Forbes.com

Financial Services

Pegasus Is De-Listing

Liz Moyer, 09.25.06, 10:45 PM ET

Jasper Knabb and his streaming video technology is about to beat **Steve Jobs** to the punch.

But before that, the chief executive of Pegasus Wireless, a Freemont, Calif., wireless equipment maker, has to contend with forces that have hammered down the company's stock by more than 90% since May in an aggressive and seemingly relentless bear raid.

Late Monday, Pegasus announced it was applying voluntarily to de-list its stock from the Nasdaq national market, with plans to move to another national market or the over-the-counter market by the end of October.

The move comes after an attack of short selling that began shortly after the company's Nasdaq listing in April and accelerated through the summer. Right now, shares of Pegasus are trading around $1.07, down from $18.60 in mid-May. This comes despite positive earnings in June and the announcement that the company would soon unveil patent-pending wireless video streaming technology for consumer use.

The technology that Knabb is scheduled to unveil days from now, he says, will beat Apple Computer to market by several months.

Pegasus' patent-pending device allows consumers to wirelessly stream DVD-quality video content from the Internet in real-time to a TV elsewhere in their house. Last week, Jobs, Apple's chief executive, announced that his company would be ready to unveil similar technology for home use early next year.

Meanwhile, Pegasus shares are under constant attack. What's striking about the activity affecting the company's stock are the concurrent volume spikes in trading, the build-up of short interest from almost nothing to about half the available float, and the sharp decline in the price. All of this has occurred in the last three months.

Pegasus said in a statement that that it is in compliance with all the Nasdaq Global Market listing requirements. Knabb said, explaining the move, "Taking into consideration current market environments and trading patterns over the last six months, the board has determined that maintaining the listing of Pegasus Wireless' common stock on Nasdaq no longer serves the best interests of the company and its stockholders."

Spokespersons for Nasdaq were not immediately available Monday night.

The steepest declines in Pegasus shares have come in the last month, after a series of negative news articles taking Knabb to task for his background and his prior business associations.

The stock's decline also coincides with the publication of 11 negative research notes from July through August by well-known short-seller Manuel Asensio, who runs his own research firm, Asensio & Co.

An e-mail message to Asensio's firm earlier on Monday was not answered.

Pegasus shares are down 86% since Aug. 23. That's bad news not just for Knabb, who has sunk some $16.5 million of his own money into the company and given up a salary and cash bonus in favor of stock grants. Institutional holders as of June 30 included Barclays Global, Goldman Sachs, Deutsche Bank, **Vanguard**, Mellon Financial, and the Ohio Public Employees Retirement System.

Knabb invited criticism when he announced in early August that he would pay a warrant to shareholders as a way of saying thanks to those who had stuck around while the price dropped during the early summer.

From the May 5 peak of $18.60 a share, the price had dropped some 67% by the time he announced the warrant offer on Aug. 4.

But the warrant would only be paid to registered shareholders. That meant brokerages holding the shares for clients in "street name" would have to submit lists to Pegasus' transfer agent to match up their clients with the shares they had on record. The warrant was not transferable, meaning it would only be paid to beneficial shareholders, not to the brokerages to distribute to clients.

Some accused Knabb of trying to manipulate his stock by structuring the warrant offer this way. It had the effect of forcing anyone who lent the stock out to call it back in, forcing shorts to cover their positions. Such a quick buy-in--the deadline was originally Aug. 11--can push the shares up as the shorts scramble for shares to cover.

Knabb has denied any such intent to force his stock higher.

In trying to sort out the information coming to Pegasus' transfer agent from brokers and information on the company's stock held at the **Depository Trust & Clearing Corp.**, it became clear that there was a problem. Brokers are reporting more shares--3 million to 22 million, depending on what data is examined--than exist.

Such share discrepancies can result from innocent errors or from something more: naked short sales of Pegasus stock, meaning a short-seller has not properly gotten dibs on shares to borrow before selling. Naked short-selling can result in the same share being lent to more than one trader, creating phantom share entitlements.

In simple supply and demand economics, artificially increasing supply will push down the price of even the strongest of shares.

By mid-August, it was becoming increasingly obvious that traders were betting heavily on a decline in Pegasus. Short interest reported by Nasdaq rose to 8.3 million in August from 5.1 million in July. It was 8.3 million for September. The Nasdaq reports short interest on the fifth or six of the month.

Volume on Pegasus soared from basically nothing at the beginning of 2006 to more than 1 million trades a day. On Sept. 5, more than 17 million shares traded hands. Pegasus has a free float of about 16 million shares.

On Aug. 17, Pegasus also joined a list of Nasdaq stocks that have the most trade settlement failures. It has stayed there since.