September figures—reflecting the pulled IPOs dating from the bear market in May.

Any way you look at it, when you combine the lockup expiries with the pre-IPOs waiting in the wings—the NASDAQ will be buried in supply over the next three months.

Fantastic profit opportunity

This scenario presents a number of speculative opportunities to make money. The obvious way to play this supply and demand configuration is to short companies today against the end of the month and buy companies in October when the influx of supply decreases. But first, let me give you three clear examples of how this works.

Looking back over the past three months, I culled twenty stocks that act in almost perfect symmetry with this hypothetical scheme.

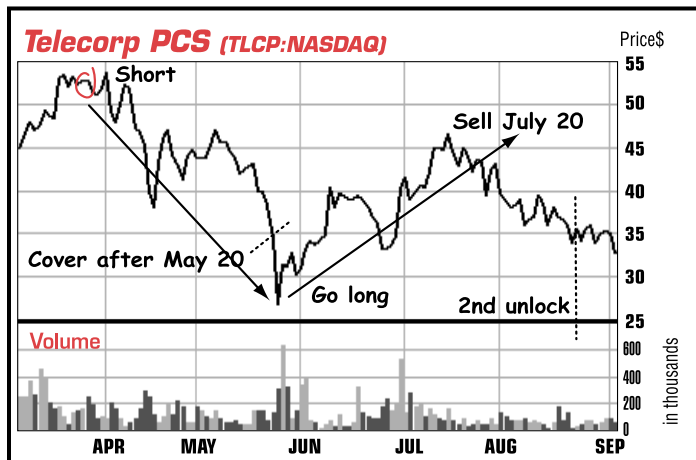
As you can see from the following charts, these stocks formed a perfect "V" shortly after the lockup expired

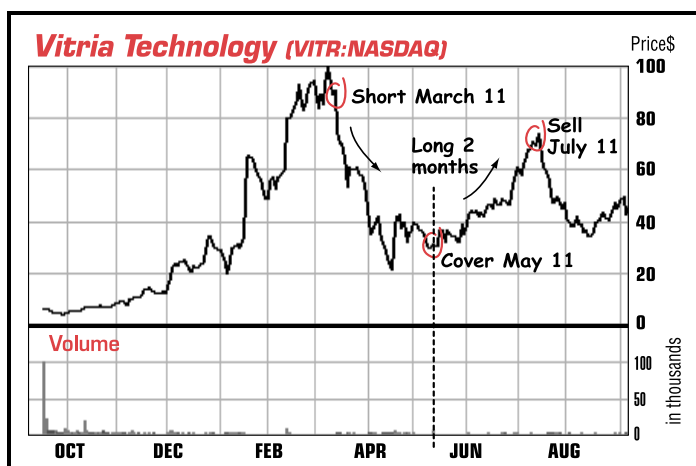
(average 3 to 5 days) and insider shares were free to float. Lockups generally expire six months after an IPO, though some last an entire year. You can find this information in the SEC documents.

The companies are **NetCreations Inc. (NCR:NASDAQ)**, **Telecorp PCS (TLCP:NASDAQ)**, and **Vitris Technology (VITR:NASDAQ)**.

NTCR unlocked 11.7 million shares on May 10, 2000, representing 75 percent of shares outstanding and increasing the float by 354 percent. NTCR closed the day at US\$31, but five days later it hit a low of US\$24.13. If you shorted this company two months before the lockup ended (at 62) you would have made 61 percent off your short position. If you bought at the low point and sold two months afterwards, you would have made 79 percent on the long position.

TLCP is the largest AT&T Wireless affiliate in the United States. On May 20, it unlocked 3.7 million shares, or 43 percent of its float. If you shorted this stock two months before at US\$53, you would have made 49 percent from your short position, and 60.3 percent from your long position buying the lowest





price and selling two months later.

The next unlock date for this company is August 17, 2001, when 73 million shares will be set free—nearly 800 percent of the float.

Vitris Technology worked much the same way. On May 11, 61 million shares became free to trade. That equaled 48 percent of shares outstanding and more than 513 percent of the float. You would have made 68 percent from VITR shorting two months prior and a whopping 130 percent buying the dip and selling two months later.

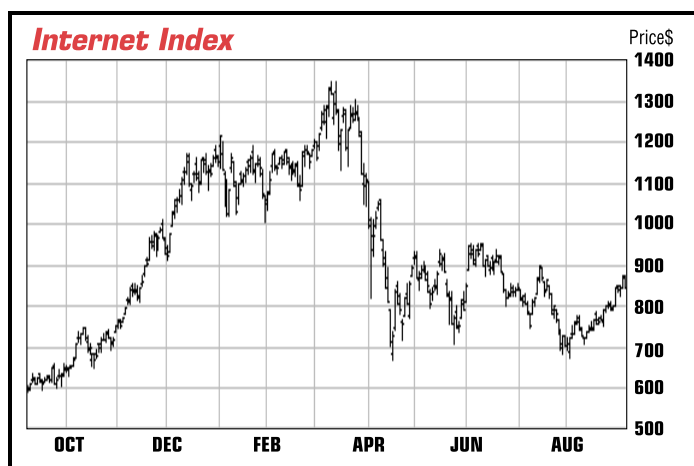
Perfect timing

Granted, it's been a volatile summer and stocks have been kicked around quite a bit. But by backtesting over the past few months using some fairly common valuation techniques, coupled with the big unlock dates, I was able to find 19 stocks that have had an extreme, tradable fluctuation. You could have made considerable gains in a short time with any one of them.

The average gain on the short side was 42 percent. The average gain on the long side was 85 percent. And when you consider that most of the recent unlocks are Internet companies, and that the Internet index took a big header and then went sideways all summer—*those are fantastic numbers!*

These are staggering results. And, as I write this, the *Taipan* research department is backtesting these numbers over the last decade. I can tell you that the results are more than encouraging.

In fact, I was so excited about this amazing opportunity I decided to give you, as a loyal *Taipan* reader, the most spectacular short play going into the tax loss selling season.



The most overvalued stock of our time

I've found a company that is now trading at a market value of US\$7 billion. This preposterous company had revenues over the last six months... that's REVENUES... of US\$9.8 million! But it gets better. Loss skyrocketed from US\$12 million to US\$576 million!

My 12-year-old dog, who is mostly blind and has a bladder problem, could earn US\$9.8 million in revenues if he started with US\$576 million.

Capstone Turbine Corp. (CPST:NASDAQ) is the leading maker of fuel-efficient microturbine systems. Among other things, they build systems for hybrid electric vehicles; resource recovery, which converts oilfield and biomass waste gases into electricity; and micro-cogeneration, which combines heat/power/chilling solutions.

All of that means that they make gear for what might someday be personal utility stations—presumably for people who live in the middle of nowhere and cannot get electricity. One of their principle markets is remote oil and gas equipment. I believe I saw this business plan before—it was called Iridium. The problem with selling to people in the middle of nowhere is that by definition there aren't very many of them.

It only gets worse

This stock is flying for a number of reasons. There is currently a trend around deregulation of the electric companies and the rapid rise in the price of oil. Wasn't it only a year ago that oil was US\$12 a barrel? Oil is now US\$35 a barrel, a ten-year high, and would seem to be heading

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HISTORIC AND QUARTERLY RESULTS REVENUE (Thousands of U.S. dollars)				EARNINGS PER SHARE (U.S. dollars per share)			
	1998	1999	2000		1998	1999	2000
MAR	30	222	3,746	MAR	0.000	-2.910	-36.490
JUN	8	334	6,086	JUN	0.000	-2.790	-14.320
SEP	0	759	—	SEP	0.000	0.000	—
DEC	46	5,379	—	DEC	0.000	-17.210	—
TOTALS	84	6,694	9,832	TOTALS	0.000	-22.910	-50.810

Massive growth...

...horrendous losses.



up as we go into the fall.

But let me remind you that energy is a cyclical market and as such the time to buy was two years ago when nobody wanted it—not today, when everyone does.

Drunks and scalawags

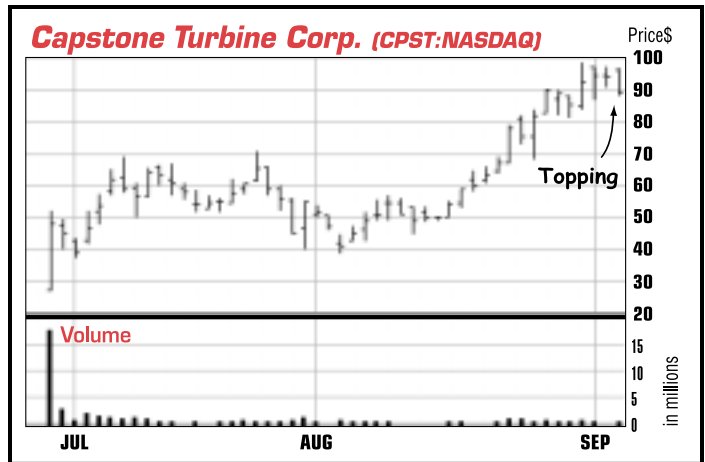
The list of underwriters for Capstone reads like a casting call for *Grumpy Old Men*—Goldman Sachs, Merrill Lynch, and Morgan Stanley Dean Witter.

When the quiet period ended just recently, this rabid rabble put out a series of “strong buy” recommendations along with a ream of research touting the wonders of Capstone Turbine.

Sure, the growth has been strong over the last six months. It's growth you'd expect when starting from a platform of zero. Hell, maybe this company is viable after all! Maybe it's the best company going and will grow 1,000 percent for the next five years. I'll even give you that oil is going to US\$50 a barrel—and I'll still short this company.

There is no way they will survive the release of 68,240,077 shares on December 25, 2000. **That's 85.7 percent of the shares outstanding or a whopping 706.74 percent of the float (currently at 9.09 million)!**

This stock will sink like the *Kursk*. Since everyone knows the unlock period will expire in late December, the stock will start to sell off about two months prior. Now, some might argue that the insiders won't sell at lower prices. **It doesn't matter, the stock will fall.** In late December the



mutual funds will be selling losers and buying winners in anticipation of the annual window-dressing ritual.

