



Gunshots, ballots, cities engulfed in flames...What's the Dili?

By Christian Dehaemer

PROFITS

COURAGE

FORESIGHT

What do the East Timorese use to call CNN? It's time to dial up 93 percent potential returns on this Indonesian phone company.

Indonesia is on fire again—literally. Last summer, when the Asian contagion was cascading around the world, Indonesia was the worst leper of the lot. Cash stampeded out of the country, which labored under a crushing foreign debt load.

The Indonesian currency, the rupiah, was freed from its dollar constraints and tumbled from 3,000 rupiah to the dollar to 18,000—at which point trade stopped altogether. Investors considered themselves lucky to get out with pennies on the dollar.

Commodities, including oil, an Indonesian export staple, fell to 30-year lows. Massive forest fires ravaged the countryside and choked the cities with smog. Endless chaos seemed a certainty.

Another one bites the dust

Sidhartu's thirty-year dictatorship was rife with crony capitalism. His family, who previously reaped the rewards of his power—making fortunes off everything from rice monopolies to grandiose real-estate investments to toll roads and car manufacturing pipe dreams—ducked for cover. All the while, inflation eroded the people's ability to purchase basic needs such as cooking oil or food.

The dictator's, long-time pact with the masses—economic growth in exchange for totalitarian rule—fell apart almost overnight. Students by the hundreds of thousands rioted in the street. The business class represented by ethnic Chinese were raped, murdered, and their houses burned. Most fled, taking their capital and business savvy with them.

It looked like a sequel of Sidhartu's rise to power thirty years previous, when 250,000 people lost their lives in a bloody civil war. It would have taken a bold investor indeed to step up and buy. But some did. I know a guy who, literally, made millions.

Let's all get rich together

Who could have known that Sidhartu would step down, leaving the government to his hand-picked successor B.J. Habibie? Or that Habibie would prove so successful in quelling the genocidal instincts of the Army while pacifying the great unwashed?

Things change fast in today's world and hope springs eternal. Remember the predictions based on the Asian contagion? Devaluation

would destroy pricing power. There would be no one left to buy American exports. Long Term Capital was just the tip of the hedge fund iceberg. The evil specter of a worldwide depression loomed. Hungry bands of marauding speculators would steal your investments and eat your dog. The Dow would fall to 5,000 or 3,000 or whatever.

Bah, how many times do you have to hear that before it comes true? If the Dow fell to 3,000 tomorrow Allen Ibersen would claim it was headed to 1,500, all the while crowing about how right they've been over the past 15 years. It doesn't matter that they've missed the greatest bull market in history as long as it crashes someday. The fact that bad news sells is just as true for the investment media as it is for the local news.

(over, please)

There aren't very many safe ways to play emerging markets bounces. As a rule you want to look for survivors. Oil, telecoms and breweries make up the short list.

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The Great Asian reflation

They were wrong. The Asian stock markets have turned around. The Hang Seng Index in Hong Kong is pushing 14,000, up 100 percent from a low of 7,000 a year ago. And perhaps most remarkably, its dollar peg remains intact.

The Thailand SET has risen from 220 a little more than a year ago to 551 in July before selling off to 443, where it closed just the other day—that's a 150 percent increase! That doesn't even take into account the currency appreciation. Needless to say, the tremendous buying opportunity is long gone.

There aren't very many safe ways to play emerging markets bounces. As a rule you want to look for survivors. Oil, telecoms and breweries make up the short list. When trolling for Indonesian companies I looked at smaller commodity plays that don't have an ADR. It might seem odd, but the greatest sell-off occurred in the larger foreign-owned blue chips—which is great, because I'd much rather buy a stock traded in New York than Jakarta. It's more liquid and transparent.

A crisis record of profit

I've made plenty of profits for *Taipan*

members in the past by buying blue chips during a crisis. In March we bought PLD Telecom, a Russian communication company—and pulled in 162 percent gains in only four weeks!

Or how about last year, when we pulled in 102 percent returns off of D&G—the makers of Red Stripe beer. Or 48 percent on China Telecom, or 54 percent from South

African Breweries. The list goes on and on. It's those kind of returns that make up my religion, and we're going to do it again this month.

Ricky, don't lose that number

PT Telekomunikasi Indonesia (TLK-NYSE) is the Ma Bell of Indonesia, the world's fourth largest country. Telekom's main business activities are threefold. They provide local and domestic long-distance services.

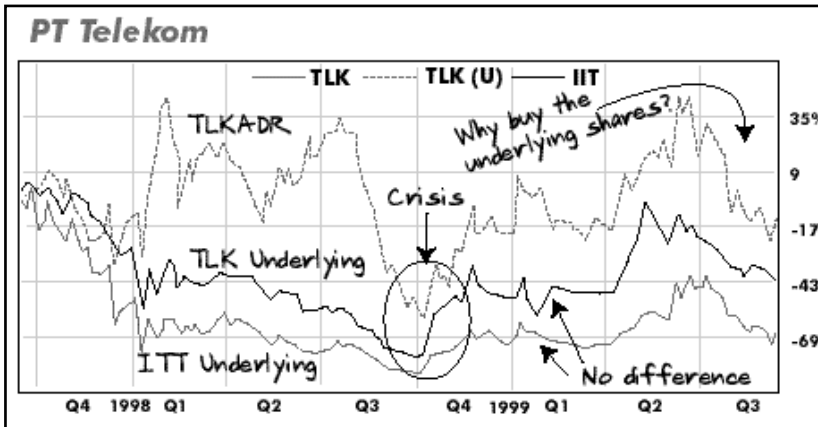
Secondary activities include mobile cellular services, leased lines, telex, satellite transponder leasing and VSAT. Telekom has a series of subsidiaries, partnerships and joint ventures among the cell phone providers. The company currently has seven regional divisions and one national long distance provider.

The third branch provides information services, repair, training and property management. Telekom is a true Indonesian blue chip.

Eye of the tiger

Telekom is a survivor. They have weathered the economic storm of the last two years admirably—to the point where they had significant foreign exchange gains over the first six months of this year.

It's a macro turn around story, to be sure. As you can tell by the chart, Telekom was a high p/e growth stock with a share price in the US\$30s a little over two years ago. Following



Jakarta on my mind

If you had bought a fund (non-existent) that follows the JSX Index (Jakarta Stock Exchange) when it was trading at 300 last September and sold it in July at 720, you would have made 140 percent on your investment.

However, when you take into account the currency rates of 13,000 rupiahs to the dollar last year when you bought and 6,000 when you sold, you would have made a total of 256 percent on your investment. Of course, these things work both ways. As I write this, the rupiah has fallen to 9,000.

Like a phoenix from the kabota

If you need further examples of the Far East reborn, look to Japan. It is dawn again in the land of the rising sun. GDP has grown 0.2 percent in April-June from the previous quarter. That's two quarters of growth in a row. How exciting. As I write this, the yen is rising from 111 per dollar to 104. Finance ministers are now worried that the yen will grow too strong.

Bottom fishing in Indonesian telecoms

The goal of investing is to buy low and sell high. Was it Gram or Dodd who said, "Buy when the body count runs up faster than Clinton's legal debt, and sell when Merrill puts out a Strong Buy recommendation?"



the devaluation, the Telekom share price hit a low just under US\$3 where it traded below liquidation value.

Fear rules.

The fact is, Telekom was never going to go under. I don't know of a national phone company that ever has. Regardless, Telekom has made all the correct moves since then.

