

pected growth, they seem more reasonable," says Bear Stearns biotech analyst David Molowa. "By that measure, many biotech companies are still selling at a discount to some pharmaceutical stocks."

For example, Amgen's sales of the anti-anemia drug Epogen could rise 25% this year, to more than \$1.7 billion. Biogen's Avonex, for multiple sclerosis, is also hot—recent data suggest it can slow brain shrinkage caused by the disease. (Caution: Biogen's stock could swoon if Avonex fails to meet Wall Street's rising expectations.)

Meanwhile, Genentech's shares have soared, thanks to its two cancer drugs, Herceptin, for breast tumors, and Rituxin, for non-Hodgkin's lymphoma. (Rituxin is co-owned by IDEC Pharmaceuticals.) In a nifty move that helped rivet Wall Street's attention on biotech, Swiss drug giant Roche in June bought the 33% of Genentech it didn't already own for \$82.50 a share, then in July sold 18% of the company back to the public for \$97 a share, pocketing about \$300 million. Now Roche plans to publicly offer up to 17% more of Genentech's shares, lately trading around \$150.

Over the long term, most of the biotech industry's growth will come from drugs in the pipeline rather than ones on the market. Some of the industry's most exciting medicines are aimed at autoimmune diseases, in which a person's immune cells turn traitorous and attack his own tissues. Amgen plans to seek marketing approval within a few months for one such drug, to treat rheumatoid arthritis, and Biogen is developing another to treat psoriasis.

Monoclonal antibodies, or MABS, are also hot. Genentech's Herceptin is an MAB, as are Immunex's Enbrel, used for rheumatoid arthritis, and MedImmune's Synagis, used to prevent pneumonia in premature infants. More are on the way for everything

from lupus (IDEC) to allergies (Genentech).

One caveat: Unlike biotech rallies of yore, this one isn't really a sector-lifting tide—investors have been highly selective, leaving some major players, as well as most of the small caps, in the lurch.

And some of the laggards have recently traded at bargain-basement prices. Consider Genzyme, which has struggled to get the kind of respect on Wall Street accorded to most other top-tier biotech players. Genzyme's market cap languishes around \$3.4 billion, while Biogen's recently topped \$12 billion. One of Genzyme's problems is that few people have heard

of the rare illnesses it focuses on, such as Fabry disease, which causes kidney failure. "Genzyme is one of biotech's cheaper quality stocks," says Carl Gordon of Orbimed Advisors, and its pipeline is richer than its recent stock price suggests.

Another sleeper is Vertex Pharmaceuticals, a mid-cap biotech player that has pioneered ways to design drug molecules that fit molecular targets as keys fit locks. Its

first FDA-approved pill, for AIDS, is a late entry in its drug class and has had disappointing sales. But the delay was mainly due to merger turmoil at Glaxo Wellcome, which co-developed the drug, says David Stone, a biotech consultant in Acton,

## Biotech: A Hot Prescription?



**SOME SMALLER PLAYERS MAY MAKE GOOD BETS TOO, GIVEN THE SECTOR'S BUILDING MOMENTUM.**

### WALL STREET ETHICS

## The Problem With ParkerVision

ParkerVision, a ten-year-old company based in Jacksonville, is a stock market phenomenon. It has never made a penny (in fact, ParkerVision has lost more than \$20 million in the past 5½ years) and, unlike most Internet companies, is not growing what little business it has (its revenues reached a height of just \$10.8 million back in 1997). Yet ParkerVision, which went

public in November 1993, has seen its market value increase from just over \$40 million to more than \$300 million recently—a multiple of 30 times revenues. Its stock, meanwhile, has doubled since mid-1998.

ParkerVision claims to have developed a "truly incredible breakthrough" in radio technology—a microchip receiver that converts radio waves into data, called

Mass. Vertex has cranked out one of biotech's most impressive lists of drug candidates, including six compounds in clinical trials for 12 indications.

Selected smaller players may make good bets too, given the sector's building momentum. Isis Pharmaceuticals boasts a fertile drug-discovery platform and promising medicines well along in clinical tests, says James McCamant, publisher of *Medical Technology Stock Letter*. Bear Stearns' Molowa likes Aviron, which is developing a flu vaccine taken as a nasal spray. Orbimed's Gordon recommends Alexion Pharmaceuticals, which is developing an MAB to prevent cardiovascular damage after heart bypasses. Who knows? Maybe one of these promising drugs will even wipe out dot.com dementia.





ParkerVision is short-seller Manuel Asensio's latest target.

says that engineering studies show that ParkerVision "possesses no valuable technology." (ParkerVision did not return repeated calls for comment.)