Retail investors will sell their losers for tax loss purposes and opening presents. You will be covering your shorts and thinking about going long. If we are lucky, by the time you get this, the brokerage boys' hype combined with recent NASDAQ bullishness will have sent this company over US\$100. Short **Capstone (CPST:NASDAQ)** in late September or early October with a plan to cover after Christmas.

Media 100 runs up and sells off

Media 100, our favorite digital media and streaming content supplier, jumped to US\$21 on somewhat higher volume—290,000 shares versus a daily average of 254,000. I'm not sure if it was a general lack of sellers or a leak of advance news.

The news is about as exciting as the volume. It seems that a recent acquisition of MDEA put out a new content creation/streaming media authoring tool. It's been dubbed EditDV and claims to be the fastest and strongest and easiest device since the toaster.

It will turn your new PowerMac into a digital Steven Spielberg. I have no way of knowing if this is true, so I'm sending out my trusty webmaster to give it a try.

MDEA sold off today in what can only be profit taking. But you have to like the uptrend.



Your State and Local Governments Have Some “Dirty Little Secrets”

If you make \$50,000 a year—state and local government takes an average of \$5,725 from you *each year!* That's enough to pay your child's yearly tuition at a state college or a private day school.

Here's good news for you: it's possible to do something about this persistent and voracious government-imposed threat to your wealth. Keep more of your wealth with dozens of tax-cutting secrets... *like how to buy anything from home without paying sales tax... how to cut or completely eliminate inheritance tax... or how to drastically reduce your property taxes!*

Discover how all 50 states rank in order of tax burden and quality of life. From best to worst, they'll fall into one of five categories: “Taxpayer Friendly”... “Second Tier”... “Middle of the Pack”... “Wealth Drainer”... and “Tax Hell-Hole.”

If saving thousands of dollars is something you're interested in, I urge you to send for *The State Tax Report*. For less than the cost of taking your family to dinner and the movies — you can position yourself to shave percentage points off your overall tax burden.

Simply send a check or money order made payable to **Agora Inc.** for \$49.95 to:

The State Tax Report, 1217 St. Paul Street, Baltimore MD 21202
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Prepare for profits: Massive U.S. rally imminent

by James Passin

Last year, I articulated a “King of the Carnival” thesis in *Taipan*. According to this view, the U.S. equity bubble was a reincarnation of the ancient Carnival, a celebratory frenzy in which *normal laws were turned upside down* and the *village idiot was named King of the Carnival*. Consequently, I recommended adopting an extremely cautious, trading-oriented strategy towards U.S. equities in Q4 1999.

In Q1 2000 issues of *Taipan*, I refined this skeptical view of U.S. tech stocks with the “Year of the Dragon” thesis. According to the Chinese astrological calendar, “*Dragon years often give rise to celebrations or festivals. These years are meant for those who dream of vast success and brilliant victory... Because of the essentially mythical nature of dragons, any gains reaped during this year may prove to be fleeting or largely unreal.*”

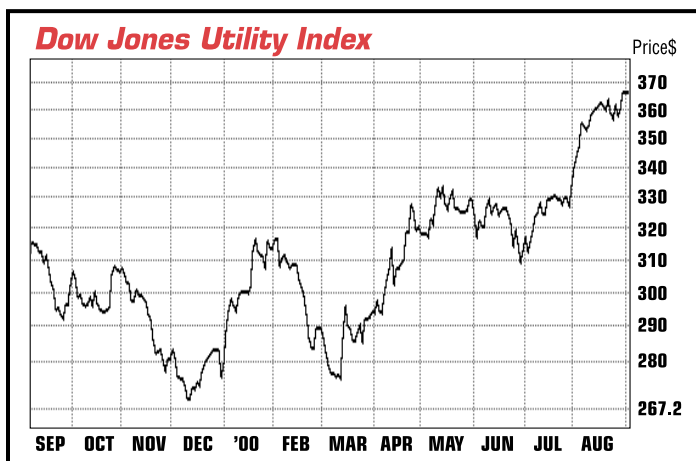
Consequently, I downgraded all U.S.-correlated recommendations to Holds in the April 2000 issue of *Taipan*.

Immediately following the publication of my article, U.S. tech stocks collapsed, the outrageous paper gains enjoyed by dot-com shareholders and leveraged day-traders vanished, and *the King of the Carnival was burned in effigy*. While most investors are still hemorrhaging from the April-May bloodbath, *Taipan* subscribers are raking in profits: my *Taipan* stock recommendations are up an average 68% year-to-date.

Based on my technical view of the U.S. market, I expect a massive and imminent rally in our U.S.-correlated positions. I recommend unloading selected positions into this rally.

King of the Carnival

There’s one single indicator of market health that has worked for over 100 years: the Utility Index. The Utility Index has never hit a record high immediately in front of a bear market. There’s at least a 4-7 month lag between peaks in the Utility Index and peaks in the Dow.



The Utility Index is currently trading at record highs. This is an unequivocally bullish sign for the broader market. Furthermore, over the last two decades, the Utility Index has tended to exhibit 14-16 month cycles. In other words, trends in the Utility Index tend to last for at least 14-16 months. The current bullish trend in the Utilities began in December 1999. There’s a lot of time left for further strength in the Utility Index.

Wiseguys will tell you that the Utility Index doesn’t matter anymore. Utilities are driven by electricity deregulation, not interest rate expectations. Sure. I’m delighted that market gurus despise one of the oldest and most reliable of technical indicators. If everybody watched the Utility Index like a hawk, it would have absolutely no predictive value.

The strength in the Utility Index and weakness in the XAU gold share index suggests that long-term interest rates will continue to decline (without undercutting the dollar). Since fiscal and monetary conditions are tight, this should come as no surprise. The Fed may have to *cut* rates next year.

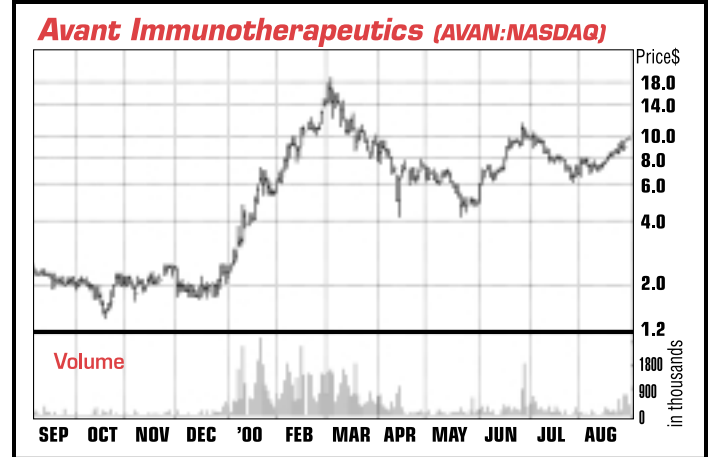
The immediate beneficiary of a radical shift in interest rate expectations will be rate-sensitive sectors, including insurance. I am, therefore, building up positions in small-cap insurance companies that have large portfolios of government bonds. In general, companies with crushing levels of bank debt should also benefit. I expect to cover some low-risk/high-return plays on a radical shift in interest rate expectations in future issues of *Taipan*.

While everything is likely to bounce sharply in the fall, be careful with broken Internet stocks. I expect a massive dead cat bounce in marginal dot-com stories—followed by the mother of all tax loss selling seasons in October/November. New themes will carry the market in 2001. **I believe these themes will include agbiotech, nanotechnology, and e-logistics.** The biggest risks to short-term U.S. market stability are the (unsustainable) leadership of hyped fiber optic bubble stocks (the only fiber optic stock I like is **ECIL**, the parent company of **ECTX**) and, as Chris DeHaemer has advised me, the imminent lockup expiration of 2.4 billion shares in September and October.

Let winners ride—for now

Avant Immunotherapeutics (AVAN:NASDAQ) and **Xoma (XOMA:NASDAQ)**, my two biotech recommendations, are up 288% and 300% year-to-date, respectively. I currently rate XOMA a “hold.” I upgraded AVAN to “buy” when it dipped to US\$7. Both emerging biotech

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companies are enjoying some institutional support and a favorable psychological environment for biotech (when I initiated coverage on AVAN, it traded around US\$2 per share under the ticker symbol TCEL; when I first started writing about XOMA, it traded at US\$4.50 per share and was utterly ignored by institutions). I want to have some exposure to biotech; however, I don't want to pay up for highly speculative paper. I recommend holding onto both XOMA and AVAN for further gains. I also recommend taking some profits on any massive news-triggered re-rating (small cap biotechs always seem to give you a second chance to get on board).

But the real opportunity is agricultural biotech. *Hysteria regarding so-called "genetically modified foods" is creating a once-in-a-lifetime opportunity to buy high quality agbio companies at ludicrously depressed valuations.* I will be discussing my outlook for agbio at the **Agora Wealth Symposium 2000** in Las Vegas, as well as in future issues of *Taipan*.

Nice place to visit

The New Zealand equity market is performing miserably. Stock prices are weak, while the currency is tottering. The new Socialist government has hiked personal income tax rates, empowered the unions, and threatens the economy with even more destructive policies.

There is an outside chance that a vicious circle could emerge in which the socialist government creates such dire economic conditions that the public backs even more extreme socialistic legislation, leading to even greater economic destruction.

Coincident with the destructive policy changes of the new government is the "double dip" in Southeast Asia. Thailand and South Korea are experiencing post-Asian crisis-restructuring hangovers that are hurting New Zealand exports. Japan's economy has also failed (so far) to come back from the dead. New Zealand needs a Pan-Asian boom to ramp up its exports.