For the six months ending June 30, 1999 eps was 157.9 over a loss of (126) over the first six months of 1998. Net income for the first half of 1999 increased 225% to 1,473.9 billion rupiah.

This company is far better today that it was a year ago. Total operating revenue grew 15.3 percent over the last six months. Ebita grew 9 percent. Ebita margin continues to hover above 70 percent.

Perhaps the most telling sign of management savvy is the resurgence of loans based in rupiah. Last year 55 percent of Telekom's loan portfolio was in foreign debt. This year 53 percent of the loan portfolio is in rupiah. The greater the

domestic denominated debt the less exposure to currency fluctuation.

Big company

Telekom has some 38,000 employees and 5,758,780 telephone lines now in service. Their stated goal of five years ago is 10 million lines by 2001. I don't think they'll make it. Growth has slowed—they are putting in about 100,000 lines a year. Telekom has entered into a prudent spending period. It's working. Cash almost doubled over the last year, coming in at rp 3,286 billion vs. rp 1,333.3 billion in 1998.

Fine, Telekom will stay in business, but how do we know it's cheap and what makes it better than other Indonesian telecoms? Well, I'll tell you.

The other Indonesian telecom is Indosat (ITT-NYSE). Indosat deals with international long distance from Indonesia. Indosat has sold off in a similar proportion as Telekom and currently sports a favorable p/e of 10

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))	Hold	Speculative buy under €21 (US\$21.85)
Herzfeld Caribbean Basin Fund (CUBA-OTC)	Buy	Strong buy under US\$5.00
Uni-Charm (8113-Tokyo)	Buy	Buy under US\$60
Commodity Trust Fund Ltd (CMT-London)	Buy	Strong buy under US\$1.40
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\$7
□ Hurricane Hydrocarbons (HHLAF-NASDAQ)	Hold	Hold
*Orckit (ORCT-NASDAQ)	Buy	Speculative buy under US\$30
□ 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
□ Surgutneftegaz ADR (SGTZY-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> •



compared to 13 for TLK. However, the 5-year eps growth of Indosat is a negative (12.30) while TLK's is a positive 20.6 percent. But as you can see by the chart these two companies trade in tandem, so in that sense they are equal.

You might also notice that the ADR has sold off considerably more than the underlying shares. New York is much more jumpy than Jakarta due to currency risk. Of course the government owns 66 percent of the shares and foreign fund companies own the vast majority of the rest. Less than 2 percent is owned by individual Indonesians. That said, the government has been selling off large blocks of TLK (10 percent of outstanding last year) in a slow privatization program.

Telecom graceland

Other telecoms in the area include New Zealand (NZT-NYSE) and our old friend China Telecom (CHL-NYSE). NZT is a mature company serving a limited population base. It has a p/e of 19 and a market cap of US\$7.7 billion. Its growth rate is 2 percent on US\$1.8 billion in sales. You'd be paying a 46 percent premium over TLK's p/e for 1/7 the growth rate. The NZT chart tells the story of a dog. It has been stuck in a 20 percent trading range for the past year. Not a lot of dramatic upside potential.

China Telecom is on the other end of the spectrum. It has been flying of late and looks expensive. It has a p/e of 50 on growth of 20 percent. This price may be justified, however, in that CHL is a priority for the state and telephone penetration is minimal in China—some estimates put it at 1 line per 100. There is plenty of growth potential. At the same time China has yet to undergo a devaluation crisis and can't rise GDP 8 percent annually for ever.

TLK has the same upside potential as CHL in that there are now roughly 10 million lines in a country of 200 million. The fact that TLK is heavily involved in cellular, cable and recently launched a Lockheed Martin-built satellite bodes well for any information superhighway dreams you want to lay on it. By the way, if TLK had launched that satellite two years ago it would have tacked 15 percent on its share price.

Buy fear, sell greed

In the end none of this matters. This is a psychological play based on fear of widespread destruction and civil war.

The problems in East Timor arose 250 years ago when Portugal colonized it. The Portuguese left in 1975 and the Indonesians invaded. East Timor (oddly, Timor means "east") has been fighting for independence ever since.

Earlier this year, Habibie offered them the chance to vote for self-rule. They took it. 98 percent cast their ballots for freedom. During this time the militias, puppets of the national army, set about punishing the region. Reports are that they have been systematically killing thousands of Timorese, destroying their homes and forcing them into refugee status.

Many believe that the destruction of Dili, the capital, is meant as a warning to any other region of Indonesia that hopes for autonomy. Habibie called in the UN because he

had no other way of controlling his army.

The UN has had a fairly decent record of late in stabilizing conflicts after many of the main participants are dead. By the time the UN arrives there will be little left to protect. That said, once the industrial nations arrive, the money to rebuild will come in by the bucketful, the economy will revive and foreign investors will be willing to risk more capital.

There is a general election in November. I wouldn't be surprised if the old guard lost ground to fresh faces who lean toward democracy. It wasn't that long ago when South Korea and Taiwan were totalitarian regimes.

The bet is that TLK won't plummet past its level of a year ago during the worst of the Asian contagion when it fell below its liquidation value around US\$3.5 a share. The medium-term upside is US\$15. The long-term upside is a return to pre-crisis level of US\$30. I don't plan on sticking around that long. Chances are good that there will be further decline in the share price before you receive this issue. **TLK is a buy at current levels below US\$7.50. It is a strong buy under US\$5 with a 12-month target of US\$14.50 for a gain of 93 percent.**

Oh, and for a bonus it pays a dividend.

ADR INFORMATION

Shares Per ADR	20.00
Reporting Currency	Rupiah
Current Exchange Rate	7,900 Rupiah Per US Dollar
Fiscal Year Ending Rate	8,025 Rupiah Per US Dollar
Fiscal Year Avg. Rate	9,875 Rupiah Per US Dollar

CONTACT INFO

The Bank of New York,
P. T. Telekomunikasi Jalan
Japati 1 Bandung 40133 Indonesia
Phone: (212) 815-2345

GROWTH RATES

	1 YEAR	3 YEAR	5 YEAR
Revenue	11.69%	8.94%	13.03%
EPS	13.75%	-3.90%	-2.12%
Dividend	17.50%	-8.71%	3.34%

SHORT LIST OF SHARE INFO

Market cap	US\$3.5 billion
Float:	107 million
Shares outstanding:	466 million
52 week high:	14 3/8
52 week low:	2 9/16
Recent price:	Last 7 9/16
Ticker:	NYSE:TLK

Stock holders equity grew from 8 billion rupiah to 11 billion from 98 to 99 (about 1.6 billion US depending on the exchange rate) during the height of the crisis.



Optimal Robotics explodes to the upside

By Brian Hicks

Taipan's philosophy of uncovering under-followed microcap tech stocks is bearing an amazing amount of fruit. When I recommended Optimal Robotics at US\$11 a share, nobody on the Street was covering the stock. In fact, no analyst wanted to talk to me about the small Canadian company.

But I did my homework. I checked out OPMR's innovative U-Scan Express (the self-checkout systems in grocery stores) for myself. I fell in love with the ease and convenience of these machines almost instantly.

And the market loves the U-Scan Express too.

Take a look at a chart of OPMR's year-over-year revenues. Sales of the systems are beginning to accelerate. This is exactly what I look for in a microcap stock: A fantastic technology that makes sense, and then a validation of that technology through robust sales growth.

