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TECHNOLOGY TRADER

On Sale: 29 Stocks at Bargain-Basement Prices

By **ERIC J. SAVITZ**

Gadget of the Week

IN THE END, 2007 WAS A WEIRD YEAR for tech investors. On the one hand, the shares outperformed the major indexes, and a select group of stocks -- Google, Apple, Amazon, Research In Motion, VMware -- produced spectacular returns. As I have noted several times in this space, large-cap, high-growth tech became a refuge for investors seeking protection from the hurricane blowing through the financial and housing sectors. But returns were a lot less compelling when it came to anything smacking of risk. Small-cap? Not so good. In the red? Bad. Highly leveraged? Worse.

And therein, opportunity lies. Some names the Street shunned deserved it; others suffered undeservedly. The trick is separating the wheat from -- what's the saying? -- the crap. (Not the original, but I prefer my version.)

This is not the first time the stock market has chosen to ignore small-cap tech. The buying opportunity of a lifetime came in late 2002; the Nasdaq Composite has subsequently doubled. Right near the bottom, Los Angeles-based investment boutique B. Riley created the Cash-Rich Technology Stock Index, a group of 15 tech companies trading at or near net cash per share. (Mark Veverka chronicled the project in his Oct. 28, 2002, [Plugged In](#)¹ column.) About 19 months later, with the index up 326%, Riley discontinued the project: The stocks were bargains no more.

In May 2005, Riley repeated the exercise. The second version of the CRTS Index had 13 names. Ian Corydon, Riley's director of research, notes that the stocks were not as cheap as the first go around, but fundamentals were better. Riley abandoned the second CRTS Index in July 2006, producing a total return of 18.6%.

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Today, B. Riley unveils the third version of the Cash Rich Technology Stock Index -- CRTS III. "In recent months, the credit crunch, the subprime meltdown and the accompanying uncertain economic environment has resulted in significant losses in U.S. stock indexes," the firm notes in a report scheduled for release on Monday. The firm points out that small-caps were especially hard hit: from June 30 to December 31, the Russell 2000 was down 8%, a period in which the S&P 500 was down 2% and the Nasdaq Composite gained 2%. In short, Riley believes the time is right once again to sift for cheap, under-appreciated tech names.

The Riley approach is fairly straightforward. They screen for cash-rich small- and mid-cap stocks -- net

cash for all the companies considered was at least 35% of market cap. Riley eliminated companies with market caps under \$40 million or high cash-burn rates, and they crossed off those its analysts believed to have business models with little chance of success.

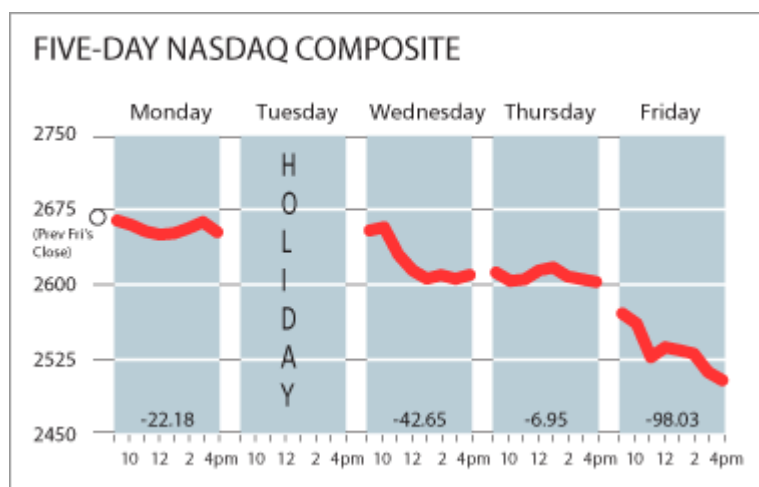
The result is a longer list than the first two: 29 names. It's an interesting group of stocks. Semiconductor companies dominate, accounting for 10 spots: **California Micro Devices** (ticker: CAMD), **Centillum** (CTLM), **ESS Technology** (ESST), **Exar** (EXAR), **GSI Technology** (GSIT), **Integrated Silicon Solution** (ISSI), **Silicon Image** (SIMG), **Silicon Storage Technology** (SSTI), **Transmeta** (TMTA) and **Trident Microsystems** (TRID). **FSI International** (FSII), a semi-equipment company, also made the list. Corydon notes that the list was originally going to include Genesis Micro, as well, but it was acquired.

THERE ARE A HALF-DOZEN communications-equipment stocks: **Ditech** (DITC), **Endwave** (ENWV), **Extreme Networks** (EXTR), **Sycamore** (SCMR), **Tollgrade** (TLGD) and **Westell** (WSTL). Telecom-services provider **IDT** (IDTC) is there, as well. Three well-known but troubled 'Net stocks were entries: **Infospace** (INSP), **LookSmart** (LOOK) and **RealNetworks** (RNWK).