But there's a lot more to this story than a classic tale of management vs. short-sellers. An interesting cast of characters has been supporting ParkerVision, including a New York micro-cap brokerage firm named Whale Securities (which has paid hundreds of thousands of dollars in fines to the NASD for various transgressions), a Swiss bank called Banca del Gottardo, and a money manager at one of the nation's blue-chip investment firms, Neuberger Berman (which went public Oct. 7). To top it off, the money manager has been suspended for possible improprieties relating to ParkerVision and other small-cap stocks, and Neuberger is conducting an internal investigation into his activities.

The story begins with Whale Securities, which not only took ParkerVision public but later signed an agreement to be its financial adviser, for which it received warrants to purchase 200,000 shares at \$10 per share. Whale analyst Cary Retlin wrote in a November 1998 report that ParkerVision could reach \$90 to \$100 in two to three years. But an affiliation with Whale doesn't portend good things.

Francesco Bolgiani, who that spring personally owned more than 100,000 shares of ParkerVision, joined its board.

But the most surprising member of the ParkerVision party is a money manager in Neuberger Berman's high-end private asset-management business named Jack Ferraro. Ferraro has been at Neuberger for about 20 years; post-IPO, his stock in the firm is worth more than \$6 million. ParkerVision filings show that for "acting on behalf" of ParkerVision in those Banca del Gottardo placements, Ferraro, not Neuberger, personally received a purchase option for 125,000 ParkerVision shares in 1996 and a warrant to purchase 180,000 ParkerVision shares in 1997, both at below-market prices.

Ferraro has also publicly supported ParkerVision—but without mentioning his personal stake. "It's a nascent technology, but I think it can do what they say it can do. The potential should be extraordinary," he was quoted as saying in

1998 in *Florida Trend* magazine. Much of the activity in ParkerVision stock throughout 1999 can be traced to Neuberger Berman: According to data from Bloomberg, Neuberger Berman has been one of

According to Securities Data, some 80% of the IPOs that Whale has underwritten since 1983 are trading below their IPO price, and roughly 10% have declared bankruptcy. (Whale's CEO was unavailable for comment.)

In 1996 and 1997, Banca del Gottardo arranged two overseas private placements for ParkerVision totaling more than \$28 million. (Skeptics point out that few companies with groundbreaking technology have to resort to raising capital that way.) In the first half of 1999, the bank's deputy chairman of the board,

the top market makers, controlling an average of around 15% of the volume.

This isn't the first time that Ferraro, Whale, and Banca del Gottardo have been involved in the same company. In 1987, Whale handled the IPO of Showscan Entertainment, which claimed to have a special high-definition filmmaking process. In September 1995, Banca del Gottardo arranged a \$7 million private placement for it; at the same time, Ferraro signed a consulting agreement with Showscan and received a warrant to purchase 100,000 shares. Showscan sold for more than \$7 in 1996, but in the fall of 1998 it was delisted by Nasdaq and now trades on the OTC Bulletin Board for about 10 cents a share.

There are additional instances involving less-than-prestigious brokerage firms, penny stocks, Banca del Gottardo, and Neuberger's Jack Ferraro. Banca del Gottardo arranged millions of dollars in financing for Ferrara Food, an importer of specialty foods, and Vasomedical, which under its previous name, Future Medical Products, was supposed to make a wearable device that mitigated the symptoms of drug addicts undergoing detox. Ferrara went public by merging into a business entity underwritten by Stratton Oakmont,

which was expelled from membership in the NASD in early 1997. In addition, two former Stratton officers have pleaded guilty to charges of securities fraud. Vasomedical was taken public in 1988 by a firm called Individual's Secur-

ities, which was expelled from membership in the NASD in 1989. Banca del Gottardo's Francesco Bolgiani has been a director of both Vasomedical and Ferrara, and Ferraro has been a shareholder of both. After a string of disasters that included misstated financial results, what was left of Ferrara was sold in mid-1996 for a grand total of about \$1.6 million (vs. its market value of more than \$20 million in mid-1995). Vasomedical now sells for just over \$1 a share.

As for ParkerVision, it just announced a licensing agreement with Symbol Technologies, a Long Island-based provider of wireless area-network solutions, but Asensio calls it a "bogus deal," saying that the "Symbol announcement is not the first time that ParkerVision has issued false claims."

Since the deal was announced, ParkerVision's stock has plummeted some 25%. The jury is still out on whether Asensio is right about ParkerVision's technology, but if you judge a stock by the company it keeps, none of this looks good. —Bethany McLean