Just a few months after my recommendation institutions are accumulating shares of OPMR en masse. **As I write this, OPMR has broken above US\$19 a share, for a stellar 80% return in just three months.**

The reason?

The company has installed its 250th U-Scan Express system.

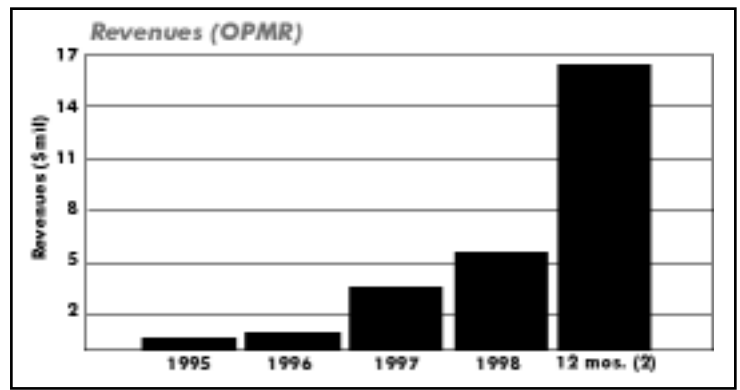
At the end of 1998, the company had installed 87 systems. In approximately 7 months, OPMR has nearly tripled the number of U-Scan Express self-checkout machines available for use by consumers in the U.S.

The company also had record revenues of US\$7.0 million for 2Q99 vs US\$696,326 for 2Q98. This significant growth in revenue was the result of increased sales the U-Scan Express self-checkout system.

The second quarter was the first profitable quarter in the Company's history. Net earnings were US\$428,362 or US\$.05 per share vs a net loss of US\$948,787 or US\$.13 per share for 2Q98.

During the 2Q, the company installed 68 U-Scan Express systems vs 9 systems installed in 2Q98 and 57 systems in all of 1998.

Optimal Robotics trades at a market cap of about US\$142 million, still a microcap by any standard. This year's eps estimate stands at US\$0.12, although this may be revised as more and more U-Scan Expresses get installed.



But fiscal year 2000's eps is US\$0.48—an estimated year-over-year increase of roughly 300%.

The stock looks poised for a run above the US\$20 level. But a technical pullback with some consolidation may occur before the stock resumes its uptrend.

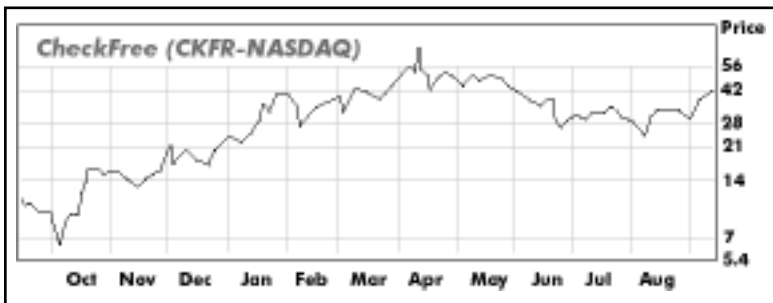
Buy CheckFree (CKFR-NASDAQ) Under US\$35

CheckFree Holdings (CKFR-NASDAQ) recently launched the CheckFree Guarantee Program to help its financial services and billing partners promote customer confidence in online bill payment.

The new "Transactions Guaranteed by CheckFree" symbol and accompanying statement is now available for use on financial service and biller Web sites that offer electronic billing and payment, backed by CheckFree.

CheckFree backs all partners and services with comprehensive guarantee protecting against unauthorized transactions or processing delays. The two-part guarantee provides:

- **Protection from Unauthorized Transactions**—Consumer liability for unauthorized transactions is no more than US\$50, much like major credit cards. The subscriber must simply provide notification (in accordance with the Terms & Conditions) within two business days of when they initially suspect





fraud.

- **On-time Payments**—CheckFree will assume responsibility for any late payment-related charges (up to US\$50 per transaction), should a payment that is scheduled in accordance with the Terms & Conditions arrive late.

Some of CKFR's partners expressed their customers' concerns regarding just how secure and reliable electronic billing and payment is, and may have concerns about enrolling for that reason. All of the distribution partners are protected by the CheckFree Guarantee.

However, the Company launched this formal program to enable partners to display a symbol and guarantee description on their sites to help consumers understand that their transactions are protected.

CheckFree also will run a service with Yahoo. Yahoo recently launched its long-expected bill-payment service through a deal with CKFR. The service is called "Bill Pay."

It will allow users of Yahoo to electronically pay any biller in the U.S., including individuals such as landlords etc. Those billers who aren't able to accept electronic payments will be mailed a paper check by CheckFree, which will run the co-branded service for Yahoo.

Yahoo is offering the service free for three months, after which customers can either pay a US\$2 a month fee with a US\$0.40 per payment charge, or US\$7 for 25 payments and US\$0.40 a payment after that.

After a massive retracement, which took the stock to the low US\$20s, CKFR could test its April high. The stock is a buy under US\$40.

Synagis receives European approval—MedImmune surges to US\$120 a share

MedImmune (MEDI-NASDAQ) announced that the European Commission granted a marketing authorization for Synagis for the prevention of serious lower respiratory tract disease requiring hospitalization caused by respiratory syncytial virus (RSV) in high-risk infants.

As a result, MEDI's stock has rallied to a high of US\$120—representing a +150% gain since January.

Synagis, the first monoclonal antibody to be licensed in the United States for any infectious disease, is also the first product to deliver safe and effective RSV protection with a simple intramuscular injection. The injection can be administered in the primary health-care provider's office once a month during the RSV season—typically November to April in Europe.

RSV is the most common cause of lower respiratory infections in infants and children worldwide. In fact, half of all children around the world develop RSV infections by the age of one year, and by the age of two, virtually all children have been infected.

In high-risk children infected with RSV, 70 percent may require hospitalization, 25 percent may require mechanical ventilation and some may die as a result of RSV infection.

Synagis reduced the risk of hospitalization due to RSV by 55%.

Millennium rides the wave of Genomics—The stock is up 136% since our recommendation

Millennium Pharmaceuticals (MLNM-NASDAQ) announced that its collaboration with Wyeth-Ayerst Research, the principal pharmaceutical Research and Development division of American Home Products Corporation, in the area of central nervous system (CNS) disorders will be extended for at least an additional two years.

This extension is based on achievements in the first three years of the collaboration and on the expectation that Millennium's CNS research program will continue to provide important and novel drug targets to Wyeth-Ayerst over the duration of the agreement.

Millennium has provided Wyeth-Ayerst with a third novel candidate gene. This discovery triggers an undisclosed milestone payment to Millennium.

Together, Millennium and Wyeth-Ayerst are unraveling the molecular basis of serious, debilitating psychiatric disorders and neurological diseases that affect millions of people every day, at an enormous cost to these individuals and society.

Ultimately they hope to develop treatments that act at the underlying genetic bases of these diseases.

Under the original 1996 agreement, Wyeth-Ayerst agreed to pay Millennium up to US\$90 million in licensing fees and research payments to access genomic technologies and fund research, including human population genetic studies, aimed at developing novel treatments for a broad range of CNS diseases.

To date, Millennium has delivered three novel genes implicated in CNS diseases to Wyeth-Ayerst, all resulting in milestone payments to Millennium.

CNS diseases include anxiety, depression, schizophrenia, epilepsy, Alzheimer's disease, stroke and substance abuse. Under the terms of the collaboration, Millennium receives research and product development





milestone payments, in addition to royalties based on products sold as a result of the collaboration.