The remaining stocks are an eclectic bunch. In the software category, there's **CallWave** (CALL), **OpenTV** (OPTV) and **Pervasive** (PVSW). Digital-signage specialist **Wireless Ronin** (RNIN) made it, along with a pair of storage stocks: **Datalink** (DTLK) and **Dot Hill** (HILL). Slightly out of left field, the list includes one biotech name -- **Maxygen** (MAXY) -- and one health-care services company -- **PDI** (PDII).

Many of these stocks have warts. Some have suffered earnings misses. Some operate in difficult sectors. A few have had accounting issues. There are reasons they are cheap. But Riley analysts think there are bargains, too.

A case in point: Riley analyst Michael Coady has a Buy rating on Centillum, which provides chips for VoIP, optical networking and DSL applications. He considers it an attractive acquisition candidate: The stock trades at an enterprise-value-to-revenue multiple of just 0.3 times estimated 2008 results. In a similar vein, Coady notes that Ditech, which makes voice-processing equipment for telecom companies, trades at an EV/revenue multiple on '08 estimates of 0.2.



Ugly, Ugly, Ugly: The year began with fear of recession and reports of weak December retail sales. By week's end, the Nasdaq was off 6.4%, to 2505.

says, and the stock has an enterprise value of just \$91.8 million, which, he says, "significantly undervalued the company."

Kamalodine notes that Silicon Storage Technology, the No. 4 player in NOR Flash memories, is delinquent on SEC filings owing to an options probe; that makes its official data out of date. But Kamalodine estimates the company exited December with \$260 million in cash, leaving an enterprise value of just \$45.5 million, a mere 0.1 times revenue. You get the business nearly free. Kamalodine

Another troubled but cheap company is OpenTV, which provides interactive-television software for set-top box companies and network operators. The company has been struggling; but Riley analyst Ali Mogharabi nonetheless thinks the stock is worth as much as \$2 a share -- far above its recent \$1.23 price. He notes that OpenTV trades at a sharp discount to competitors like **NDS** (NNDS), **Gemstar** (GMST) and **TiVo** (TIVO).

Integrated Silicon, a fabless designer of niche SRAM and DRAM memory chips, has "a pristine balance sheet," Riley chip analyst Salomon Kamalodine reports. Back out its cash and investments, he

notes that the company gets 90% of its revenue from a money-losing chip business, but 100% of gross profit margin from a licensing business; he thinks the chip business could be sold off for one times sales. Kamalodine figures Silicon Storage could be worth \$5.50 a share or more, about twice the recent price. Similarly, Kamalodine notes that thanks to a recent litigation settlement with Intel, Transmeta has over \$13 a share in cash -- the stock trades for \$13 and change. Again, you get the business free.

If you want to speculate on some of these names, by all means go cautiously, and take a basket approach. Meanwhile, I'll keep tabs on the index; let's see if Riley can do it one more time.

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Our Gadget of the Week



Dell XPS M1330 With Flash Drive, Price: \$2,494, Stats: Samsung says the active power consumption is one watt, versus 3.86 watts for a conventional drive. Websites: www.dell.com³; www.samsung.com⁴

THE NEXT WAVE IN PERSONAL computing may look a bit like Apple's iPod Nano music player. Increasingly, notebook computers will be outfitted with hard drives that are made of flash-memory chips, instead of rotating magnetic disks. Flash-memory drives are more rugged, with no moving parts, and they consume less energy while fetching data nearly twice as fast as disk drives. Some think Apple may even announce a Mac laptop with a flash drive at the Macworld conference later this month. We tested one of the first laptop computers to include a flash drive as an option, a **Dell** XPS M1330, outfitted with a 64-gigabyte "solid-state drive" made by the top manufacturer of flash chips, **Samsung**. It also had two gigabytes of RAM and a 1.8-gigahertz Intel processor. As a rule, flash drives are much faster than disk drives on most tasks. When booting up the machine running Microsoft's Windows Vista operating system, it took the Dell about 20 seconds, which was half as long as similarly configured laptops

with traditional drives. Opening up a 444-megabyte hi-res image of a spiral galaxy took 80 seconds, compared with more than two minutes on a conventional machine. If every bit of speed matters, you may be able to get past the \$850 price tag for the option; others may want to wait till flash prices come down. **Dell** (ticker: DELL), which is struggling to stage a comeback against **Hewlett-Packard** (HPQ), may find that building new machines around flash can be one important way to differentiate its machines this year.

--Tiernan Ray

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