3D ADVISORS

This 3DAdvisors Report Covers:	
✓	**Insider Trading**: Insider Trading Behavior
	Accounting: Quality of Earnings Issues
	Governance: Corporate Governance Issues

Insider Research Bulletin

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Insider Research Bulletin is a summary of significant insider trading behavior that 3DA has identified at the following companies. None of the companies in this Bulletin have been previously covered in a full 3DA Research Report, and because the insider trading behavior described here has been deemed significant, 3DA has initiated a review of accounting and governance behavior at these companies. These new companies may or may not become the subject of full 3DA Research Reports in the future.

Insider Research Bulletin is published periodically and exclusively for 3DA Research subscribers.

Companies in this Bulletin

- American Capital Strategies, Ltd. (NASDAQ: ACAS)
- Archer-Daniels-Midland Inc. (NYSE: ADM)
- Guidant Corp. (NYSE: GDT)
- Ryder System Inc. (NYSE: R)
- United States Steel Corp. (NYSE: X)

Discussion of 3DAdvisors Findings

American Capital Strategies, Ltd. (NASDAQ: ACAS)

American Capital Strategies, as is the case with many of the companies covered in this report, is a story of relatively restrained insiders diverging from their historical trading behavior. The Company has been on an investing spree over the past year, which has been financed by the issuance of new stock. And lots of it. After raising $1.1 billion in capital through equity offerings in 2003, the Company recently put a proposal in front of shareholders to increase the total shares of authorized common stock from 70 million to 200 million. While the aggressiveness of the financing might be attributed to the Company's optimism for investing opportunities, the fact that insiders recently sold ahead of a 2.2 million share secondary offering used to pay down the Company's existing revolving credit facility is curious, especially considering the magnitude of the sales. From February 12th through March 1st, five insiders (all five of the firm's non-director executives) sold 535,781 shares between $33.28 and $34.33. This is a strange reversal of sentiment for ACAS insiders, who had only sold 110,000 shares in 2002 and

2003, and in fact, purchased 295,000 shares as a group during that period. Since 1998, insiders had only sold just over 800,000 shares *in total*, which is why the 535,781 shares sold in just three weeks this year caught our attention. In addition to the volume, there are other facets to the activity that are disconcerting. Two of the Company's three most senior executives, the chief financial and chief operating officers sold 43% and 55% of their holdings, respectively. The COO in fact exercised six series of non-expiring options to acquire the shares to sell, and even came very close to skimming one option, having accepted a very slim spread between the strike and market prices. Insiders are quite possibly getting a little anxious about the possible dilution effects on the stock should shareholders approve more than doubling ACAS's total shares outstanding.

- **Roland Cline (56)** – Senior V.P., Managing Director. Last time we saw Cline selling shares was back in May 2001. He then surfaced buying 2,106 shares between October 2002 and August 2003 after the issue dropped from the mid-$30s in May 2002 down to $17 by October. Recently, Cline sold 34,947 shares on March 1st at $33.28. The timing of the sale is interesting; he sold the shares immediately after the six-month period he was required to hold the shares under the short-swing rule of Section 16(b) ended.

- **John Erickson (44)** – Executive V.P., CFO. Since joining the Company in 1998, Erickson had only sold twice – in May 2001 (25,000 shares) and August 2001 (35,640 shares). Recently, Erickson displayed more aggressive behavior as he sold 229,490 shares between February 12th and February 17th from $33.42 to $34.42. The sales reduced his actionable position (exercisable options and common stock) by 43%.

- **Ira Wagner (51)** – Executive V.P., COO. Since making his only prior sale in November 2001, Wagner acquired shares from both open-market purchases and option exercises from September 2002 through August 2003. In all, he accumulated 3,500 shares, which he recently sold back, along with a lot more out of his holdings. From February 12th through February 17th, Wagner sold 229,490 shares, grossed roughly $7.7 million and trimmed his holdings by 55%. In order to sell such a large position, he exercised six series of non-expiring option series (expiration dates: 2/10, 5/10, 5/11 @ $25.75, 5/11 @ $26.10, 12/11, 5/12). Wagner was also very close to skimming one of the option series he exercised, having paid $29.87 for the shares and selling them for $33.40.