In return, Wyeth-Ayerst is responsible for worldwide development and marketing of small molecule drugs and vaccines in the CNS field.

A separate alliance between Millennium and Wyeth-Ayerst, formed in December 1996, focuses on antibacterial drug discovery. Millennium has delivered eight antibacterial drug targets to Wyeth-Ayerst since that alliance began.

Univision surges to new highs above US\$83 a share

Have you seen Univision's programs recently? Aye Caramba!

Univision's talk shows are a welcome break from American talk shows. On Springer, for instance, the typical topic is "Women Dating Their Ex-Boyfriend's Sons."

Who cares!

You won't see that on Univision. On Labor Day, the topic on the talk show Maite was "How women can make their legs look long, tan and sexy." The entire show was dedicated to and showed nothing but beautiful female legs.

I was even treated to a demonstration, when a statuesque Latina taught the audience the proper way to shave legs.

I know, real heady stuff, but I didn't mind. And neither did the men in the audience. They looked like lions watching a herd of zebra on the plains of the Serengeti.

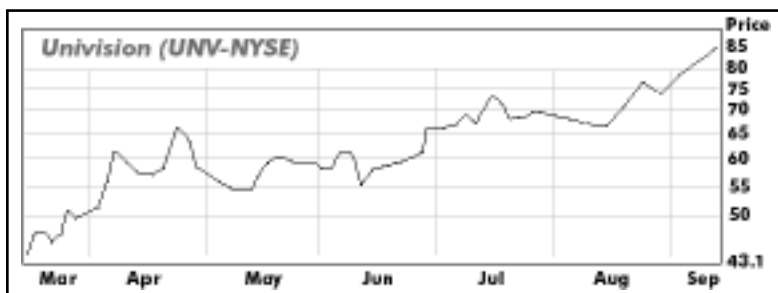
Talk about audience loyalty!

No wonder Univision's stock is in record territory. No wonder their ratings are through the roof... No wonder UVN's advertising revenues are bulging at the seams.

I love this stock. Univision has provided *Taipan* with a robust 30% return in less than two months. And the stock—on a year-to-date basis—has already doubled.

Univision is the fastest-growing television network in the U.S. And I believe it will remain one of the must-have growth network stocks for the next two to three years. As long as the Hispanic culture thrives in the U.S., the stock will thrive as well.

I maintain my hold rating on the stock. If it should dip below US\$60 a share for technical reasons (not fundamental), **I recommend being an aggressive buyer of Univision (UVN-NYSE).**



Taipan's 1999 Microcap and Growth Stock Portfolio

Name	Ticker	Exch	Current Price	Price %Change 13 Weeks	Price %change 26 Weeks	Price %change 52 Weeks	Price %Change YTD	Taipan's Entry Price	Taipan's Ttl P/L
ADFlex Solutions	AFLX	NASD	3.75	-6.25	9.07	-3.23	-45.95	12.00	(0.69)%
AVI Biopharma	AVII	NASD	4.00	-3.70	8.33	-7.14	-18.75	3.25	23%
Aviron	AVIR	NASD	28.88	27.27	35.88	126.47	11.59	22.00	31%
CheckFree Hldngs	CKFR	NASD	43.00	-20.65	-4.66	182.31	36.63	40.00	8%
Closure Medical	CLSR	NASD	17.00	-55.29	-56.65	-34.86	-52.20	22.50	(0.24)%
MedImmune	MEDI	NASD	114.50	60.70	92.44	353.46	130.29	47.00	144%
Micros Systems	MCRS	NASD	34.63	4.53	19.40	19.40	5.32	27.00	28%
Millennium Pharmaceutical	MLNM	NASD	78.00	65.13	115.14	451.30	155.68	33.00	136%
Modtech	MODT	NASD	8.25	-9.59	-17.50	-48.44	-45.90	18.00	(0.54)%
Nastech Pharmaceutical	NSTK	NASD	4.00	3.16	-11.84	-32.64	-21.78	8.50	(0.53)%
Optimal Robotics	OPMR	NASD	19.75	85.51	84.25	110.16	20.09	11.00	80%
Orbital Sciences	ORB	NYSE	23.13	7.56	-9.31	21.31	-47.44	20.00	16%
Pharmaceutical Product	PPDI	NASD	22.88	-17.19	-35.56	7.33	-23.91	30.00	(0.24)%
Printrak International	AFIS	NASD	8.00	12.27	9.17	52.57	0.85	8.00	0%
Univision	UVN	NYSE	84.00	33.94	93.65	147.72	117.19	57.00	47%
VISX	VISX	NASD	98.00	28.17	117.72	605.24	321.43	60.00	63%
Average:				14.62	29.41	130.54	37.46		35.86%



The Y2K relief rally is imminent: Get ready for profit-taking opportunities

By James Passin

It's been a disappointing year for the Armageddon crowd. The dreaded GPS clock rolled over: nothing happened. "9/9/99," the trumpeted "end-of-run" computer doomsday date, passed unnoticed into wastebasket of history. And it seems, according to recent polls, that even the occult- and equity-crazed masses aren't panicking in front of the baddest doomsday prophesy of them all: Y2K.

Don't get me wrong. Y2K could cause material disruptions. On New Year's Eve, I plan to party far away from the urban warfare that could erupt in New York City. Don't be surprised if I pack a loaded semiautomatic 9mm Beretta underneath my tux as I swill champagne in celebration of another profitable year for *Taipan* subscribers. And I'll stock up on scotch for water purification "just in case" the public utilities collapse.

But as far as the financial markets are concerned: Y2K is dead.

Fist full of quarters, eyes full of sand

The psychological effects of Y2K are most clearly manifested in the credit market. In "risky" times, no one wants to be a lender, but everyone wants to be a borrower. This affects the "spread" between risk-free government paper and high risk corporate debt. The junk bond/U.S. Treasury spread is a good indication of the level of fear in the market (other measures include the emerging market debt/U.S. treasury spread and also the forward treasury swap rate).

Corporate treasury managers and nervous nelly bond dealers are terrified that it will be impossible to sell debt

in the fourth quarter. Consequently, companies have dumped paper into a nervous market. This has raised the cost of refinancing long-term obligations. Credit swap premiums have soared above the 1998 Long Term Capital Management "nerds on leverage" crisis peak.

However, there is clear evidence that the Y2K panic is subsiding: credit spreads and forward swap rates are declining. The 10-year Treasury swap rate has broken below the 40-day moving average. The chart has formed a classic technical pattern called a "double top," which indicates further credit risk premia contraction. I believe that the Y2K panic has topped out—and that the unworking of Y2K paranoia will create significant opportunities for contrarian speculators.

Boring old macro-economics

The same Y2K fears are hitting the general level of interest rates in the U.S. The U.S. is a massive, chronic borrower. The current account deficit is running at a record annual rate of US\$299 billion. Since the U.S. consumes more than it exports, it needs foreign capital to fill the financing gap.

It hasn't made front page news, but the dollar is collapsing against the yen. In my view, the fall in the dollar/yen rate reflects the relative current account balances of Japan and the U.S. The U.S. economy is consuming cash, while the Japanese economy is generating cash. The Y2K panic has soured market sentiment towards risky assets. This has supported money flows out of the U.S. and into Japan. The fall in the dollar and sale of U.S. Treasuries by Japanese institutions have pushed bond rates above 6%.