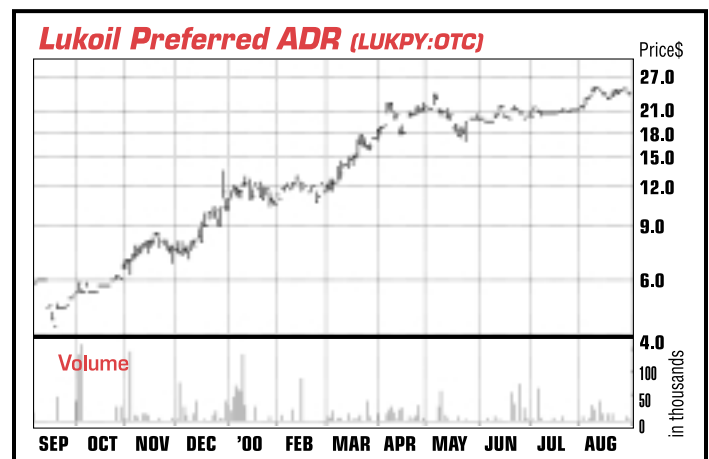
As an agriculture- and basic industry-driven export economy, New Zealand is not directly benefiting from the

global technology boom. While the genomics revolution offers the potential for countries like New Zealand to convert their sleepy, capital intensive industries (wool, fish, wine, lamb, etc.) into value-added, high tech, cash-generating powerhouses, the New Zealanders unfortunately share the biotech phobia of Australians, the British, and Continental Europeans.

My bullish call on New Zealand stocks was incorrect. My Kiwi recommendations are flat since I initiated coverage. However, there remains tremendous value in specific Kiwi stocks, including **Restaurant Brands (RBD:NZSE)** and **Fisher & Paykel (FAP:NZSE)**. RBD has an estimated 2000 dividend yield of 14% and a P/E ratio of 6! Its 98% market share of takeaway fried chicken should mitigate the impact of any economic downturn on the company's earnings. **Despite my bleak view on New Zealand, the eventual Pan-Asian economic recovery should trigger a modest rebound in New Zealand stocks.**

More upside for Russia

Lukoil Preferred ADR (LUKPY:OTC) has rallied 270% to US\$24.00 since I initiated coverage in the November 1999 issue of *Taipan*—**before dividends!** The 1999 cash dividend of US\$1.216 per ADR, which was paid on April 17, 2000 to ADR holders of record, equated to an 18% dividend yield vs. our recommended entry





price.

The formula for comparing Lukoil Preferred ADR (LUKPY:OTC) to **Lukoil common ADR (LUKOY:OTC)** is $2 \text{ LUKPY} = 1 \text{ LUKOY}$. You need to multiply LUKPY's price by 2 to compare it to LUKOY. $\text{LUKPY} * 2 = \text{US\$48}$. LUKOY is currently trading at US\$64. This means the current discount between Lukoil preferred and Lukoil common is 25%.

When I recommended LUKPY, the discount between preferred and common shares was a ridiculous 60%. As I predicted, the discount contracted as irrational Russophobia dissipated. While the discount has experienced a massive one-time contraction, there is still upside leverage to the preferred. If LUKOY rises 50% and the discount contracts by half to 12.5%, LUKPY would rally to US\$42—75% above current levels. In addition, the preferred is likely to continue paying out superior cash dividends. 1H FY 00 financial results at the holding company level implies a fat US\$2 per ADR dividend to preferred ADR holders.

The only big downside in owning the preferred instead of the common is the lack of voting rights. But in Russia voting rights mean almost nothing. Furthermore, the preferred stock will be converted into de facto common stock if Lukoil neglects to pay 10% of holding company operating profits to preferred shareholders.

There is a rumor that Lukoil management has been accumulating preferred shares. This might sound bullish, but you have to remember this is Russia: if Lukoil insid-

ers control a supermajority of preferred stock, they could force a conversion of preferred into common at unfavorable terms. On the other hand, management may be buying to enrich their personal accounts with large preferred dividends.

I don't have enough space to reiterate the entire Lukoil story, but there is still tremendous value in the stock. At current levels, Lukoil is trading at 4x earnings—and remains one of the world's top ten oil companies in terms of reserves, production, and refining capacity.

I recommend that LUKPY investors hold onto their ADRs for further gains. I would recommend switching from LUKPY to LUKOY if the discount shrinks below 10%.

Throwing in the towel

Enough is enough. **Exponent (EXPO:NASDAQ)** is dirt cheap on any metric, with a solid balance sheet and a strong franchise. Earnings are finally growing. But the stock has gone nowhere for years. Since EXPO is in a low-margin, capital-intensive business, I have doubts about the sustainability of current earnings growth momentum. **Sell Exponent (EXPO:NASDAQ).**

James Passin manages the Firebird Global Small Caps Fund for Firebird Management and is a Contributing Editor with *Taipan*. Several funds managed by Firebird are currently shareholders in Lukoil and Lukoil Preferred. Passin's fund is currently a shareholder in ECIL and ECTX. Passin's views are strictly his own and not necessarily those of Firebird Management or *Taipan*.

LOCKING IN PROFITS AS MARKETS GO WILD

Why you should resolutely apply a 20% trailing stop strategy

By Michael Graser

Stocks go up. And stocks go down. But these days, it seems that the only movement you see in the markets is excessive. Where stocks used to go up, they now soar overnight. And where they used to "correct"... comes the plunge.

That's what makes it so hard to optimize your profits. For years, *Taipan's* recommendation has been to set and observe a trailing stop.

A trailing stop is really quite simple: If shares go down 20% below your purchase price, or fall 20% below the stock's high, you bite the bullet and sell... keeping your potential loss to 20%. Ask your broker whether he can place a selling order with a trailing stop for you. If he doesn't offer this service (and few discount or online brokers do), watch the prices of your shares carefully and react fast if the price touches the -20% limit. Of course, depending on your threshold for pain the limit can be lower, but we don't recommend it.

This strategy is especially potent in handling the ups and downs of Internet and "New Economy" stocks. Here's an example. We recommended MP3.com in May. At that time, the share was priced at US\$9.96. The price rose to US\$19.19, a gain of 92.50 %.

If you didn't watch the price change you might still hold this share. With MP3.com now priced at US\$8.56, you would have lost 14.11%. If you used trailing stops you would automatically have sold MP3.com at no less than US\$15.35, locking in a respectable 54% gain.



This emerging technology is critical for third generation wireless networks

Buy it now before Wall Street figures out what's going on!

by Briton Ryle

Sometimes, the need for an emerging technology is as plain as the nose on your face. And still nobody can see it.

Way back in 1992 and 1993, wireless carriers began the painful transition from first generation analog technology to second generation digital networks. Digital wireless has greater capacity, clarity and efficiency. Now roughly half of wireless subscribers in the United States are on digital networks. By the end of 2000, 70% will have gone digital.

But innovations rarely occur in a vacuum. New technologies and methods always ask new questions and get fresh answers. In 1996, an RF (radio frequency) amplifier company thought it had the answer to some of the questions posed by digital wireless. The company believed its multi-carrier, ultra-linear power amplifiers should be an essential part of the new digital networks.

Trying to convince wireless infrastructure companies and wireless carriers was the hard part. Of course, in retrospect, it makes perfect sense. Digital modulation techniques work best with a strong, clean RF signal. But at the time, carriers in the U.S. were just coming around to the idea that cellular services could be a billion dollar, mainstream technology. And they were still skeptical of new and unproved ideas.

The moment of truth

When **Powerwave (PWAV:NASDAQ)** finally broke through, it wasn't in the United States. In 1997, over 80% of Powerwave's sales were in South Korea, where the first commercial CDMA networks were being built. The company was so tightly linked to South Korea that the now infamous Asian financial crisis took the stock below US\$5 for the first time since its IPO. But although the technology had been validated, many still didn't see the investment opportunity.

As digital networks spread, more and more ultra-linear amplifiers were sold in the U.S. and Europe. And a new and unproved technology became an integral part of digital wireless networks. Sales now approach US\$400 million a year. Powerwave is the premier name in ultra-linear amplification. And investors who saw the promise in this company have been handsomely rewarded.

Why am I going into such detail about a company I have no intention of covering? Because the Powerwave

story sounds eerily reminiscent of one of my favorite companies, **Illinois Superconductor (ISCO:OTC BB)**.

I repeat...

I first began coverage of Illinois Superconductor at the end of January on our website, www.taipanonline.com (and be sure to visit our other site www.247profits.com for daily commentary). **In just over a month, we watched the stock trounce my 300% estimate as it zoomed more than 700% to US\$39 on March 1st.**

Many of you didn't need to be told to take the huge profits. And I believe this company still represents a huge opportunity in the build-out of next generation wireless networks.

Illinois Superconductor (which may get a name change in the near future) has had its technology validated through selective deployment by several of the largest wireless carriers in this country and by scientists at both Motorola and NTT DoCoMo (remember, these guys have a degree in *science*). Next up for ISCO—the big rollout of third generation (3G) wireless networks.

Consumers consummate

In Japan, the promise of the mobile Internet has captured consumers' imaginations, not to mention billions of yen. 50 million out of 126 million people have mobile phones. But that's only half the story.

Nearly half of the roughly 24 million Japanese Internet users access the Web through their mobile phones. And three quarters of these are NTT DoCoMo i-Mode users.

Industry estimates say that by 2003, *85% of the Japanese population will have a wireless connection to the Internet*. That's over 100 million people. Now imagine a similar situation in the U.S., population 250 million. Or Europe, population 300 million. It'll take a few years, but it's coming.

The popularity of i-Mode has convinced NTT DoCoMo to build the world's first 3G wireless network. Construction might begin as early as spring of 2001. Don't be surprised if the second one's built in South Korea.

DoCoMo's network will be the prototype, the first of its kind. You can bet the entire telecom world will be watching. And I'll bet they'll be scratching their heads.



I love the simple things

I like it when things are simple. And the underlying factors that will drive ISCO's success are as simple as it gets—supply and demand.

We're talking spectrum here. With the prices fetched at recent European 3G spectrum auctions—US\$80 billion in the UK and Germany alone—there can be no denying the huge demand for spectrum. Because it's a limited resource.

