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Don't Bet on This Horse

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08/24/2006

Foolishness first
My Fool colleague Brendan Matthews has had a few unflattering words for **Pegasus Wireless**(NASDAQ:PGWC) and its acting chief Jasper Knabb. He has already pointed out that among Knabb's most notable past accomplishments are large spikes in share price, followed by collapses. He also noted that Pegasus' valuation is way too high, considering its financial prospects.

Last week, he noted that Knabb had come up with a novel way to try and foment a short squeeze. While Brendan called it an innovative move, I've got another way to describe it:

Gimmicky. Manipulative. Pathetic. Cowardly. Oh, and let's add, "Doomed to failure."

There is, after all, some pretty compelling research that shows that companies that try and fight the shorts through market manipulation don't see the stock rise. But that doesn't seem to matter to Knabb. On Tuesday, he once again tried to stir the coals.

Now, Brendan concluded his article by saying he sure wouldn't want to be short Pegasus. That's where he and I part ways even more drastically. *I would love to be short this company*, precisely because the CEO is so focused on these kinds of non-issues. (Alas, my brokers have never been able to find shares.) I think Knabb is a self-promotional huckster, and to me, his latest behavior is proof-positive that Pegasus is doomed under his leadership.

Here's why.

A quick review
In case you need to catch up, Pegasus is one of those presto-chango companies that has gone through several costume changes in only half a decade. It is, ostensibly, a provider of wireless networking gear -- the kind of stuff you can get from **Cisco**'s (NASDAQ:CSCO) Linksys, D-Link, **Netgear**(NASDAQ:NTGR), and many others. Even **Microsoft**(NASDAQ:MSFT) hawks a line of routers.

It was originally a Nevada software company, founded in 2000, and when that didn't work out, it went dormant in December 2001. After that, it acquired a Swiss water-treatment outfit and became Blue Industries in April 2002, allegedy marketing a chemical-free water-treatment process. That worked so well that, by December 2003, it went inactive yet again, following the bankruptcy of its French subsidiary, blamed on a bizarre burglary. In May, 2005, the shell changed its name to Pegasus Wireless and acquired a company called OTC Wireless, a company where Knabb was previously a managing director.

Knabb'sknack
In Pegasus' filings, of course, Knabb is portrayed as a successful tech businessman, but I think the record of his last publicly traded enterprise, Wireless Frontier Internet, proves otherwise. At this company, 80% owned by a Hong Kong firm called "Million Treasure Enterprises," Knabb was president and director. This chart might give you an inkling of Knabb's knack for creating shareholder value there. The story at Wireless Frontier was rolling up rural Internet service providers. The company bought more than a dozen of them. But what rolled up for shareholders, mostly, were losses.

But not before the stock soared, helped along (I have no doubt) by the usual types of penny-stock pumps. (The latter, by the way, looks like it came from a Florida stock tout who had already been nailed by the SEC for fraudulently promoting a stock, working *directly with the president* of the company.)

I've seen nothing to indicate Knabb had any direct relationship to any of this paid touting -- although believe me, I'm continuing to dig. But then, Knabb did plenty of PR of his own, such as proclaiming his company to be "quickly emerging as the leading resource of wireless broadband Internet," touting Wireless Frontier's application to list on the Amex, and splitting the sub-two-dollar stock in early 2004.

But in reality, Wireless Frontier was not really doing so hot. Its 10-K from the period shows a balance sheet loaded up with goodwill and a couple years of losses. The cash burn was even less impressive. The 10-Q corresponding directly to the period of Knabb's early 2004 enthusiasm shows a widening loss. The stock kept cratering, and by October, only half a year after the (in)glorious run-up, Knabb had resigned. In December 2004, the troubled company agreed to acquire Knabb's former employer, OTC Wireless, but the deal was later scuttled.