Taipan subscribers were fully positioned to profit from current market conditions. As I wrote (if you will indulge me in the distasteful exercise of self-quoting) in the Perspectives 2000 issue of *Taipan* (December 1, 1998): "*Taipan* predicts that the yen will rise to 100 against the dollar... At the same time, rising commodity prices will trigger a 10% jump in the CRB index by the summer. Rising commodity prices and a falling dollar will force the 30-year Treasury bond yield as high as 6%."

This scenario has unfolded with absolute precision. But there's one missing piece of the puzzle: gold. I anticipated a massive rally in gold. The rally never occurred. Given the



decline in the U.S. dollar and strength in commodities (from copper to DRAM), it is shocking that gold failed to break above US\$265 per ounce. While there's a host of convincing excuses for gold's odd behavior (producer hedging, central bank sales, short seller conspiracy), the technical implications are unequivocal: *inflation is not spiraling out of control.*

The bottom line

An inflationary spiral emerges when people spend money as quickly as possible, because they are afraid of rapid rises in prices. Unless this behavior is observed in the stores, in the banks, on the Internet, you can be assured that inflationary pressures will not ignite a self-generating loop (whatever happens to the dollar, money supply, or the stock market).

If an inflationary spiral can't set in when Y2K is looming, the stock market is bubbling, and the job market is tight, it never will. Short of an inflationary spiral, the dollar should be close to setting a major bottom against the yen. While the U.S.'s current account deficit is a large dollar amount, it only represents 3% of GDP. The Asian tigers collapsed when current account deficits exceeded 10% of GDP. There's too many bond bears to allow rates to move much higher (according to Market Vane, only 23% of advisors are bullish on bonds). The preconditions exist to support a radical decline in U.S. rates. The bond rally will be triggered by a reversal in the bearish dollar trend.

All the "smart money" has exited the Dow in anticipation of Y2K. At conferences, on airplanes, in diners, I keep hearing: "I sold my stocks and will buy back after the Y2K crash." You can see the evidence of Y2K selling in emerging markets, internet stocks, bonds, and other risky assets. Based on my view of contracting credit spreads, *I believe that a massive rally in "risky" assets is imminent.*

Lotus rising

I recommend remaining fully invested in our Asian-Pacific regional stock picks. While Asia (with the exception of Indonesia) is no longer a screaming out-of-favor buy, it has not entered the crazed bubble phase that would warrant aggressive profit-taking. Asia is still exotic fare for CNBC or the *New York Times*—a healthy contrarian sign.

The strong yen is raising Japan's purchasing power. This is bullish for countries that export to Japan, including New Zealand. In general, money flows into Japan should promote regional trade in Southeast Asia.

The incredible resilience of commodity DRAM exporters like NEC (NIPNY-NASDAQ) in the face of rising currency costs suggests that the balance of power in the semiconductor industry is changing hands. The



emergence of post-Wintel operating systems and digital architecture is returning value from the box makers (DELL, CPQ) to the chip fabricators, suggesting a structural break with Moore's Law—and a rebirth of global Japanese dominance of high tech (even if the semiconductor bounce turns out to be purely cyclical, Japanese tech is enjoying a broad renaissance in industries including Internet and multimedia).

Our top play on the Japanese economy remains **Uni-Charm (8113—Tokyo Stock Exchange)**. Uni-Charm is up 75% over the last three months in U.S. dollars. Volume is expanding with every rally, a very bullish technical sign. Japan's rapidly aging population is finding an ever-increasing need for Uni-Charm's adult diaper products (including the revolutionary diaper with side pockets for comfortable waste collection). National nursing insurance kicks in next year, helping to finance adult healthcare expenditure. As a pure domestic play, Uni-Charm will continue to benefit from a strong yen (and as the economy picks up, repeat trips to the sushi bar and golf course will do the trick). I anticipate further gains from the stock.

The New Zealand equity market hasn't delivered the blockbuster performance I anticipated. However, the market has held up in a tight range with a gradual upwards bias. It's only a matter of time before Kiwi stocks explode to new 52-week highs.

I strongly recommend avoiding the cyclical/commodity stocks revered by mainstream investors. Strategically, it's a terrible time to load up with pure cyclicals. Lumber has failed to sustain the robust gains enjoyed by other commodities. The only way to play the Kiwi market is with consumer franchises and value-added manufacturers.

Fisher & Paykel (FAP-NZSE) broke below NZ\$6 on news of a labor strike and general apathy. Management turned the stock around by issuing surprisingly bullish long-term financial targets for the company, including 15% per annum growth in the healthcare division and material margin expansion in the appliance business. FAP is an obvious target for a takeover if management fails to deliver on its promises. **At an EV/EBITDA ratio of 6, FAP remains a strong turnaround story.**

There is one market to avoid in Asia: China. China is



trapped in a deflationary spiral resulting from excessive debt and overinvestment (when I toured Southern China in September 1998, I was sickened by the endless necropolis of half-empty skyscrapers crowned with cranes that swam into the mandarin haze of the polluted horizon). The general levels of prices keep falling. The junk electronics churned out by Chinese exporters are not generating enough hard currency to keep the real economy liquid.

The Chinese government is itching to devalue the currency, but this is rendered impossible by the strength in the yen. Exchange controls and an overvalued currency keep the Chinese stock markets artificially propped up. The government is brazenly manipulating the market by forcing citizens to buy stocks and through open market purchases. If you're a short seller, it makes sense to take a close look at Chinese ADRs. I recommend avoiding China at all costs.

The next Euro-convergence play

One of the most brilliant trades over the last five years was the "Euro-convergence" trade. All you had to do was find the most marginal, corrupt, debt-ridden countries scheduled to join the European Union. Spain and Italy fit the bill in 1995—and they returned huge profits to visionary contrarians. Greece was the Euro-convergence play of 1996. The Athens Stock Exchange is still hitting new highs. In my view, the next Euro-convergence plays are the fringe Eastern European countries, including Latvia.

A week after my recommendation of **Ventspils Nafta (VNFT—Riga Stock Exchange)** hit the press, Latvia's Economy Minister requested that the privatization regulators draw up proposals to protect minority shareholders. VNFT was cited as an example of an undervalued company hurt by shareholder rights concerns. This is consistent with my belief that VNFT is too important to the Latvian economy to remain in questionable hands. **I continue to rate VNFT as a long-term contrarian buy at current levels.**

Recession-proof play on technology

Computer Learning Centers (CLCX-NASDAQ) released results that were in line with my expectations. While pedestrian wise guys might be thrown off by the headline earnings per share loss, serious investors should look behind the numbers. The real issues with CLCX are enrollments, gross margins, overhead costs, and balance sheet liquidity.

Total and same store enrollments were down on a prior year comparison. In my opinion, enrollments should be analyzed on a sequential basis (even though this will get distorted by seasonal factors). CLCX is recovering from regulatory actions, shareholder litigation, and bad publicity. The sequential rebound beginning in July bodes well for Q3 and Q4

enrollments. Since CLCX has high fixed costs, profits are highly leveraged to enrollment growth.

The popularity of higher costs programs is bullish for gross margins, since CLCX will generate more sales per student. CLCX kept a tight lid on SG&A and marketing expenses. Despite the bearish prognostications of CLCX shorts, provision for doubtful accounts only rose US\$690,000. If you take away the tax benefit and add back in depreciation, CLCX's cash operating loss margin was only around -7%, revealing that CLCX is operating very close to break-even.