That's one reason a version of CDMA is the likely standard for 3G service. CDMA (code division multiple access) uses spectrum much like the Internet Protocol (IP) uses bandwidth. Many packets of data (signals in a wireless network) can share the same space because their destination is encoded into the signal.

CDMA is much more efficient than its rival TDMA (time division multiple access) and its more successful relative GSM (global system for mobile communication). TDMA and GSM both divide a frequency into time slots, with only one signal able to occupy a given frequency at a given time. CDMA handles 4 to 5 times the capacity of GSM.

Of course, higher capacity means more subscriber revenues and lower operating costs. When you consider AT&T's average monthly per-user revenues of US\$71, an extra 20% amounts to a sizable chunk of change.

In addition to capacity, CDMA can also handle the most data of any wireless technology. 3G networks will bring 2 megs of data to the user. That's enough for streaming video, music, games, whatever your heart desires.

Squeezing the spectrum

Clearly, efficient use of spectrum will be a priority for carriers. And Illinois Superconductor RF filters increase the capacity of CDMA networks by 30%.

That's what the gang over at NTT DoCoMo says. I have no reason to doubt them. They've been testing the filters for over a year now. And it seems they like what they see, as ISCO's filters have been, to (loosely) quote CEO Dr. George Calhoun, "...effectively written into [DoCoMo's] 3G specs."

In case you're curious, I'll try to explain how superconductor filters boost capacity. The RF filters on the receiving end of wireless base stations are designed to let desired frequencies into the system and keep undesired frequencies out. Filters on the transmit side make sure that only the desired signal gets sent out into space.

At any given time, the air around you is full of RF signals. Some may be in the 1900 Mhz frequency range, others in the 800 Mhz range.

Most of these signals have the potential to get picked up by the antenna of a wireless base station. Antennas have no way to distinguish between the signals flying around in the air. That's the filter's job.

The most common filter type is the "bandpass," which lets certain frequency ranges, or bands, pass through while keeping all others out. Conventional filters exhibit what's called "insertion loss."

Insertion loss means that a signal is smaller or weaker when it comes out of the device than it was when it went in. Superconductor filters have virtually zero insertion loss. And that's important because it means the receiving side of the base station can be a lot more sensitive to low power signals. And on the transmit side it means a bigger (stronger) signal can be sent out.

Now, the rest of the news

The big reason ISCO's filters increase capacity has to do with how the available spectrum is divvied up within a coverage area. In general, the available spectrum is broken down into frequency ranges. Adjacent cells (a cell is the coverage area of one base station) will operate in different frequency ranges, though frequencies can be re-used provided there's enough distance between cells.

So one cell may operate between 810 and 820 megahertz, and the one right next to it could be designated 820 to 830. Conventional RF filters aren't 100% precise. It's necessary to leave the edges of the frequency range unused. These are called guard bands, and act as a sort of buffer. What all this means is it's impossible to run each cell at full capacity.

Superconductor filters aren't 100% precise, either. But they're a lot more precise than conventional filters. Superconductor filters can isolate a frequency range down to .5 MHz, which means much less of the available spectrum goes to waste.

A little more technical gobbledygook

Up till now, I haven't spent a lot of time differentiating ISCO from its competitors in the superconductor RF filter space. Here's a quick rundown of what makes ISCO superior. Superconductors depend on refrigeration to perform. ISCO has the only filters that can perform like conventional filters if the refrigeration unit fails. All temperature performance (ATP) eliminates the need for a backup filter system and gives ISCO the smallest total system in the industry.

ISCO's filters are cheaper and easier to manufacture in bulk. The recent acquisition of Spectral Solutions means ISCO has the only viable tower mount feature, is the only company to offer both thick and thin film filters, and will be the first to offer a hybrid of the two. But the bottom line is this—ISCO's thick film filters perform better than thin film filters, as proven by DoCoMo research. So there.

First Japan, then the world

All right, so maybe that wasn't so simple. The point is,

(over, please)



superconductor filters dramatically increase the capacity of cellular networks. And Illinois Superconductor is likely to become an integral part of the first 3G network in the world.

ISCO recently opened an office in Japan so it can give its full attention to NTT DoCoMo. I believe there's often an arrogance among American tech companies. They're so used to being technologically superior to the rest of the world that they sometimes don't consider foreign markets as being very important. Judging by the size of DoCoMo's network, that would be a costly mistake, one that ISCO is not about to make.

I've heard estimates that as many as 50,000 to 60,000 base stations will be deployed in Japan. And, even better, superconductor filters are being considered for network-wide deployment.

NTT's multiple vision

NTT DoCoMo will build the first 3G network in Japan. But it wants to be a part of every major market, as it's also developing the wideband version of CDMA (called W-CDMA). Nothing like having your standard be the global one.

As part of its strategy for world domination, DoCoMo took a stake in South Korea's **SK Telecom (SKM:NYSE)**. It was also part of a consortium that won a 3G license in Germany. And it's been trying desperately to gain a foothold in the U.S. market. I think the U.S. 3G auctions deserve a little more attention because there are some really interesting things going on here.

Analysts are concerned that 3G licenses are too expensive. Recent European winners like **Deutsche Telecom (DT:NYSE)** and **France Telecom (FTE:NYSE)** saw their credit ratings get downgraded on concerns that they've taken on too much debt. But I've seen estimates that there'll be one billion wireless data users by 2005. You'd think that would calm the nervous Nellies a bit. (I do know that anyone who believes the analysts when they say bidding won't be as high here as it was in Europe is in for a surprise.)

NTT DoCoMo doesn't appear to be worried. It's seen firsthand the explosion of wireless Internet use at home. Others have taken note of the potential for wireless Internet, too, and they're not all carriers. **America Online (AOL:NASDAQ)** and **Microsoft (MSFT:NASDAQ)** have both been actively scouting for wireless partners. Either one would make a great partner for DoCoMo. I can think of a few other non-carrier companies who could enter the U.S. 3G spectrum auctions, but I'm going to keep them to myself for now.

How 'bout some numbers?

OK, 50-60K base stations in Japan. It's not a confirmed number, but a pretty reliable source has mentioned it as a

ballpark figure. Assuming, of course, ISCO gets the bid, I asked CEO George Calhoun what kind of gross margins he hoped for. I mentioned 30-35% as a prompt and he scoffed. He said point blank that something this important that can't be had anywhere else is worth a lot more than a 30% margin. Based on the scoff, I look for gross margins to be in the 50-60% neighborhood. I like that neighborhood a lot better anyway.

If Illinois Superconductor gets the DoCoMo contract, I conservatively estimate revenues will be a minimum of US\$300 million. Though no official statement has been released, I believe SK Telecom is involved in designing DoCoMo's network. And I believe orders from South Korea will follow sharply on the heels of DoCoMo, which should add another US\$100 million. Near as I can tell, there isn't going to be any slow build-up to actual orders. One day there'll be none, next day there'll be scads.

Things to watch for

Couple things are coming down the pike for ISCO. I know if you've been following the company you've heard more than enough about the NASDAQ re-listing. The Spectral Solutions acquisition forced ISCO to re-submit all its paperwork, so it's going to be a while. In all honesty, I wouldn't worry about it. In the grand scheme of things, a NASDAQ listing is not that big of a deal. Sales are what's important now.

Be on the look out for new financing. ISCO needs cash, but they're taking the time to find the right kind of money. I'm sure ISCO has approached DoCoMo and some of the OEMs who are involved in the 3G network testing. A cash injection from any of these companies would immediately attract a lot of attention.

We should also anticipate another merger/acquisition or alliance-type announcement. ISCO needs marketing and distribution partners. And they also need manufacturing capacity in Southeast Asia or Japan. Keep your eyeballs peeled.

I originally recommended Illinois Superconductor as a strong speculative buy under US\$5. The stock is hovering right above US\$3 as I write this. I'm reiterating a strong speculative buy on Illinois Superconductor under US\$5, though, with patience and barring any smashing good news, you should be able to buy shares under US\$4. With speculation completely absent from the market, I'm not going to set a price target at this time. **If the stock happens to run up to US\$39 a share again, take your profits.**

As always, I urge you to contact the company. Maureen Murnane is the investor relations representative. You can call her at (847) 391-9400. Illinois Superconductor is located at 451 Kingston Court, Mount Prospect, Illinois 60056.



Identity pirates on the prowl: *Strategies for preserving your privacy*

by Charles R. Wolpoff

The concept of identity theft sounds like something out of a Schwarzenegger flick. Or one of Oliver Stone's conspiracy flicks. Unfortunately, it happens every day. To people just like you.

Identity theft is now one of the most common types of fraud. And it's growing. Fast. An estimated half million people have their identity stolen each year.

As with all forms of theft and fraud, there is no foolproof way to prevent it from happening. But you can take measures to lessen the odds, and learn what to do in case you do become a victim.

What constitutes your identity? That is, what exactly do identity thieves steal? For starters, your identity includes your name, address, phone numbers, bank account numbers, credit card numbers, Social Security number, and tax return information. But the list goes on, encompassing any and all personal data that, in the wrong hands, could enrich a crook and impoverish you.

If someone were to get ahold of this type of information—even a little bit of it—they could “become” you, at least for purposes of abusing your financial well-being for their own gain.

Nothing is as chilling, nothing cuts to the bone, like identity theft. If someone bilks you out of your cash in a game of three-card monte, you may feel dumb, you may be a little poorer, but you retain your good name. If you become a victim of identity theft, it could take you a long time to get your good name back.

One of the most frightening aspects of identity theft is that you may not know for a long time that your name's been misappropriated. When your car is stolen, you find out about it when you walk out to the parking lot where you left it and see nothing but broken glass and some oil-stained tar. When your auto mechanic scams you, you might get a clue when the muffler falls off half a block from the shop.

But with identity fraud, you often don't find out until you hear from people you don't really want knocking on your door or sending you nasty notes—bill collectors, bank supervisors, the IRS. Or when you apply for credit and get denied, even though you thought you had a spotless record.