Shortly thereafter, the firm seems to have stopped filing financial reports with the SEC, except for the occasional late notice and 8-K, the last of which shows it so hard up that the the CFO resigned to save money. In August 2005, judgments were being entered against the firm, resulting in forced auction of assets.

So let's put that into the "abject failure" column, should we? Now, we're supposed to believe he'll pilot Pegasus to great heights? When he's focused on ancillary issues like sticking it to short sellers? Yeah, I don't think so, either. But let's move on. There's more to see.

Abandon ship!
This is one heckuva filing. The Aug. 22 8-K ostensibly describes Pegasus' acquisition of Maccontrol, a company that sells a $500 universal controller shaped like an iPod and a pricey system that allows you to use your $2,000 **Apple**(NASDAQ:AAPL) Macintosh computer as a remote. (Yeah, I have my doubts about that one, too, but piggybacking on Apple's current popularity is by now an accepted business plan.)

The real news is tucked into the paragraphs below that, and it doesn't look so hot: board and management resignations. Among those getting off the boat are Alex Tsao, the founding CEO, who resigned all his positions. Jerry Shih also said goodbye to the board position, as did Caspar Lee.

The friends and family plan
That brings us to the friends and family plan. One thing that has always disturbed me about Pegasus is the acquisition binge. If the company has such great wireless technologies, why would it need to diversify into other businesses? (Remember the fate of Knabb's last wireless acquisition machine.)

But things look even odder when you look at some of the details in these acquisitions.

In December 2005, the company paid $8 million (half cash, half stock) for a 51% interest in two California computer sales and service companies called AMAX Engineering and AMAX Information Technologies. If you're wondering why a company trying to position itself as a Wireless developer and manufacturer would be interested in a pair of businesses in the cutthroat computer-hawking market, so am I.

Perhaps this has something to do with it? AMAX was owned by Jerry Shih, brother in-law to Pegasus founding CEO Alex Tsao. Are we to believe that shareholders are well served when companies are buying from their inlaws? I've got my doubts.

But family members aren't the only ones who seem to be getting in on the game. Friends and associates -- some with absolutely worthless businesses -- are fair game, too. Why else would Pegasus have agreed to acquire CEO-channel.com on April, 4, 2005, for 3 million shares of stock (worth about $0.25 each at that time, according to the historical prices at Yahoo!)?

Whole lotta nothin'
What did Pegasus get for that $750,000 worth of stock? Close to nothing. Wait, *less* than nothing. As of the 10-K filed on April 6, 2005, only two days after that acquisition announcement, CEO-channel.com had $15,000 in cash but $18,200 in liabilities. Take a look for yourself. The company didn't even have an operating business, seriously.

So, why the buy? Who knows. As far as I've seen, it wasn't explained in any of Pegasus's later 10-Ks or noted in a press release at the time. Pegaus shareholders, however, might be interested to know that CEO-channel's owner, Lawrence Creeger, the majority owner, sole director, and officer, just happened to be involved (since at least 2003) with Pegasus CFO Stephan Durland in a venture called Global Event Makers, formerly "Pro Celebrity Caribbean Tour Inc.," and another called Global Equity, formerly "Eventmakers-Caribbean Corp."

Spooky CFO
While we're here, let's take a deeper look at CFO Durland's past. You can't argue that he doesn't know the ground. He's been with Pegasus -- at least the flop predecessor, Blue Industries -- since his firm was hired as auditor in March of 2003.

His bio says he "specialized in the audits of micro-cap public companies." Of course, if you follow publicly traded microcaps, that might not seem like such a good thing. Nothing to brag about, and maybe even something to hide. Even Pegasus seems to realize that a career in the pennies doesn't look so good, because it appends the following ominous disclaimer to Durland's bio.

"Of the public companies, all but two ... had completed their reverse mergers well before Mr. Durland became aware of the companies. These CFO/Acting CFO positions have primarily been interim in nature to assist these companies through periods when they could with not afford or did not need a full-time CFO." How's that for a yellow flag?