- **Darin Winn (40)** – Senior V.P., Managing Director. Winn sold 27,000 shares on February 12th and February 13th at roughly $33.50. This was Winn's first sale since joining the Company in 1998 – his only prior transaction was a 1,200-share open-market purchase in October 2002 at $17.50.

- **Gordon O'Brien (38)** – Senior V.P., Managing Director. Like Cline, O'Brien was a buyer during the share's 2002 weakness, picking up 3,010 shares at an average price of $17.90. He recently reversed his sentiment, having sold 43,186 shares from February 12th through February 17th. This was O'Brien's first sale since filing in 1998.

Archer-Daniels-Midland Inc. (NYSE: ADM)

Although agricultural companies like ADM might not be as alluring as more visible companies, we couldn't ignore the uncharacteristic round of sales insiders surfaced to put together in February. And it isn't the volume alone that caught our attention; ADM insiders, and in particular mid-level executives, have been relatively quiet over past years. From 2000 through 2003, mid-level execs sold just over 400,000 shares, half of which came from one seller in early 2001. More recently, following the second-quarter earnings release, nine insiders sold 172,531 shares from February 3rd through February 19th between $16.20 and $17.46. This was the largest round of group selling by share count at the Company in the past five years, and also worth mentioning, the round involved the highest number of sales transactions, which signals to us a sense of exigency in absence of any 10b5-1 plans. With the exception of company President and COO Paul Mulhollem, the sales were executed by all vice presidents, many of whom stepped-up to make their first or largest sales.

- **Paul Mulhollem (53)** – President, COO. Mulhollem has been an infrequent seller in the past, having only sold 700 shares back in February 2003 at $12. More recently, he surfaced selling 66,158 shares on February 10th and February 17th.

- **Steven Mills (48)** – Group V.P., Controller. Like Mulhollem, Mills has been inactive with his stock and options, just recently making his first transaction. On February 9th he sold 27,798 shares at just over $16.90.

- **Maureen Ausura (47)** – V.P. Ausura, a Section 16 filer since June 2000 recently made her first transaction on February 11th, selling 14,302 shares at $16.74.

- **Edward Harjehausen (53)** – Group V.P., President – ADM BioProducts and Feed Division. On February 3rd, Harjehausen made his first transaction in the past five years, selling 21,906 shares at $16.06.

- **Kenneth Robinson (56)** – V.P. Robinson has a slightly more extensive trading history than his peers, having sold 18,540 shares between 2000 and 2002. He last sold 12,490 shares in October 2002 at $13.24. More recently, he sold 16,538 shares at roughly $16.20.

Guidant Corp. (NYSE: GDT)

Guidant stock has raced to three-year highs in 2004 and insiders sold aggressively into the strength. But while we expect profit taking, the selling has hit levels we didn't see when the issue traded at similar prices back in 2000. From January 6th through March 11th, sixteen insiders sold 1,142,675 shares between $60 and $72.50. This is not only the largest convergence of insiders we've observed, but since the start of 2004, insiders sold nearly half as much as they did from 1999 through 2003 (2.3 million shares). Not only did seven of Guidant's most senior executives make their first or largest-ever sales, but also two directors reduced their holdings by 44% and 49%. Finally, we should point out that two of the past three times this group of insiders sold in unison were into weakness in April/May 2000, and again in February 2002, preceding a four-month slide from $50 to $27.

A few points of interest: we were surprised to find that five of the Company's fifteen (Guidant added two new directors in 2004) board members are current or former Guidant or Lilly executives (while Lilly and Guidant are two separate companies, Guidant was spun off from Lilly in 1994). In addition to the five directors that are affiliated with Lilly or Guidant, three of the non-interested directors are affiliated with Duke University, which creates an interesting board structure and provoking us to speculate just how independent these individuals are from each other.

- **Keith Brauer (55)** – V.P., CFO. Brauer has noticeably intensified his selling as of late, having sold 160,000 shares on February 27th, and grossing $10.9 million. In the past four years, his only two prior sales were in February 2002 (4,262 shares) and August 2003 (67,440 shares). The 2002 sale was executed at the February high of $51.00 and just before the stock slid to $27 in less than five months. In August Brauer exercised options to acquire 132,860 shares and only sold half the amount, unlike the 2004 transaction in which he sold all the underlying shares. Following the sale, Brauer holds over 800,000 shares of company stock.