It's true that with identity theft you may not immediately be out big bucks, as long as you're not required to pay the pile of overdue bills the thief amassed. But it will take you money and time to clear your credit report. Unfortunately, credit companies do not follow the example of the courts

in presuming you're innocent until proven guilty. Quite the opposite. It's up to you to prove that the credit report is wrong.

“Theft of identity is fast becoming the most prevalent and costly financial crime in the nation.”
—NY Attorney General

You may have to hire a lawyer, chase down the relevant documents, and spend half your life on the phone.

One nightmarish case was described in a report by the Department of Justice. Here, a convicted felon stole someone's identity. Then he “not only incurred more

than US\$100,000 of credit card debt, obtained a federal home loan, and bought homes, motorcycles, and handguns in the victim's name, but called his victim to taunt him—saying that he could continue to pose as the victim for as long as he wanted, because identity theft was not a federal crime at that time—before filing for bankruptcy, also in the victim's name.”

The victim and his wife ended up spending more than four years and US\$15,000 out of pocket to clear their credit and name. The thief, meanwhile, served a light sentence unrelated to the theft, and paid no restitution. In 1998 this case was instrumental in convincing Congress to pass legislation discussed below.

Your numbers in the wrong hands can wreck your life

Let's face it. There's no limit on the number of schemes identity thieves can concoct in order to profit from being you—while leaving you to foot the bill.

The ripoff artist can set up a phone or wireless service under your name, open a bank account and write bad checks, take out a car loan. Another common scam is using your personal information to obtain a credit card account in your name.

When collectors come after them, believing they're you, they file for bankruptcy, again under your name, to avoid paying the debts themselves. Then they go out, acquire a new identity and start all over again.

Seven secret pathways into your ID

It's quite simple, really. The thief obtains useful information about you. Along with right kind of data (or wrong kind, depending on your point of view), he just needs a little daring, a bit of imagination, and a lot of unmitigated gall:

1. Stealing your wallet or purse. Inside is a treasure trove of data for him, including your credit cards, ATM cards,

(over, please)



Social Security cards, name, address, driver's license number...

2. Breaking into your home. Along with taking a few valuables, he might also take some of your bank statements and any other information he can find.
3. Dumpster diving. Identity thieves don't need to break into your house or pick your pocket to find information. They can get it outside, once a week, by going through your trash.
4. Stealing your mail. Your mail contains all sorts of vital information that to thieves is pure gold, such as bank and credit card statements. Even tax information.
5. Filling out a change of address form to divert mail from your address.
6. Discovering your personal information on the Internet.
7. Obtaining your credit report by posing as employer, landlord, or creditor.

It doesn't help that legitimate companies are acquiring information from you all the time. Every day, in many different ways, you are asked to provide personal data. For example, a computer company may need it to process your order for a PC. Internet web sites ask for information so they can prepare a profile of you.

These purposes aren't necessarily nefarious. But they contribute to the problem by distributing your information too broadly. Fortunately, more and more companies are letting you choose not to divulge any or all of this information.

Government can help

In fact, nothing will make the problem of identity theft go away. Not even government. In fact, government itself can be one of the scarier privacy villains. No other entity has as much power to discover as many of our innermost secrets, or to abuse such information in so many pernicious ways.

And if you think our government's just too enlightened for that, too 21st century, consider the Carnivore controversy. You probably have heard about this developing horror story. The FBI has designed software to enable it to "wiretap" e-mail.

If the FBI gets its way, Internet service providers would be forced to put this software on their systems. This means the FBI theoretically can peer into your e-mail. And mine. And everybody else's. What would keep the FBI from doing that? We'll just have to rely on their judgment and wisdom.

You trust the FBI to always use its best discretion, don't you? Well, don't you?

Keep in mind, that in designing this software... knowing it would create controversy... the FBI used its judgment and wisdom to name the program "Carnivore."

Until relatively recently, the government believed that if you had your identity stolen, you weren't the victim of a crime. Why? Because, the way the government saw it,

once the fraud is discovered, you generally don't have to pay the bills run up by the thief.

But in 1998 the government enacted legislation making identity theft a federal felony and giving consumers more control over their personal information. Under the Identity Theft and Assumption Deterrence Act, 18 USC 1028, it's a federal crime to knowingly transfer or use, "without lawful authority, a means of identification of another person with the intent to commit, or to aid or abet, any unlawful activity that constitutes a violation of federal law, or that constitutes a felony under any applicable state or local law." [1028(a)(7)].

This law is enforced by the Secret Service, FBI, U.S. Postal Inspection Service, and the Office of the Inspector General of the Social Security Administration. There is a boatload of new bills being considered in Congress, including the Identity Theft Prevention Action of 2000.

But there could be more than a thousand laws across the land (and there probably are) and a million bureaucrats to enforce them (seems there are at least that many), and yet you still can't count on the government to protect you.

You have to protect yourself. And you can do that by using these:

Identity Defense Strategies

- 1: Never give out personal information unless you have initiated the contact and know to whom you're giving it, the purposes for which it will be used, and have reason to trust the recipient of this valuable information.
- 2: Whenever you have a choice whether to provide personal information or not, choose "not." And always inquire whether you have a choice. For example, when someone requests your Social Security number, ask whether there's other, less sensitive information you could provide to accomplish the same purpose. Your driver's license number, for instance.
- 3: Ask what steps you can take to ensure it remains confidential. Are there forms you can fill out, supervisors to speak to? What you want to do is create a paper trail that legally binds the recipient to use your information only for legitimate purposes.
- 4: Clean out your wallet, purse or briefcase. Carry only what you need at the moment. Everything else, in particular any valuable personal information, should be under lock and key at home or in a safe deposit box. And never carry around your Social Security card, birth certificate or passport, unless you know you're going to need them. Minimize the number of credit cards you carry at any one time. Try limiting it to no more than two.
- 5: Keep track of when your bills arrive. If a bill doesn't arrive on schedule, it might simply have gotten lost or delayed in the mail—or an identity thief may have made off with it for his own criminal purposes.
- 6: Require anyone pretending to be someone in authority



and asking for personal information to prove they're legitimate. Better yet, call the agency or company they're supposed to be with and confirm. As the Federal Trade Commission notes, "Legitimate organizations with whom you do business have the information they need and will not ask you for it."

7: Protect your mail. Drop outgoing mail in a post office collection box or at the post office itself. If you leave it in your own mailbox for the postman to collect, a thief may take it instead. And don't let incoming mail sit in your mailbox too long. If you're going to be away for any length of time, have the post office hold it.

8: Devise a more secure password system. As we go through our daily routine, it's truly amazing how often we encounter the need to use passwords. Make sure the passwords are unrelated to personal information or to any information others would know about. If you're afraid of forgetting them, record your passwords and store them under lock and key (safe deposit box or that loose floorboard in the basement).

9: Use a shredder for credit card receipts, old bank statements, investment records, phone bills, pre-screened credit card offers... anything that can expose a piece of your life to a scamster.

10: Never leave credit card or ATM receipts lying around in public for others to pick up.

11: Stop receiving pre-screened credit card offers. Simply call 1-888-567-8688. The three biggest credit bureaus use this number (toll free) to let you choose not to receive these offers.

12: Beware of employees, contractors, repairmen, roommates... and anyone who isn't you. You are the only one that is entitled to and has the need for your personal information.

13: Review your credit report with the three major credit bureaus once a year. Confirm the accuracy, and if there are problems deal with them immediately. Even if a scamster isn't messing with your life, you may still find mistakes that need to be corrected for you to clean up your credit record. They can charge you up to US\$8.50 for each report. The bureaus are: ChoicePoint (formerly Equifax), www.equifax.com, 800-685-1111, Experian, www.experian.com, 888-397-3742, and Trans Union, www.tuc.com, 800-916-8800.

14: Take all steps possible to prevent your Social Security number from being used as an account number. Many organizations, particularly health insurance companies, just stick your Social Security number into their system to help identify you in their computers. Unfortunately, this exposes that most dangerous of numbers to a limitless set of eyes. Ask if you can have a different account number. Talk to supervisors. You may not succeed, but it's worth a shot. The FTC recommends you ask these questions when someone requests your Social Security number:

- Why do you need my SSN?
- How will my SSN be used?
- What law requires me to give you my SSN?
- What will happen if I don't give you my SSN?

Fraud regarding your Social Security Number can be reported to the Social Security Administration at their Fraud hotline: 1-800-269-0271.

15: Ask your state Department of Motor Vehicles if they distribute your personal information. Ask if you have the right to tell them not to. If so, exercise that right.

16: When you order new checks from your bank, arrange to pick them up at your local branch, rather than have them mailed.

17: If you make a purchase on the Internet, make sure your browser is secure, encrypting or scrambling your purchase information. Or you can avoid ordering over the Internet, and instead make your purchase by phone or mail.

18: If you do become a victim of identity fraud, act immediately. Call the FTC's Identity Theft hotline (toll-free) at 1-877-IDTHEFT (438-4338), or go to the FTC's website at www.consumer.gov/idtheft. The Federal Trade Commission takes information from victims and stores it in a consumer fraud database. They also share this information with other law enforcement agencies and private entities.

The FTC has put together a useful booklet on identity theft, called, "*ID Theft: When Bad Things Happen To Your Good Name*," which can be obtained by going to the FTC website at www.ftc.gov.

NOTE: Please visit us at www.taipanonline.com for the complete, in-depth article on identity fraud by Mr. Wolpoff.

IF YOU WANT TO IMPROVE YOUR "QUALITY OF LIFE," READ ON...

We are hard at work on the 2001-2002 edition of the *Quality of Life Report*, formerly known as the State Tax Report. The *Report* tells you which state gives you the biggest bang for your buck, and where you can retain more of your own money to use as you see fit. It will tell you how to find your kids the best education, the safest places to live, and the best places to retire. We rank the states on their tax burdens, employment, crime, education, and more.

