How a short-seller brought down Diana Corp.

ON THE MONEY

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The story of Diana Corp. is a story of deception. That's what Manuel Asensio, president of Asensio & Co., a New York City short-seller, has been saying since last June.

Diana, a Milwaukee food distributor turned telecommunications pioneer, has responded by saying it will let the marketplace do its talking. So far, the market hasn't rushed to Diana's defense.

Diana stock, which soared to $120 a share last May, is down almost 95 percent. Even at $8 a share, Diana is overvalued, Asensio says.

Diana has gone from a red-hot stock to little more than all the nasty things Asensio said the company was when he made a multimillion-dollar bet against it in June. Short-sellers like Asensio profit when a stock drops in value.

Since taking a short position in Diana, Asensio has said its products are unsophisticated, its earnings projections unrealistic and its top management inexperienced.

INVESTMENT HYPE

What Asensio's background check on Diana's key managers showed, however, was that they all were well-versed in the art of investment hype.

By Feb. 22, Diana's carefully concocted vision of Internet riches had all but unraveled. Trading in the stock had been frozen for a full trading day and its prized New York Stock Exchange listing was lost after Diana sold its seafood and meat distribution company.

The company said it was concentrating on communications-related businesses, changing its name to Sattel and moving to California, putting on the sale block its former headquarters on Milwaukee's northwest side.

James Fiedler, the brain behind Diana's foray into telecommunications, had ascended to the helm. Richard Fisher, Diana's chairman, and Donald Runge, president, had resigned. Fisher ended up selling his stock for $15 and $28 a share.

As he contemplated Diana's fall from grace, Asensio was captured by Fisher's fate.

"After a lifetime of missteps, here's a guy who in his 60s had finally gotten the big score. He could have been out at $100 (a share)," Asensio said. "He believed Fiedler. It shows you Fiedler's powers of persuasion."

The shares Fisher sold for about $7.5 million in December and January were worth $48 million at Diana's 1996 high.

FLAGRANT OVERVALUATION

As short-sellers go, Asensio is an anomaly. Instead of playing the game with his cards to his chest, the Cuban-born investment banker finds flagrant instances of overvaluation and then lays his cards out on the table when the betting is at its peak.

His strategy is to enlighten the market — that is, get it to fold — with information that has been overlooked. In the case of Diana, he sniffed out the significant details, sold thousands of shares short, then put out a press release June 4, 1996, saying "Diana possesses no valuable technology."

Diana fell immediately. If it had screamed on, Asensio wouldn't have stood in its way.

Identifying Diana as a short-sale candidate was the easy part. For one thing, there were a number of articles describing its meteoric rise. Several suggested the company was a high flier with dubious prospects.

The number that really locked Asensio on to Diana's tail was $200,000. That's what Diana paid for the technology that the market placed a value of $500,000 on one year later. Price inefficiencies in the highly competitive telecommunications industry just aren't that great.

"They bought this switch and said it was going to revolutionize the data business," Asensio said. "This is space age stuff. They could say things and very few people knew if it was really true or not. Then they tied it in with the Internet and, boom, the whole thing took off."

PAID CONSULTANT

Still, a clutch of promoters with a history of overhyped failures wasn't a good enough reason for Asensio to bet against Diana. The Bruno Maglis in the case against Diana came from a May 1996 issue of Business Communication Review.

A paragraph in Thomas Nolle's "Reality Check" column figured prominently in Diana's propaganda. It said Diana's switch could help users reduce access costs. Diana's hype machine used the endorsement of this obscure trade magazine to push the stock past $100 a share.

"The question I had to answer was, does the paragraph mean something?" he said. "You don't know. So what you have to find out is if the person writing the story is a paid consultant. Then you've got something."

Asensio still can't believe how he found out that Nolle had received $25,000 from Diana: "I called him up and asked him. He told me."

Diana spokesman Tony Squeglai confirmed that Nolle is a paid consultant.

But life on the short side is never easy. On May 22, 1996, before Asensio could short the stock, a scathing article about Diana written by Floyd Norris appeared in The New York Times. Asensio was sure he had missed his chance.

"I read that and remember saying, 'It's all over,' " he said. "But the institutions were getting in now. And they ignored the article. They took the stock up another $20."

GUMSHOES AND LAWYERS

After Asensio released his report in June, Diana's fall was immediate, though not a direct fall to $7 a share.

"Just because we sold at $100 doesn't mean there wasn't a lot of pain along the way," he said, pointing to a chart showing an intermediate rally in Diana to $48 a share from $29. "See this? This is pain."

In addition, he had to suffer the slings and arrows of Diana execs and faithful followers.

"They hired a private detective who followed me around and called former employees," Asensio said. "They visited my wife . . . They spoke to my doorman."

Diana spokesman Squeglai said he "had no knowledge" of the company hiring a detective to follow Asensio.

His offices were besieged by nasty calls and faxes from disgruntled retail brokers and investors. Then there were the bills for various consultants he used to evaluate Diana's technology. When Diana claimed to have a letter written by Asensio that purportedly sought opinions biased against the firm, he countered with legal maneuvers.

Asensio dismisses the legal and consulting fees as a "cost of the trade." Keeping the market honest is a role he clearly relishes, which — given all the pain — is kind of bizarre. On top of the shoe leather that must be applied at the front end and the mudslinging that comes on the back end, there's the oppressive mathematics that come with every moment of a short sale. The returns are limited while the risk is infinite.

Isn't there an easier way to make a living? Asensio brightened and said simply, "I love it."

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