

Neal St. Anthony: Whether agog or aghast, investors have eyes on NVE

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The bulls in NVE Corp. have won the latest battle in what has become one of the hottest recent stock wars over a Minnesota company.

Little NVE of Eden Prairie might be close to commercializing next-generation computer memory. Or, maybe not, if you ask the company's critics. This much is certain: NVE was one of the state's strongest stocks in 2003, running from \$5.75 to nearly \$70 last September.

That price could hardly be justified for a tiny company with earnings of only 45 cents per share last year. But there were investors last year willing to pay more than 100 times projected earnings to get into an emerging company involved in so-called "nanotechnology" that will make micro-electronics even smaller and more powerful. (Nanotechnology deals with extremely tiny structures; a nanometer is one-billionth of a meter --a fraction of the width of a human hair.)

NVE's sky-high stock attracted short-sellers, who profit when a stock drops. At one point they controlled half of NVE's 4.5 million shares outstanding, and they still hold 36 percent. They succeeded at beating down the price to below \$30 in early June. However, on June 21, NVE, which employs 70 scientists and others, announced that the U.S. Patent and Trademark Office had issued the latest of several patents on its "spin-momentum magnetic memory cells" that NVE founder and Chief Technology Officer James Daughton said "should help MRAM reach its potential as a dense, mainstream memory technology."

In other words, if this complicated stuff works, NVE is poised to help its manufacturing partners such as Cypress Semiconductor and Motorola produce the next generation of super-powerful, low-energy micro-electronics that will result in improved cell phones and other consumer electronics and the ultimate commercialization of the still-elusive "magnetic random access memory" (or MRAM) that will make our PCs faster and free of crashes.

NVE's stock has climbed 73 percent in the past 10 days. It closed Thursday at \$44.70, up \$4.75 as more than 5.5 million shares traded hands.

The stock has been trading in huge volumes lately, an average of 2.5 million shares daily since June 21, or more than half the 4.5 million shares outstanding.

The detractors aren't taking this uptick lying down.

Manuel Asensio said this week that NVE Chief Executive Officer Daniel Baker is "lying" about the importance of the patents.

"It's a fraud," charged Asensio, whose New York firm publishes its commentaries at www.asensio.com. "Just because you have patents doesn't mean that they're enforceable or patentable. There's similar stuff out there. This is minutia that's worthless."

Baker, Daughton and Norwest Venture Partners, an investor in NVE when it was a private start-up more than a decade ago, didn't help the cause when they sold millions of dollars worth of stock at high-water marks last fall.

The short-sellers seized on those sales as evidence that the big insiders were bailing out.

Baker said the sales by individuals were prudent diversification, noting that he and some others still have considerable stakes.

Norwest Venture Partners, an investor for more than a decade, broadcast the sale of its \$40 million-plus in stock last summer, noting that it's an early-stage investor. And Cypress sold more than \$20 million worth of stock, although it remains a licensor of NVE technology.

"Our venture capitalists largely have been replaced by traditional public-company investing entities such as Heartland Advisors, Barclays and Bjurman, Barry & Associates," Baker said this week. "I'm not sure I want to get into this food fight with the short-sellers.

"We state facts, we disclose risks and we try to be accurate in our statements. We believe we have a very strong intellectual-property position, including 31 patents and a number of key MRAM inventions. Evidence of the value is that it has been licensed by Motorola, Honeywell and Cypress Semiconductor."

Asensio, known as one of America's most aggressive detractors of targeted stocks, counters in an upcoming report: "We have not found a single informed source or expert that believes that NVE's key MRAM patents solve any of the major design or manufacturing problems that have plagued MRAM development for decades before Motorola and Altis Semiconductor ... introduced their working MRAM memory chips." There is no question that NVE is fraught with risk and not for faint-of-heart investors."

As we learned with Internet-related stocks, the gold rush to "The Next Big Thing" will produce mega winners and painful losers.

Smarter guys than me are betting on both sides of the NVE story. It will be interesting to watch this one play out.

Neal St. Anthony can be reached at 612-673-7144 or nstanthony@startribune.com.

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