

On business: Short sales smack NVE

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Short-sellers -- those professional skeptics who profit when a company's stock drops -- have been swarming NVE Corp., which was among the hottest of Minnesota stocks in 2003.

The Eden Prairie based microelectronics firm ran from \$5.75 a year ago to nearly \$70 per share a few weeks ago amid hope that there will be a big payoff for shareholders from intellectual property it has developed. NVE has licensed its technology to Cypress Semiconductor and Motorola as those two tech heavyweights move toward expected commercialization of "magnetic random access memory" (MRAM).

The new memory technology, using next-generation "nanotechnology" (in which NVE says it is a leader) promises to be faster than current technology, use less energy and retain what's on the PC screen or cell phone even if the power fails.

But the short-sellers have beaten the stock down to under \$50 per share this month amid heavy trading. They charge that NVE's MRAM intellectual property isn't worth much and point to big insider sales as indicating that the folks closest to the crown jewels must agree.

"NVE is one of those 'the more you know the sillier it looks' stories," argues Manuel Asensio, a New York hedge fund manager known for his negative research reports and loud criticism of stocks he doesn't like. Short-sellers borrow shares of a target company's stock in hopes that the stock price will drop. If the plan works, they can then buy cheaper shares of the same company to replace the more expensive shares they borrowed. If the stock goes up instead of down, however, the short-sellers get squeezed.

Short-sellers controlled more than half the NVE shares outstanding in February, according to statistics compiled by Bloomberg News. And detractors have been keeping up the pressure in March, for which short interest has yet to be reported.

"This is the most aggressive abandonment of a stock [by insiders] that I've ever seen," Asensio said last week.

According to Thomson Equity Strategies, CEO Dan Baker, a three-year veteran, in late January bought 70,000 shares he had under options for \$6.58 and sold 65,000 of them at around \$57 per share, grossing \$3.7 million, and leaving him with only 7,885 shares.

Baker, 46, a veteran technologist and corporate executive who holds a doctorate in engineering, said he remains bullish on his company. "I believe in our prospects," Baker said in an interview Monday. "I couldn't work here otherwise.

"Privately, I characterize the option shares that I exercised and sold as 'my wife's half.' This is also about providing for my family. I still have 70,000 vested option shares. I retain significant exposure to the company."

Last summer and fall, Chairman James Daughton, who founded NVE in 1989, sold more than 200,000 shares, grossing more than \$4 million. And Norwest Equity Partners, the venture-capital firm, sold out its decade-old stake at prices ranging from \$20 to \$38 per share, grossing more than \$40 million last summer and fall.

John Whaley, a veteran partner with Norwest, said: "We sold because we had been an investor for 10 to 12 years and it was time and it made sense. We went through the case of registering the shares, essentially telling the market the shares were for sale. And then we told the world we had sold the shares. We're in the business of making investments in private companies and when they reach the point as public companies ... we sell in the public market. And the stock went up after we sold last year."

Cypress Semiconductor, another early-stage investor, also sold \$23.4 million worth of stock late last year, the proceeds of which will be used for "continuing MRAM development."

The stock of NVE has fallen since January, to under \$40 per share early last week. On Wednesday, Baker and an executive of Cypress held a telephone conference call for investors that was positive. And a newsletter, the Forbes/Wolf Nanotech Report, has written some positive things about the promise for NVE and its relationship with Cypress and Motorola.

That caused Asensio to issue public statements on his Web site and elsewhere that "NVEC possesses no valuable MRAM technology," backed up by three pages of attack and explanation that's available at www.asensio.com.

But NVE finished up for the week -- the first time in several weeks -- after NVE put out a summary of the conference call that said Cypress is nearing a "production-ready product," quoting Cypress Executive Vice President Ralph Schmitt.

"We think there's a bright future for our products and our technology," Baker said. "We try to be open about the risks in our public filings."

Chad Bennett, an analyst at Miller Johnson Steichen Kinnard -- who is watching NVE but doesn't publish research or recommend the company -- said NVE has some promising intellectual products. MRAM potentially is a huge market that would displace a lot of current storage," Bennett said. "But NVE is still an on-the-come type story. We're still a long way out."

NVE closed down 2.7 percent Monday at \$46.43 per share.

NVE, which also sells sensors and couplers to enhance data transmission products made by storage manufacturers, said earlier that it expects to earn up to 37 cents per share in the year ending March 31 on revenue of up to \$12 million.

Staff Researcher Patrick Kennedy contributed to this column.

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