And ... it will tell you whatever else you want it to. That's what this

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Breathe a little easier with a new drug delivery system... while making a few bucks on the way!

by *Siu-Yee Ng*

As I flew into Shanghai recently, the plane passed through thick black clouds. Hmm... I thought, it's going to be a rainy day. But to my surprise it was smog. I saw people on the streets wearing masks because the air was so bad. And flying over Los Angeles on the way back was not any better.

Respiratory diseases are associated with impaired quality of life, reduced life expectancy and significant treatment costs. It's estimated that worldwide pharmaceutical expenditures for the treatment of obstructive airways diseases will be approximately US\$9.9 billion in 2000.

In 1999, U.S. expenditures for inhaled respiratory medications of all types were approximately US\$3.3 billion. Recent research has indicated growth in medication expenditures per patient, largely driven by an increased number of prescriptions filled each year per patient and a shift to newer, costlier therapies.

AeroGen, Inc. is an emerging drug delivery company currently focusing on treating three respiratory diseases—asthma, COPD and cystic fibrosis—as well as improving treatments for patients using nebulizers and those receiving therapy via ventilators.

Asthma is a chronic disorder in which the muscles lining the bronchial airways of the lungs become constricted, often due to external stimuli such as exercise or allergens. The World Health Organization estimates that 100 to 150 million people worldwide suffer from asthma. According to the Centers for Disease Control, the number of people in the United States diagnosed with asthma has more than doubled from 6.7 million in 1980 to 17.3 million in 1998, including an estimated 4.8 million children.

Worldwide, Chronic Obstructive Pulmonary Disease (COPD) is the only leading cause of death that still has a rising mortality rate. It is estimated that by 2020, COPD will rank fifth among the medical conditions costliest to society. The National Center for Health Statistics estimates that in 1994 there were 16 million people in the United States diagnosed with COPD. COPD is estimated to affect approximately 30 million people in the United States, mostly over the age of 45, of whom approximately 50% remain undiagnosed.

Cystic fibrosis is a genetic disorder associated with pancreas and liver failure. CF primarily affects digestion and nutrition. Other effects include thick mucous secretions formed and retained in the airways of the lungs. Eighty-five percent of CF patients experience deterioration in lung function, increased incidence of lung infection and respiratory failure over time. CF is the most common life-shortening inherited disease in the United States, affecting

about 30,000 people, or one in every 3,300 newborns.

Pump it up a notch

Pulmonary drug delivery is widely used to treat respiratory diseases, and is believed to be a viable means for delivering other drugs to the bloodstream via the lungs. The drugs must first be transformed into aerosol form for inhalation by the patient. To deposit drugs in the lungs effectively, this aerosol must be delivered at a low velocity. The size of the aerosol particles generally determines where the drug will be deposited in the lungs. Aerosols containing large particles (greater than three microns in diameter) typically get deposited in the upper airways of the lung, where they may be useful in treating diseases such as asthma, COPD and CF. Aerosols containing small particles (less than three microns in diameter) are more likely to pass through the upper airways into the deep lung, where they may be absorbed into the bloodstream to treat diseases such as diabetes.

The physiology of the lungs makes pulmonary delivery an attractive method of delivering drugs to the bloodstream. The absorptive surface area of the lung is as high as 70 square meters, and is only one to two cells thick. This large surface area is available for the free exchange of oxygen, carbon dioxide and other molecules between the air and the bloodstream. This permits drugs deposited in the lungs through aerosols to be transported rapidly into the bloodstream.

Pulmonary drug delivery is being evaluated for non-invasive delivery of drugs to the bloodstream to treat non-respiratory diseases. There is increasing interest in pulmonary drug delivery as a result of the inability of currently available forms of dosage delivery to deliver molecules such as proteins and peptides to the bloodstream effectively. For these large molecules, oral delivery is not feasible due to rapid breakdown of the molecules following ingestion. It is estimated that the protein and peptides market will be worth US\$19.2 billion in 2001.

Dosage devices such as intravenous or intramuscular injections and implants, while effective for delivering proteins, have many drawbacks, including pain, inconvenience, expense, risk of infection and poor compliance. Alternatives like transdermal and nasal dosage devices do not allow reproducible delivery of large molecules.

In addition, pulmonary delivery is being evaluated for delivery of drugs such as insulin, which require rapid input into the bloodstream for optimal therapy. AeroGen estimates that the worldwide insulin market will grow from US\$3.2 billion in 2000 to US\$6.5 billion by 2005.



Breaking traditions

Three basic devices currently used for pulmonary drug delivery are metered dose inhalers (MDIs), dry powder inhalers (DPIs) and nebulizers. These devices were originally developed for local treatment of respiratory diseases, including asthma and COPD, and have inherent limitations in delivering drugs directly to the bloodstream.

MDIs have been in existence for over 40 years and are the most widely used device for pulmonary drug delivery. They consist of a portable canister containing the drug as a suspension or solution, mixed with a volatile propellant, most often a chlorofluorocarbon. MDIs require a patient to inhale the drug in a single breath. In order to administer the drug, the patient must activate the inhaler by pressing down on the canister while simultaneously inhaling slowly and evenly.

Even with repeated training, up to 50% of patients using MDIs have difficulty coordinating activation of the device with their breathing. Once the inhaler is activated, particles are released at an initial velocity of at least 30 miles per hour. Research has shown that MDIs only deliver 10% to 20% of the drug to the lungs. Most of the remainder of the drug is deposited at the back of the throat and swallowed. To overcome these limitations, patients are sometimes prescribed holding chambers, or spacers, to use with their MDIs. These spacers increase the complexity of use and reduce the portability of MDIs.

Traditional DPIs were introduced to overcome the problems inherent in the use of MDIs. DPIs are inhalers that deliver dry powdered aerosols without using a propellant. DPIs are breath activated and thus eliminate the need for the press-and-breathe coordination associated with MDIs. AeroGen believes that traditional DPIs have significant limitations that may prevent their broad use in pulmonary drug delivery. DPIs usually require a single, strong, deep inhalation to create the aerosol and deliver the drug. Children, the elderly and patients with breathing difficulties often cannot achieve the deep inhalation necessary to receive the required dose. Also, these devices do not allow the patient to inhale the desired drug in multiple breaths, and moisture entering into the DPI from the environment or a patient's own breath can result in dose-to-dose variation.

Traditional nebulizers create a continuous aerosol that can be inhaled by patients through a mask or mouthpiece. Nebulizers allow patients to breathe regularly, thereby requiring less patient coordination and cooperation than MDIs and DPIs. Nebulizers typically require an external power source and therefore are bulky and generally noisy. Nebulizer treatments are time-consuming, with each treatment typically taking up to 15 minutes, and inefficient, with less than 20% of the drug reaching the lungs.

The remainder of the drug either is aerosolized during the patient's exhalation and released into the surrounding air or remains in the nebulizer. Because of these limita-

tions, nebulizers are only appropriate for relatively inexpensive, small-molecule drugs that can be formulated and stored as liquids.

Aerosol delivery to mechanically ventilated patients currently uses either an MDI or a nebulizer. Drugs are administered by opening the tubing connecting the patient to the ventilator, which may result in infection. In addition, administration requires significant time and the associated expense of an attendant respiratory therapist, and is inefficient, with only a very small amount of the administered drug reaching the lungs. Ventilator performance may be impaired by the introduction of additional air into the ventilator tubing when drug is administered. This can adversely affect the ability to monitor the patient's pulmonary function.

Breathing easy

In 1999 the U.S. expenditures for nebulized solutions were approximately US\$570 million. AeroGen estimates that U.S. sales of nebulizer devices will exceed US\$150 million in 2000, with approximately half of the sales for home use. The majority of sales are captured by compressor nebulizers, typically sold to patients at approximately US\$125 per device. Ventilated patients require a breathing device because they are not able to breathe on their own. It's estimated that in the United States there are approximately one million patients admitted to hospitals annually who require ventilation; on average each patient spends five days on a ventilator.

AeroGen estimates that in the United States there currently are 90,000 ventilators installed in hospitals and approximately 8,000 ventilators purchased annually. This growth is based on the high prevalence of chronic lung diseases and an aging population. Aerosol therapy is frequently prescribed for patients receiving mechanical ventilation to deliver drugs and to humidify the air reaching the lungs. The United States hospital and alternate care market for nebulizers and humidifiers currently exceeds US\$300 million annually.

New and improved

AeroGen has developed an aerosol generator to facilitate the consistent and accurate formation of an aerosol to deliver drugs to the lungs. Its core technology is being incorporated into each of its delivery platforms. Its AeroDose inhaler is designed to safely and effectively deliver drugs of various molecular sizes while eliminating many of the limitations associated with MDIs, DPIs and current commercial nebulizers. Its AeroNeb nebulizer uses its aerosol generator technology to provide end users with a small, portable nebulizer that quietly and efficiently administers currently approved nebulizer solutions.

The respiratory products under development for marketing by AeroGen are targeted to treat pediatric asthma,

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COPD, CF and mechanically ventilated patients.

AeroGen's first commercial product, the AeroNeb portable nebulizer, offers many improved features compared to standard nebulizers used by patients and care providers in the home setting. This portable nebulizer weighs less than 12 ounces and can operate on four standard "AA" batteries, a car cigarette lighter or AC current. It's silent and operates in any position, with less wasted medication and faster medication delivery rates than standard compressor nebulizers. It incorporates a liquid feed design and generates negligible heat, minimizing drug degradation.

The AeroNeb nebulizer was designed and approved for use with commercially available nebulizer solutions of respiratory drugs and is expected to be introduced into the U.S. market in the first half of 2001.

AeroGen's first product in development to deliver a drug through the lungs to the bloodstream is an AeroDose inhaler delivering insulin to treat diabetes. First clinical trials have been completed. In May 2000, AeroGen entered into an agreement with Becton, Dickinson and Co., where BD will develop and supply a patient-adjustable container for use in AeroGen's AeroDose insulin product.