Kind of makes you wonder what sort of delights you'd find by skimming the history of the firms where Durland has been a director or CFO, no?

Knock yourself out. There are plenty in the 10-K, which you can get here. There are some real winners in the crowd -- and by winners, I mean *losers*. How about Safe Technologies International? Or -- this is a hoot -- a company that was going to make waves salvaging sunken World War I and II-era boats, Ocean Resources? American Ammunition, anyone? If you're hungrier, the 10-K left out a few of Durland's other prior affiliations: ElectraCapital, for instance, and Diversified Product Inspections.

But to me, the most interesting -- and by interesting, I mean horrifying -- has got to be **Medical Makeover Corporation of America**, a penny stock Durland was involved with from June 2004, and whose business is described in its latest 10-K as follows: "With the failure of the Company's last two business plans, it has reverted to the development stage. Management is currently evaluating several opportunities." Durland was a director, then acting CEO, until July of this year.

I'm not surprised he finally fled this disaster; after all, we're talking about a company that pretty much does *nothing*, by its own admission. It reports no cash and no revenues, and one employee. This is what Durland took public? No wonder the share price has cratered since the reverse merger he is credited with orchestrating.

Not that there weren't penny-stock hypesters out trying to keep Medical Makeover floating. For instance, take a look at this March 1 2005 "alert" on the company. Note that the fine print discloses it's a *paid* pump job: Some outfit called DP Martin and Associates shelled out $20,000 to get this load of tripe sent out.

Who is DP Martin and Associates? That's not entirely clear to me yet, but maybe Durland could fill us all in. After all, it appears they may have been neighbors, or even *shared the same office*.

Florida business records show a DP Martin and Associates located at 500 Australian Avenue, No. 619, West Palm Beach, Fla., an address that just happens to look like the same one address occupied by Medical Makeover's predecessor company, Cactus New Media. Strangely enough, they seem to have changed their addresses to that office within a week of each other. (Medical Makeover's current address is listed in the same building, but in No. 700.)

Finally, click here and here and you'll see that the firms *also* share the same registered agent, an attorney named Donald Mintmire who was disbarred following a federal conviction on obstruction related to a Florida pump and dump scheme.

So, let's summarize what this looks like: Current Pegasus CFO Durland was CFO and then acting CEO of a Medical Makeover, which appears to have *shared an office* with DP Martin, which was paying penny-stock promoters to fluff Medical Makeover's shares? And both firms were represented by the now-disgraced Mintmire? Something smells here, people, and it's not the West Palm Beach breeze.

It's entirely possible that this is all just harmless coincidence, but I wouldn't bet my money on it. I don't believe in that many coincidences, which is why, if I could find shares to borrow, I'd bet *the opposite*.

A final dose of yuck
And here's one more situation that ought to make potential investors squirm. In July, controversial short seller Manuel Asensio released an online report that links one of Pegasus' largest shareholders,

one Vision 2000 Ventures, (12.7% owner), with a huge Taiwanese embezzlement case. Strangely, despite the holdings listed in Pegasus' 10-KSB, there's no SEC filing from Vision 2000 regarding Pegasus. But a Vision 2000 filing regarding another company confirms that someone named Hung-Chiu Hu is indeed the director of Vision. If that's the same person implicated in these embezzlement and stock manipulation allegations, yowch.

Foolish bottom line

These are the kind of people I wouldn't trust as far as my sickly cousin Agnes could throw them. Even if Pegasus, Knabb, and Durland turn out to be pure as the driven snow, those top managers still have a history of leaving worthless penny stocks in their wake. I always bet on managers reverting to their means.

And now they're trying to foment a short squeeze via a gimmicky cert-request scheme.

To me, that's the final evidence that Pegasus will end up worth pennies as well. And that's exactly the kind of company I would dearly love to short. Too bad the markets and brokers out there can't accommodate my wishes.

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