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On business: Some darlings get roughed up

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OK, so we're off to a slow start.

Minnesota's 130-plus publicly held companies are down as a group by about 4 percent so far in 2005, compared with a drop of about 1 percent for the Standard & Poor's 500 index.

But here are four stocks that are down by a whopping 25 to 57 percent from their 2004 highs, owing to an overabundance of pessimism.

There are several common themes: technology-related companies that aren't always the easiest to understand; earlier run-ups in the stocks that might have gotten ahead of earnings forecasts; significant stock sales near the peak by top officers and directors, and, in three of four cases, swarms of those scourges of management who profit when the stocks they've targeted fall in price: short sellers.

The stocks are:

• **NVE Corp (NVEC).** The Eden Prairie microelectronics firm ran from $5.75 in 2003 to nearly $70 in early 2004, before it began a gyrating descent that landed it Friday at $23.70.

Short sellers, led by Asensio & Co., noted over the years for its virulent attacks on target companies, have been after this one since early 2004. The shorts also were attracted last year by multimillion-dollar stock sales by longtime NVE Chairman Jim Daughton, a veteran engineer who founded the company in 1989, and four-year CEO Dan Baker.

NVE, even at its recent depressed price, trades at about double the price-to-earnings multiple of the S&P 500 index of stocks. It has a small profitable business of selling microelectronic sensors and couplers to medical-products companies. The question is whether it's onto the Next Big Thing -- nanotechnology.

The boost in its shares sprung from belief among insiders and backers in the practical commercialization of its "spintronics," technology that some believe represents the next generation of low-energy, more powerful, unintertuptible microelectronics.

The big payoff for NVE would come through royalties paid by Cypress Semiconductor and Freescale, a Motorola spinoff that licenses NVE intellectual property.

An announcement this week that Cypress intends to sell its NVE-related MRAM business (for "magnetoresistive random access memory") and a critical piece about NVE that ran on the Motley Fool haven't helped NVE's case lately.

• **Navarre (NAVR).** In December, analyst Chad Bennett of Miller Johnson Steichen Kinnard inaugurated coverage of Navarre, a publisher and distributor of software and other media to consumer electronics retailers, with a "sell" recommendation. It's rare for an analyst to start coverage on a company with a "sell," and Bennett's report attracted attention.

Navarre, one of Minnesota's best-performing stocks last year, hit $20 per share later in December before beginning a descent amid divided sentiment among analysts over its prospects. Navarre landed at $9.15 per share Friday, down another 6 percent.

Insiders, led by CEO Eric Paulson, sold millions of shares last year. And short sellers have seized on recent critical reports by Bennett and Gradient Analytics of Arizona (formerly Camelback Research) questioning Navarre's cash consumption, earnings quality and its future.

Bob Evans, an analyst at Craig-Hallum Inc., picked Navarre out of the discard pile at $3 per share in 2003 and remains a believer that it's still a $20-plus stock if it can raise the financing and consummate its pending acquisition of Funimation, an entertainment-oriented publisher and distributor of kids products.

Evans contends that Navarre, with Funimation under its belt, can make $1.10 per share in the next fiscal year, which justifies a $23 price.

"Right now we firmly believe the stock is trading on 'short noise,' which has created a lot of fear and negative stock psychology," Evans said in a report this week. "We believe that investors who can see through the noise and analyze the fundamentals will have an opportunity to make a very good return from these levels."

Craig-Hallum, it should also be noted, provides investment banking services to Navarre. The firm said in a disclosure form that analyst compensation is not tied to that business.

Regardless, rarely has there been such a divergence of opinion in town over a local stock. The latest round goes to Bennett.

• **Digital River (DRIV),** a survivor of the tech boom and bust, rebounded from $3 per share in 2002 to $44 by late last year, only to have the shorts and others who believe the price got ahead of performance beat the stock back down to $33 per share.

CEO Joel Ronning, and some other top insiders, were sellers of some stock at nice prices last year, which also bolsters the short sellers' story that it's time to bail.

Jay Meier, another Miller Johnson analyst, put a "sell" on DRIV in early January, replacing a "buy" issued last April. The stock doubled in price during that period. Some thought it had gotten too rich.

The shorts, who control more than 10 percent of Digital River's stock, seem to be keeping a close eye on MJSK analysts lately.

Digital River is a dot-com survivor that went public in 1998, just in time for the great Internet gold rush that pushed the stock of the then-unprofitable company into $60-per-share territory, only to plunge amid the great Internet bust of 2001-02.

George Sutton, an analyst at Craig-Hallum, and Piper Jaffray's Safa Rashtchy, who also picked up coverage of Digital River in 2003, made a lot of money for their firms' customers on the rebound.

Digital River, now profitable and growing from its online business of establishing and running e-commerce sites for companies, and downloading antivirus and other software for the likes of Symatec and McAfee, has caught some flak from detractors now that Microsoft is paying more attention to viruses. Priced at under 20 times next year's projected earnings of $1.85 per share, backers seem to have halted the stock's decline and are buying what they believe are bargain-priced shares.

• **ValueVision Media (VVTV).** The TV shopping network has slid from $17.75 to $13.30 per share over the past year, continuing a zigzag descent from nearly $50 in early 2000.

ValueVision, which operates as ShopNBC and ShopNBC.com, has struggled to turn profitable since principal owner General Electric hired Will Lansing, a former GE and Fingerhut executive, as CEO in December 2003. The shares are off about 19 percent since Lansing took over.

Last week, Thomson Financial's inside trading report showed that General Electric's equity investment group has sold 2 million of its 10.8 million shares in VVTV. There are 37 million shares outstanding.