The US\$5 million decline in net cash (cash-long-term debt) over the last six months is entirely accounted for by capex (US\$5 million according to the 10Q). Receivables remain under control. CLCX remains in a comfortably solvent financial position.

Rebounding enrollments, together with the popularity of higher-cost programs and continued cost control, should result in a rapid return to net profitability. In my view, CLCX is a highly cash-generative franchise. The recovery should become readily apparent by Q4.

At current levels, CLCX is trading near book value and has an enterprise value (EV)/student multiple of only US\$9,530—a 57% discount to the industry average. The only big negative is the 1 million share overhang resulting from the shareholder lawsuit settlement.

However, this should be easily absorbed by the 2.5 million share short position. I continue to believe that CLCX is absurdly undervalued.

Exodus

Our exits from both **Elbit Medical (EMITF-NASDAQ)** and **Elscint (ELT-NYSE)** were timely: two weeks after my "sell" recommendation hit the press, Motti Zisser announced that he was transferring all of Europe Israel's real estate assets in exchange for EMITF's and ELT's cash. The charts gave me an advance technical warning that value was being transferred from the subsidiaries to the parent. This kind of vagrant minority shareholder abuse is rare outside of Russia. But there's no sense whining about the past: both EMITF and ELT generated substantial profits for *Taipan* subscribers.

I just got off the plane from a trip to Kazakhstan. **Hurricane's (HHLFQ-NASDAQ)** proposed restructuring plan has just been announced. It looks like management is very eager to hand the company over to the bondholders. **I will provide a full update on the grim outlook for Hurricane shareholders in the next issue.**

James Passin is Chief Portfolio Manager with Firebird Management and Contributing Editor to *Taipan*. Firebird Republics Fund is currently a shareholder in Ventspils Nafta. James Passin's views are his own and not necessarily the views of Firebird Management or *Taipan*.



Funnel Akamai Technology into your portfolio for short-term profits and stay clear of Internet traffic jams

By *Siu-Yee Ng*

Lies, damn lies, and the pledges of politicians. Especially those made by presidential candidates who claim to have spawned major technological breakthroughs.

Anyone who's ever used the net for anything more than typing your name into the Altavista search engine knows that the Internet recently celebrated its 30th birthday.

International Data Corporation estimates that there were approximately 142 million users of the Internet at the end of 1998 and that the number of users will grow to 502 million by the end of 2002.

The growth in the number of users, together with the wealth of content and information available, have led to sharp increases in the daily traffic volume. Media Metrix estimated that the number of unique visitors to the top 25 Web sites increased from 224 million in June 1998 to 330 million in June 1999.

The ability of a Web site to attract traffic is in part based on its richness of content. Increasingly, Web sites add graphics as well as newer technologies, such as video and audio streaming, animation and software downloads. While richer content attracts more visitors, it also places increasing demands on the site to deliver the content quickly and reliably. As a result, Web site owners frequently elect to constrain the amount of rich content on their Web sites, thus sacrificing the quality of the user experience to maintain minimally acceptable performance levels.

Charlotte's web

The Internet was not originally designed to provide a rich multimedia environment for individual browsers. Since its origins at the United States Department of Defense research project, the Internet has evolved into an aggregation of many networks, each developed and managed by different telecommunications service providers.

Not surprisingly, the Internet lacks the ability to manage traffic between disparate networks to find the optimal route to deliver content.

Congestion or transmission blockages significantly delay the information reaching the user. The storage of Web site information in central locations further complicates Internet content delivery. As the volume of information requested on a Web site increases, large quantities of repetitive data traverse the Internet from that central location.

Performance problems are exacerbated during peak demand times, such as a breaking news event, the release

of an on-line movie trailer, the first day of ticket sales for a hit film, an on-line special event or sudden demand for a new software release.

Because it is typically not cost-effective for a Web site to design its infrastructure to handle relatively infrequent periods of "flash" or sudden demand, periods of peak network traffic and surges in traffic volumes often overwhelm the capacity of the site, causing long delays or complete site outages. Jupiter Communications found that in June 1999, if response times at a particular Web site did not meet Internet users' expectations, 37% of those users visited a substitute Web site to meet their needs. For 24% of users, the decision to use an alternative Web site was permanent.

Coming up short

While various products and services have been developed to address performance problems, they generally do not address the fundamental architectural limitations of the Internet. For example, caching is a hardware and/or software solution sold to Internet service providers to help them improve network performance by placing electronic copies of selected Internet content on geographically distributed servers on their own network. Caching is not, however, designed to address the needs of Web site owners, and to deliver their content with high performance and reliability across the multiple networks that comprise the Internet.

Outsourcing Web server management to hosting companies enables Web sites to add server capacity as needed and increase server reliability. But hosting does not address the transmission disruption problems that can arise as data leaves the hosting company's servers and traverses the public network to the user. Broadband services are being deployed to increase the speed of a user's connection to the Internet, addressing the problems that occur in what is commonly known as the "last mile."

Faster and quicker

Akamai Technologies, Inc. (AKAM-NASDAQ) provides a global Internet content delivery service that improves Web site speed and reliability and protects against crashes due to demand overloads. Their FreeFlow service, which they sell to Global 2000 and Internet-centric businesses, delivers Web content through a worldwide server network by locating the content geographically closest to their users. Their proprietary algorithms monitor Internet traffic patterns and deliver their customers' content by the most efficient route.



The demand for speed is a priority for online businesses and services. Due to long download time, some companies chose to make their Web pages simple. Goto.com, an Internet search engine, promotes its simple and quick-to-download Web page.

Akamai's service is easy to implement and does not require customers or their Web site visitors to make any hardware or software modifications. Using their FreeFlow service, customers have been able to more than double the speed at which they deliver content to their users. In some instances, speeds have improved by ten times or more. Customers identify and tag portions of their Web site content that require significant amounts of bandwidth, such as advertising banners, icons, graphics and software downloads. These tagged items are delivered over Akamai's server network. When users request this content, which they call "Akamaized" content, their FreeFlow service routes the request to the server that is best able to deliver the content most quickly based on the geographic proximity, performance and congestion of all available servers on their network.

Akamai's customers identify which of their Web objects are to be delivered over Akamai's network. The customer then runs a software utility provided by Akamai, called FreeFlow Launcher, which searches for the URLs of the selected objects and tags them with a special code.

This modification transforms each URL for Akamaized content into an "ARL," or Akamai Resource Locator. When a user's browser downloads an HTML file containing ARLs of Web objects for that page, the browser is automatically pointed to Akamai's network to retrieve those objects.

This process does not require any modification to the browser or other personal computer configuration changes. While Akamai can serve the HTML as well as the objects embedded in it, their customers typically choose to serve the HTML themselves to maintain direct contact with the user. Thus, even while users are receiving Akamaized content from their servers, their customers can continue to count Web site visitors, track user demographics and dynamically assemble Web page content, including the insertion of targeted advertising and other personalized content.

MIT Geeks

Sounds complicated? What do you expect when a group of MIT graduate students and professors develop a solution to control Web traffic? Akamai's beginnings trace to a challenge that Tim Berners-Lee, the inventor of the World Wide Web, posed to his colleagues at MIT in early 1995 to invent a fundamentally new and better way to deliver Internet content to users. F. Thomson Leighton, an MIT professor of applied mathematics and founder of Akamai, recognized that a solution to Web congestion could be found in applied mathematics and algorithms.