The estimated 800,000 Type I (insulin dependent) diabetic patients in the United States require multiple injections of insulin per day. AeroGen's AeroDose insulin product is designed to be the first patient-adjustable inhaler allowing a patient to precisely adjust their insulin dose based on anticipated caloric intake. After extensive focus group testing with patients and physicians, the AeroDose insulin inhaler appears to be an attractive method for delivering inhaled insulin, thanks to its small size and ease of use.

AeroGen is developing an application of its aerosol generator technology to deliver drugs to patients on mechanical ventilation. The AeroNeb InLine nebulizer is small and lightweight, allowing it to be positioned close to the patient's windpipe, thereby optimizing drug delivery and humidification of the inhaled air.

AeroGen expects the first AeroNeb InLine nebulizer to be sold as a standalone product that can be attached to any ventilator. There are plans for a 510(k) submission to the FDA for this version of the AeroNeb InLine nebulizer in the first half of 2001.

Drug partners

AeroGen is collaborating with partner companies who will commercialize its respiratory products. In March 2000, AeroGen signed an agreement with PathoGenesis Corp. to develop a small, hand-held AeroDose inhaler to deliver TOBI, an inhaled tobramycin treatment for CF. Under the agreement, PathoGenesis received exclusive worldwide rights to commercialize AeroGen's AeroDose inhaler for use in combination with TOBI.

PathoGenesis is responsible for the development and man-

ufacture of the portion of the final product that contains the drug. AeroGen is responsible for developing and manufacturing the custom AeroDose inhaler. PathoGenesis will conduct the clinical testing needed for regulatory approval of the final product. In July 2000, PathoGenesis announced that it had begun Phase I testing of the AeroDose TOBI product.

In May 2000, AeroGen entered into an agreement with Becton, Dickinson and Company (BD) under which BD will develop and supply a patient-adjustable container for use in its AeroDose insulin product.

In May 2000, AeroGen acquired all the voting stock of Cerus Limited, now AeroGen (Ireland) Limited. Cerus was a development-stage company developing products under license from AeroGen using its core aerosol generator technology.

AeroGen's aerosol generator technology has proven to be of interest to industries outside the field of pulmonary drug delivery. It has an agreement with a multinational consumer products company covering the use of its technology in the fields of air fresheners and insect repellants. Under the terms of this agreement, AeroGen receives royalties based on net sales of units and refill cartridges.

Cash on hand

Since AeroGen is still in its developmental stage, it has accumulated a deficit of approximately US\$32.3 million as of June 30, 2000. Expenses will continue to increase, but revenues from the introduction of its first product next year should offset some of the costs.

AeroGen expects its current cash and investments plus proceeds raised from the IPO to sustain operations for at least the next 24 months.

Competing with the pros

The pulmonary drug delivery market is intensely competitive. Several companies, including Aradigm Corporation, Dura Pharmaceuticals, Inc. and Inhale Therapeutics, are developing competing pulmonary drug delivery devices. These competing dosage devices are designed both to treat respiratory disease and to deliver drugs systemically.

Aradigm (ARDM:NASDAQ) is currently trading at US\$17.56 and had a 52-week high of US\$46.75. **Dura Pharmaceuticals (DURA:NASDAQ)** recently reached a new high of US\$28.87. **Inhale Therapeutic (INHL:NASDAQ)** is trading at US\$50.06 and had a 52-week high of US\$70.75. I expect AeroGen to have a stable aftermarket performance, but be disciplined in your aftermarket entry price. Avoid first day run-ups.

AeroGen, Inc. plans to trade on the NASDAQ under the ticker symbol AEGN. Underwriters involved in this offering are Chase H&Q, CIBC World Markets and SG Cowen.

For more information, please contact AeroGen, Inc., 1310 Orleans Drive, Sunnyvale, CA 94089, phone 408-543-2400, fax 408-543-2450.



Reinventing Paper

by J.K. Riffin

Point your browser in almost any direction and it's impossible to avoid the tidal wave of new media pioneers.

TheStreet.com (TSCM:NASDAQ) and **MarketWatch.com** (MKTW:NASDAQ) raced to market with up-to-the-minute financial news and analysis, and actually managed to go public in the process. On the politics and general interest front, **Slate.com** and **Salon.com** (SALN:NASDAQ) each serve up several new articles a day. The Internet business itself remains a huge source of content, putting print/online combinations like *Red Herring*, *The Industry Standard* and *Upside* on the map. Goofy grouch Stephen Brill (of the infamous *Brill's Content*) is now on his second attempt with a try-and-buy "portal" called **Contentville.com**, which is little more than a fairly broad Web site attempting to pay for itself through fees for referred print magazine subscriptions and online book sales.

And that's just the tip of the iceberg. Virtually every major (and not so major) metropolitan daily—from the *Washington Post* to the *Buffalo News*—is making everything their print subscribers pay for available for free on the Web. Don't forget to throw into the mix the media conglomerates' various Web efforts, such as **Time Warner's** (TWX:NYSE) failed **Pathfinder.com** and subsequent merger with **AOL** (AOL:NYSE); NBC's early deal with Microsoft to form **MSNBC** and then reorganization of Internet "assets" under an **NBC Internet** tracking stock (NBCI:NASDAQ); and **Disney's** (DIS:NYSE) stop and go efforts to build and spin off its own Internet tracking stock with the **Disney Internet Group** (DIG:NYSE), a semi-unified network of Web sites that includes **Disney.com**, **ESPN.com**, **ABCNews.com** and the **Go.com** (formerly **Infoseek**) search engine. But just offering your content for free means little: when everybody's giving it away, the word "free" becomes meaningless.

Getting scooped

And of course there's Matt Drudge, who perhaps best leverages the Web's power to rapidly disseminate news. *The Drudge Report* remains starkly and anachronistically basic. Black courier type on a white background. See headline. Click headline. Read news. Click back button.

Drudge relies exclusively on his ability to be the first to present bits and pieces of highly controversial news. He's toyed with alternative delivery channels, but the un-moderated Web is his home. And through it all, his Web site has remained among the most popular on the Internet.

This is a business?

So with all this content, where's the money coming from? For the most part, the real source has been from the

recent run-up in the market. Online advertising has meant the rapid transfer of IPO dollars from dot-com to content provider. Until 1999, most Internet companies built Web sites to sell widgets. In that year many of them went public in search of cash to fund expansion and marketing. Where do they go for marketing? To content provider Web sites (portals like Yahoo, Excite and Lycos, and content sites like NBS, Disney, Salon.com, TheStreet.com, Drudge, etc.) who, for a fee, offer to slap banner ads in front of the most attractive demographics.

So the advertising networks are making a killing, right? They were, but the Web audience is clicking on banner ads at a lower and lower rate, and consequently banner ad revenues are falling through the floor. Witness the share prices of **Engage** (ENGA:NASDAQ), **Doubleclick** (DCLK:NASDAQ) and **24/7 Media** (TFSM:NASDAQ), each of which has plummeted to about a third of their highs in the early spring of 2000. And as more and more dot-coms closed their doors or pared back their advertising budgets during the early summer months, some of the ad networks actually went undersold.

Thus many content providers are operating at a loss, funded only by hopeful corporate, institutional and retail investors. NBC Internet is losing US\$2.33 a share. Disney Internet is losing US\$1.02 a share. Salon.com is losing US\$3.63 a share. TheStreet.com is losing US\$1.85 a share. It's enough to make Matt Drudge look pretty smart for sticking with the basics.

What's the real product?

It's important to note that, from the consumer's perspective, many of these content-oriented Web sites are breaking new ground. News events are being covered in greater depth and detail than ever before. And in some ways, they really are defining the medium as an (almost) indispensable part of everyday life.

Radio was just a novelty until people began depending on it to hear Roosevelt's presidential addresses or World War II field reports. Television came into its own with the Nixon/Kennedy debates and the Apollo moon shot. Monica Lewinsky may not hold the same level of historical significance, but certainly was a milestone by which the Internet proved itself a more rapid and efficient medium for detailed and customizable information.

What we have, then, is a medium still in search of a reliable business model. Online content does not pay in the same way as print content, since the two are fundamentally different in the way people consume them. And with the proliferation of e-commerce, the role of online advertising

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is not so much the building of brand awareness as it is redirecting consumers from content to product.

The question to ask of content-based Web business models is not so much “does content pay?” or “can content sell?” as it is “what’s the real product?” At the moment, the best examples of content that can be sold and delivered to a mass market audience on the Web are Stephen King and the *Wall Street Journal*. With the exception of smaller, highly targeted efforts, just about everyone else has failed to create an online market for their words.

The challenge is to reinvent advertising. That’s going to happen in two ways. First we’re going to see new and more immersive online advertisements. And then will come a more concerted effort to surround content with the opportunity to buy virtually any related product or service.

Fresh air

One way is through “ad-bots,” which are virtual characters that can answer questions about products. ScreenMates.com is a company that produces these ad-bots. In some cases, the characters are tied to a movie or television show. Users download the program, and the character jumps around their computer screen, hawking other products while extending the value of the movie or

television property. Granny Klump, from Eddie Murphy’s *Nutty Professor* movies, has been downloaded by more than one million people from ScreenMates.com.

Another attempt is through more appealing multimedia, such as a larger pop-up windows with sound, video and animation. Unicast Communications Corp. and Net-mercial Inc. are working this territory, developing the technology to abbreviate the download delays often associated with richer multimedia. Unicast has had some success working the expanded format for traditional advertisers such as Nike, Johnson & Johnson and Miller Brewing Company. The company claims click-through rates of up to 6 percent for the multimedia pop-ups, which is big news compared to the industry average of less than half of one percent for banner ads.

Perhaps farthest down the ad-bot technology road is **Artificial Life (ALIF:NASDAQ)**, a company that has had early success in developing and marketing intelligent software bots. These “smart bots” are virtual guides that help corporate Web site operators improve a host of tasks, including Web navigation, user profiling, sales response and call center management. Customers include Metropolitan Life, General Instrument, Credit Suisse/First Boston and PriceWaterhouseCoopers.

Rarity and grade: Tough decisions a coin buyer must make *by Al Pinkall, President, Gold Rarities Gallery*

One of the toughest decisions a coin buyer has to make is what type of coins to buy. There are many different coins to choose from. Our advice has always been to stick with non-common, low-mintage material. There is nothing wrong with buying a few common-date pieces of each denomination, especially if you are just getting started. The coin market has always been about supply and demand, and with some of the later-date pieces having mintage figures in the millions, there is always a steady supply coming onto the market.

Stick with better date pieces

Some of the best areas of the coin market are those that most people are unaware of. The reason is that an area such as early gold minted from 1795-1839 (one of our top recommendations) cannot be mass promoted because they are legitimately rare coins, unlike many of the common-date 20.00 Liberties that are being heavily touted as rare—even though they exist in quantity. Take the \$2.50 gold pieces from 1796-1834: there was not a single year that saw more than 6,812 coins made. These

pieces are rare, desirable and part of a thriving market that is increasingly a magnet for the smart money among today’s coin buyers. No longer are people buying large quantities of common-date material; instead, the savvy investors are going into scarcer, lower-mintage coins. Now that the threat of world destruction has passed, a substantial amount of the bulk gold and silver purchased for “Y2K” is being traded for better coins.

At Gold Rarities Gallery we have never been into the hype game. Many coins heavily touted by the telemarketing firms have horrible track records. A look at the price sheets from July of 1996 to the present solidifies our reasons for sticking with the better coins. Some of the best performers have been in the areas of Early Gold, Proof Gold and individual pieces such as the 1907 High Relief St Gaudens and the key date 1911-D 2.50 Indian MS-63 –65 grade. All are up over the 4 year period while common-date material is down sharply. There is no reason to hype the better coins, the numbers speak for themselves.

Buy the coin, not the grade

The next big question after what to buy is what grade to buy. Just because a coin is high grade does not make it rare. There is a misconception among many coin buyers that the higher the grade the better the coin is. This is far from the truth. A common-date 2.50, 5.00 10.00 Liberty or Indian gold coin is not a rare coin even in high grade. In most cases the later date coins have extremely large original mintage figures. That leaves a lot of coins floating around that have not surfaced yet. This problem does not exist with the earlier coins. The rarity, beauty and popularity of these coins make them one of our top recommendations.

At Gold Rarities Gallery, all coins are hand selected for quality. For more detailed information we invite you to call for our FREE buyer’s guide and special reports on which coins to buy now and which to get out of immediately. Give us a call at 800-224-3160.

Gold Rarities Gallery is a *Taipan Recommended* dealer. Gold Rarities Gallery, PO BOX 1140, Amherst, NH 03031



Mediating Purchases

The other side of the online advertising coin will rest on content providers' ability to connect readers with potential purchases. One company that has been making headway on this front is called Zooba.com. Based in Boston, this self-proclaimed "infomediary" launched its service in May, 2000, to help content publishers assemble targeted email lists containing products dynamically linked to the topical content that its members have elected to know more about. The emails are free for users to subscribe to, and provide retailers with unique opportunities to place the right information in front of the right person at the right time.

In less than four months, Zooba.com already has established partnerships with an impressive list of trade and academic publishers, including Simon & Schuster, Farrar Straus & Giroux, Columbia University Press, Taschen and Stanford University Press. In addition to the email distribution service, Zooba.com provides publishers with real-time, comprehensive, aggregated psychographic and demographic data on subscribers. Zooba.com is funded by the European VC firm Europ@web, which has invested more than US\$500 million in e-tailer eluxury.com, mobile Internet service provider Quios.com, investing Web site MetaMarkets.com, and the wagering Web site (already mentioned in these pages) Flutter.com.

Who survives?

Though their content is less costly to develop and certainly more commerce-oriented, three companies lead the way. In June I reported on **CNet (CNET:NASDAQ)**, **Homestore.com (HOMS:NASDAQ)** and **Ticketmaster/CitySearch (TMCS:NASDAQ)**. All are up since June 1, and Homestore.com has nearly doubled.

Of course, **Yahoo (YHOO:NASDAQ)** and AOL continue to be the pre-eminent Web destinations. Among the advertising networks, watch **Engage Media (ENGA:NASDAQ)** for the biggest 6- to 12-month upside. Engage has been expanding globally, with special focus on increasing its ability to serve online advertising in Asia. The company is also making more aggressive efforts to serve rich media and commerce referrals.

The jury is still out on the content upstarts. By the first quarter of 2001, tough decisions will have to be made at TheStreet.com, Salon.com and MarketWatch.com. All are working from a similar set of options, which include establishing print outlets to catch bigger ad revenues; stepping up the syndication of their content to build brand awareness and loyalty; increasing product placements; and courting acquisition by larger media companies looking to bolster their online presence.

Watch for several print offspring by next year. Print ad revenues have jumped as interest in business and the Internet has increased. Other Web sites have successfully tapped into the reservoir of cash from magazine advertising by launching print versions. Yahoo, Expedia, and Nerve all have either launched or plan to launch "print progeny" magazines.

As the Web goes mainstream, more traditional companies will see it as an essential way to promote both online and offline products. The dot-com shakeout of 2000 was a wakeup call to online advertisers that they needed to provide consumers with more compelling and creative content and advertisers with more direct results.

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

Company	Exchange/Symbol	Status	Action
Human Pheromones	NASDAQ:EROX	open	hold
SunMicroSystems	NASDAQ:SUNW	open	hold
Safeguard Scientific	NASDAQ:SFE	open	hold
Internet Capital Group	NASDAQ:ICGE	open	hold
Cell Robotics	NASDAQ:CRLI	open	buy under US\$5
Talk.com	NASDAQ:TALK	open	hold
Clearworks.net	AMEX:CLW	open	buy
VerticalNet	NASDAQ:VERT	open	hold
Valance Technology	NASDAQ:VLNC	open	buy under US\$15
American Quantum	AMEX:AFV	open	buy under US\$2
Media 100	NASDAQ:MDEA	open	hold
Baltimore Technology	NASDAQ:BALT	open	buy under US\$16
Barnes and Noble	NASDAQ:BNBN	open	hold
"Red Hat, Inc."	NASDAQ:RHAT	open	hold
Interwoven	NASDAQ:IWOV	open	sell over US\$100
Akami Technologies	NASDAQ:AKAM	open	hold
FreeMarkets	NASDAQ:FMKT	open	hold
Sangamo Biosciences	NASDAQ:SGMO	open	buy under US\$11.50
Silicon Laboratory	NASDAQ:SLAB	open	hold
Web Methods	NASDAQ:WEBM	open	hold
New Focus	NASDAQ:NUFO	open	hold
*Resonate, Inc. "	NASDAQ:RSNT	open	hold
Illumina	ILMN:NASDAQ	open	hold
National Info. Consortium	NASDAQ:EGOV	open	buy
Nastech Pharm.	NASDAQ:NSTK	open	buy
Orbital Sciences	NASDAQ:ORB	open	buy
AVI Biopharma	NASDAQ:AVII	open	hold
Aviron	NASDAQ:AVIR	open	hold
Closure Medical	NASDAQ:CLSR	open	hold
Micros Systems	NASDAQ:MCRS	open	strong buy
Modtech	NASDAQ:MODT	open	buy
Printrak	NASDAQ:AFIS	open	sell
MedImmune	NASDAQ:MEDI	open	hold
Pharmaceutical Product Dev.	NASDAQ:PPDI	open	hold
Millennium Pharmaceuticals	NASDAQ:MLNM	open	hold
CheckFree Holdings	NASDAQ:CKFR	open	hold
Univision	NYSE:UVN	open	hold
Optimal Robotics	NASDAQ:OPMR	open	hold
Ballistic Recovery System	OTC BB: BRSI	open	buy
Sensormatic Electronics	NYSE:SRM	open	hold
Agritope	NASDAQ:AGTO	open	buy
Bionova	AMEX:BVA	open	open
Casio	OTC:CSIOY	open	open
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Leisure	CDNX:LCN	open	open
Aramex	NASDAQ:ARMX	open	open
Uproar	EASDAQ:UPRO	open	open
Restaurant Brands	NZSE:RBD	open	open
Fischer & Paykel	NZSE:FAP	open	open
Unicharm	TOKYO:8113	open	open
Elron	NYSE:ELRNF	open	open
Elbit Ltd.	NASDAQ:ELBTF	open	open
Orckit	NASDAQ:ORCT	open	open
Hurricane Hydrocarbons	HHLF	open	hold
Hurricane Warrants	HUHY	open	hold
Ashanti Goldfields	ASL	open	buy
Surgutneftegaz ADR	SGTZY	open	buy
Suez Cement	SZCD	open	buy
Sasol	SASOY	open	buy
Monsenergo ADR	AOMOY	open	hold
TyumenAviaTrans	TVAVY	open	buy
Ventspilis Nafta	VNFT	open	buy
Lukoil Preferred	LUKPY	open	buy
Xoma	XOMA	open	hold
Avant Immunotherapeutics	AVAN	open	buy
Williams Control	WMCO	open	buy
Exponent	EXPO	open	buy
Computer Learning Centers	CLCX	open	buy
Geoworks	NASDAQ:GWRX	open	buy
Fastcomm Communications	OTC BB:FSCX	open	hold
Pliant Systems	OTC BB:PLNS	open	buy under US\$10
Illinois Superconductor	OTC BB:ISCO	open	buy under US\$5
Barpoint.com	NASDAQ:BPNT	open	buy under US\$9
Precision Optics	NASDAQ:POCI	open	buy under US\$20
APA Optics	NASDAQ:APAT	open	buy
Wave Systems	NASDAQ:WAVX	open	sell
Interwave Communications	NASDAQ:IWAV	open	buy under US\$15
CellPoint	NASDAQ:CLPT	open	buy under US\$30
DataLink.net	NASDAQ:XLNK	open	buy under US\$12
Comtech Telecom	NASDAQ:CMTL	open	buy under US\$15
MRV Communications	NASDAQ:MRVC	open	buy under US\$60

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