Dr. Leighton believed that algorithms could be used to create a network of distributed servers that could communicate as a system and could deliver content

without depending on a centralized controlling core. Dr. Leighton, together with Daniel Lewin, one of his graduate students at MIT, and several other researchers with expertise in computer science and data networking, undertook the development of the mathematical algorithms necessary to handle the dynamic routing of content.

Their FreeFlow service was introduced in April 1999. As of July 31, 1999, they had 900 Akamai servers deployed in 15 countries across 25 telecommunications networks, providing their customers with a guaranteed global Internet content delivery service. Their customers include Apple Computer, CNN Interactive, Discovery Channel Online, Infoseek, J.Crew.com, The Motley Fool and Yahoo!.

FreeFlow constantly monitors the performance of connections between various locations around the Internet and Akamai's regions. The result is a "map" of the optimal Akamai region for each location at that point in time. Akamai rebuilds this map periodically to reflect changing conditions.

Strategic allies

Akamai's services are sold primarily through a direct sales force targeting primarily domestic companies, focusing on the 300 Web sites that have the greatest number of visitors, Fortune 100 companies, and Global 2000 companies with large operations in the United States.

On June 1998 and August 1999 the company entered into a strategic alliance with Apple Computer and Cisco Systems to enhance and jointly develop new content routing, switching and caching technologies to improve the performance of Web content delivery.

The company has incurred significant losses since inception and expects to continue to incur losses in the future. **We're not looking at profits here but at the future potential.** To date, substantially all of their revenue has been derived from customers based in the United States. For the six-month period ended June 30, 1999, one customer accounted for 75% of their revenue and one customer accounted for 14% of their revenue.

Sales of their service to Apple Computer represented approximately 75% of their revenue for the six-month period ended June 30, 1999. The company expects that sales to Apple Computer will represent a significant portion of their revenue for the year ending December 31, 1999.

Akamai recorded no revenue for the period from inception (August 20, 1998) to December 31, 1998. Revenue was US\$403,900 for the six months ended June 30, 1999. The increase in revenue was due to sales of their FreeFlow service, which was commercially introduced in April 1999.

Facing the board

Management plans to use the net proceeds for anticipated working capital. They may use a portion of the net proceeds to acquire businesses, products or technologies that are complementary to their business; they have no specific acquisitions planned.



The company's board of advisors is impressive. Akamai has the 3Com Founders chair at the Laboratory for Computer Science at MIT. He directs the World Wide Web Consortium, an open forum of companies and organizations with the mission to lead the Web to its full potential.

The company has a director of the Digital Entertainment Network, who served as president of A&M Records and co-founded Classic Sports Network, a cable network sold to ESPN in 1997.

Akamai's reeled in the chief systems engineer for CNN Internet Technologies. He has been the architect of CNN's Internet systems since the launch of CNN.com in 1995.

They also have the head of enterprise technology of Charles Schwab & Co.'s electronic brokerage unit, who led the start-up of the technology organization supporting the institutional business at Charles Schwab; a president and CEO of Sycamore Networks, Inc.; and a chief information officer of *The Washington Post* company, who founded and in 1996 became CEO of Digital Ink Co., the electronic publishing subsidiary of *The Washington Post* company.

Born leaders

If the board of advisors did not turn investors' head, then surely the management team will. The chairman and CEO served at Akamai since April 1999 and as a director since December 1998. He has also been a venture partner of Polaris Venture Partners, Inc., an early stage investment company, since August 1998. From August 1997 to July 1998, he served as executive vice president of GTE and president of GTE Internetworking, an integrated telecommunication services firm. He is currently a director of CBS and Infinity Broadcasting, a media company. He is also an interim member of the board of ICANN, the Internet Corporation for the Assignment of Names and Numbers.

The co-founder has served as chief

scientist and a director since August 1998. Dr. Leighton has been a professor of mathematics at MIT since 1982 and has served as the head of the Algorithms Group in MIT's Laboratory for Computer Science since its inception in 1996.

Directors include the former president, chief operating officer and a member of the board of directors of New World Communications Group Incorporated, an entity engaged in television broadcasting and production; a general partner of Battery Ventures, a venture capital firm and the former principal and senior technology analyst at Montgomery Securities, now known as Banc of America Securities LLC, an investment bank and brokerage firm; a founder and a general partner of Polaris Venture Partners, Inc.; and a founder and general partner of the Baker Communications Fund, a communications private equity fund.

It worries me a bit to see so many venture capitalists in management. That usually indicates an unhealthy interest in making a quick buck at the shareholders' expense. We'll have to pay close attention to any market movement after the IPO. But looking at Akamai's competition, the company is positioned to be a leader in the industry. F5 Networks (FFIV-NASDAQ) went public in June 1999 and is currently 640% above its IPO price. BMC Software (BMCS-NASDAQ) is currently trading at US\$67.19.

Underwriters include Morgan Stanley Dean Witter, Donaldson, Lufkin & Jenrette Securities Corporation, Salomon Smith Barney, and Thomas Weisel Partners LLC. Akamai Technology has not announced a price or date for its IPO yet, so log on to the *Taipan* Website for any updates.

For more information on Akamai Technologies after its quiet period, contact Akamai Technology, 201 Broadway, Cambridge, MA 02139, phone: 617-250-3000, fax: 617-250-3001, toll free: 877-425-2624.

IPO FOLLOW-UP:

- We are already up 657% on our IPO position in **Red Hat, Inc. (RHAT-NASDAQ)**. The stock went over US\$130.00, and has recently pulled back to trade at US\$102.00. **This is currently a hold.**
- **We're already up 123% in our IPO position of TIBCO Software (TIBX-NASDAQ)**. Since recommending Tibco Software on the *Taipan* Website and the September issue as a buy under US\$24.00, the stock went over US\$35 and has since settled to trade at US\$33.50. **We're up 40% in our aftermarket position. Earnings are due out, so log on to the *Taipan* Website for updates.**
- **Barnesandnoble.com has been pretty quiet since its IPO**. As shoppers are gearing up for the fall and holiday shopping, Barnesandnoble.com will be poised to capture investors' attention. This is a sound play and we'll cash in on profits in the new millennium. **This is a buy under US\$20.50.**
- **Fox Entertainment (FOX-NASDAQ)** failed to capture much market attention with their release of *Star Wars Phantom Menace*. We're still slightly up for both our IPO and aftermarket position. We'll wait to see how Fox's fall line up will do. **This is currently a hold.**
- **Time Warner Telecom (TWTC-NASDAQ)** rallied to US\$28.00, our recommended selling price. If you missed the sell, there may be another opportunity. Sell above US\$28.00. **That's a 100% IPO profit.**
- **GOTO.com, Inc. (GOTO-NASDAQ)** has yet to reach the recommended US\$50.00 sell. We'll wait for a rally and sell at US\$50.00 233% IPO profit. **Just looking at the positions we've sold this year, we're up 108% in our IPO positions and up 39% in our Aftermarket position.**



The Web goes to school

By J.K. Riffin

For more than 40 million kids, autumn means returning to school to the sounds of leaves crunching underfoot and marching bands pounding out pep rally anthems. But the sound of education circa 1999 also includes keyboard-tapping and mouse-clicking, because learning in all its varied forms is happening online. From college courses to Internet access in public schools to corporate training, education-related Internet companies are fast emerging to provide content and commerce to a burgeoning niche market.

Wealth creation has its side effects. Our fin-de-siècle hyper-boomtown mentality has left many fearing the onset of premature dumbness. Parents are antsy that the market for knowledge jobs is growing more competitive. For the past decade, they have been desperately reaching for tutoring and learning aids for their kids.

It's happening in the workplace, too. Sales of corporate administrative software (like word processors and spreadsheets) have slowed because Sharona Six-pack barely knows how to use what's on her desktop. Employers are finding that training is often a better investment than software upgrades.

Despite the explosion of Internet usage, public schools are generally at the bottom of the food chain in terms of Internet connections. Just over 50% of public elementary and secondary schools currently have Internet access.

And remember distance learning? Back when the Web first broke, every two-bit futurist was telling us how the Internet would mean the end of traditional college campuses because we would all log in to classes remotely. Well, the time last I checked, Harvard Square was still at the corner of Mass. Ave. and JFK Drive. But the Web-geek prophecy did hold a shred of truth, because you can now take college courses, earn your realtor's license, learn how to program an Excel macro and much more via the Internet.

Learning from afar

The market for offering courses remotely is attractive. According to International Data Corporation, more than 80% of higher education institutions will provide distance learning courses by 2002, and student enrollment in distance learning courses will increase by more than 30% per year through 2002.

Though not yet public, Washington, D.C.-based Blackboard is a company to watch in this space. Spun off from the higher education consulting practice of KPMG Peat Marwick, Blackboard offers software and services that help universities deliver academic courses

and registration via the Web. The company plans to expand their market to include K-12 and corporate training. To date, Blackboard has put together an impressive team of partners, including KPMG, International Thomson Publishing, Sylvan Learning Systems, and Microsoft. The company's client list already includes Yale, Cornell, Georgetown, Tufts, and the University of Pittsburgh.

Among Blackboard's competitors is eCollege.com (formerly Real Education, Inc.), also in the business of helping colleges and universities deliver courses and student information via the Web. eCollege.com has led an aggressive sales assault over the past year-and-a-half, signing more than 50 schools to development contracts. In addition, eCollege.com has already pushed into the corporate and professional training sector, working with both the National Association of Realtors and the Palmer Chiropractic University Foundation.

eCollege.com filed for an IPO in May, 1999 (their ticker will be ECLG on NASDAQ). Though the deal has been held up through the summer market's doldrums, watch for a pricing within the next month as the IPO market heats up again.

Eyeballs and wallets, 90210

Even though high school and college students spend nine months of the year falling asleep in the same classrooms, they have been a difficult demographic segment for marketers to reach. With a combined K-12/postsecondary market opportunity encompassing some 4 million teachers, almost 60 million students, and approximately 50 million parents, it's not hard to understand that the education portal opportunity is a real one. College students alone represent US\$4 billion a year in spending power, according to Jupiter Communications.

Enter Smarterkids.com, which submitted its IPO registration in September. Like Barney, Arthur and other merchandising schemes masquerading as quality educational fare, Smarterkids.com figures to capitalize on those parents seeking an edge for their children. In June, Smarterkids.com was among the 40 most popular e-commerce Web sites (going up against Amazon.com, eToys.com, etc.). And don't forget Christmas is just around the corner.

Which is what Smarterkids.com is hoping investors will focus on, because the numbers are weak: just US\$387,000 in online retail revenue for 1999 (US\$22,000 in sales for all of 1998, but the company also sold US\$2.3 million of its proprietary educational CD-ROMs), against a net loss of US\$7.2 million for the



first half of 1999. Smarterkids.com may have a great niche, but the potential upside in volume and growth is questionable... even for an Internet valuation.

The performance of the SmarterKids.com IPO will provide the bar that Edu.com will most likely leap over. Catering exclusively to students, Edu.com provides deep student discounts on brand name products and services (mostly hardware, software and electronics). Traditionally, these types of discounts have only been offered within special outlets on school campuses. But students from across the country can log in to Edu.com, establish their official student credentials, and begin buying MP3 players and laptops with Mom and Dad's money. The rapidly growing company also has Michael Dell on its board of directors (which is always a good thing).

Finally, there's ZapMe, whose IPO should price later this month (their ticker symbol will be IZAP on the NASDAQ). ZapMe takes a different angle on reaching the valued high school and college demographic by providing schools with free computers and high-speed Internet connectivity in exchange for pummeling students with advertising.

The bottom lines are iffy; both SmarterKids.com and ZapMe have tenuous balance sheets. Wait for Edu.com to come out, but watch both SmarterKids.com and ZapMe to see how institutional investors react to the niche demographic story.

Show me how

As the distance learning, commerce and advertising plays rush to market, another Web-training play offers a more immediate opportunity. Re-christened Learn2.com (NASDAQ:LTWO) in July, 1999, the company has toughed out a long year of deals and management shuffling.

Formerly 7thstreet.com — the product of a merger between 7th Level and Street Technologies — the company has finally migrated to a rational strategy of focusing exclusively on Web-based training for both consumer and corporate audiences. Consumer training is delivered through a portal names "Tutorials.com" and offers lessons in everything from removing tree sap from your car to making an elegant toast at a party. Corporate training is offered through "Learninguniversity.com" and provides for-pay lessons in how to use the major business software applications.

Online corporate training is hot right now, and not just because the Internet is the "cool" way to do things. It's cheaper. Companies routinely pay US\$500 to US\$1,500 to send Sharona Six-pack off to some industrial park for a day or two. Learn2.com provides the same knowledge online, so employers can manage their own training. And since most companies have installed relatively high-speed Internet connections, the computing

environment is robust enough to support a worthwhile learning experience. Learn2.com recently improved its corporate training capabilities by purchasing Viagrafix, widely acknowledged as the leader in multimedia-based training.

The company launched an aggressive e-commerce initiative in August to squeeze more money out of Tutorials.com. Learn2.com is now selling a wide range of name-brand products on Tutorials.com, its consumer-oriented training portal. The idea is to provide users with an opportunity to purchase a product immediately after they've been taught how to use it. With Tutorials.com's increasing traffic, this initiative provides the company with another key revenue stream.

Beyond back-to-school and Christmas seasonal interests, Learn2.com should receive another healthy pop in traffic come April. The company recently contracted with Intuit to deliver Web-based training for Intuit's Quick and TurboTax software programs.

In March, 1999, the company struck a valuable deal with America Online to offer Internet multimedia training to AOL members through Tutorials.com. The agreement was extended in August. As a result of the AOL deal, Learn2.com's stock more than doubled. But through the summer's Internet sell-off, Learn2.com has drifted down to the US\$3 range.

With a market capitalization of less than US\$100 million, Learn2.com is available at a very low price. The company's coherent overall strategy targeting corporate, consumer and, down the road, student audiences should ignite the afterburners in a year. The e-commerce plug-in is a strong move in the right direction. And as more and more Internet education plays come to market, Learn2.com will attract even more attention from investors.

Conclusion

When you get right down to it, e-commerce alone is but a transactional capability. No one will deny that the usage of that capability can only grow. But how consumers arrive at that capability is still evolving. As even the most popular Web destinations move rapidly to convert hits into purchases, they still have a way to go. According to Jupiter Communications, only 18% of Web purchases currently comes from the major portal Web sites (AOL, Excite@Home, Lycos and Yahoo).

Content that educates you, that does more than distract you from something else, may persuade you to make a purchase as much as the latest promotion from Amazon.com. And the business of delivering online education — from college courses to 2-hour software tutorials to miniature how-to guides for niggling household repairs — is perhaps a new "killer app" of the Internet. The melding of education and commerce is inevitable.



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