- **Ronald Dollens (57)** – President, CEO. Dollens' trading history is quite unusual as he had sold 13,333 shares in January 2003, and then more recently in 2004 sold another 13,333 shares on January 21st at $65.06. What's strange is that the 2004 transaction was reported as part of a 10b5-1 trading plan. Subsequently, he made a 70,000-share sale on February 6th, which was not disclosed as part of his trading plan. We can't remember ever seeing a single transaction made in conjunction with a 10b5-1, as is the case here. Typically, a plan is established for either short-term goals such as exercising expiring options and selling the underlying shares or longer-term diversification of their holdings.

- **Ruedi Wager (60)** – Director. Wager, a board member since 1995 and chairman of the Compliance Committee, made his first-ever sale on February 27th when he sold 28,500 shares at $68.22. The sale reduced his actionable holdings (exercisable options and common stock) by 44%.

- **Nancy-Ann Min DeParle (47)** – Director. Since joining the board in 2001, DeParle, who sits on the Science and Technology Strategy, Compliance, and Corporate Governance committees, never surfaced with any transactions. That changed on February 27th when she dumped 49% of her holdings with an 11,620-share sale.

- **Dana Mead (44)** – President-Vascular Intervention. Like Brauer, Mead recently emerged with uncharacteristic activity based on his trading history. In 2000, with the stock trading at levels similar to the current prices, Mead only sold 12,000 shares. Recently, he sold 163,000 shares on February 27th, grossing $11.2 million. Prior to this transaction, Mead's largest-ever sale had been 15,900 shares, which he sold in August 2003.

In addition to the above-mentioned, three divisional presidents, **Mark Bartell**, **Beverly Huss**, and **Fred McCoy** sold 134,840, 127,000, and 108,000 shares, respectively, while Group Chairman, Office of the President **Jay Graf** sold 150,000 shares.

Ryder System Inc. (NYSE: R)

From February 10th through March 3rd, eight insiders sold 385,293 shares between $35.85 and $37.07. This is the largest distribution by insiders since 1998 and followed immediately on the heels of reported fourth quarter and 2003 results, which featured flat revenue growth. The recent sales are quite inconsistent with their historical behavior - insiders had only sold a *total* of 252,000 shares between 1998 and 2003. Not only was this the largest month of selling in Company history, but was so by quite a large margin. The previous highest quantity of sales came back in September 2003 and was only 55,490 shares. Not only was February the heaviest by the number of shares disposed, but insiders recorded the most sale transactions, which is made even more imposing by the fact that no insiders are enrolled in 10b5-1 trading plans, which tend to drive the transaction count higher. Included in the activity, four execs exercised between four and nine different non-expiring options series to acquire shares to sell, which again, signals a sense of urgency to cash out. Finally, the Company's CFO Tracy Leinbach made her first sale, disposing of 40% of her actionable position (exercisable options and common stock). It should be noted that the Company has stock ownership guidelines in place, but they are rather insignificant (two times base salary for CEO, one times base salary for all other executives) and Leinbach is not close to minimum number of shares she's required to hold.

- **Tracy Leinbach (43)** – Executive V.P., CFO. Since filing as a Section 16 insider in May 2000, Leinbach has been relatively quiet with her transactions. In fact, her only prior trade was a 4,000-share acquisition from exercising an option in December 2003. Recently, she began selling shares in a relatively aggressive fashion. On February 13th she sold 53,590 shares grossing roughly $2 million. While the volume might not appear that heavy, she reduced her actionable position (exercisable options and common stock) by 40%.

- **Challis Lowe (57)** – Executive V.P., Human Resources, Public Affairs and Corporate Communications. On March 2nd and March 3rd Lowe exercised five series of non-expiring options (expiration dates: 2/09, 5/10, 7/10, 2/10, 2/11) in order to acquire 76,667 shares, which she immediately sold. The sale was only her second (23,333 shares in September 2003) since filing back in 2000. The sale wiped out nearly all of Lowe's holdings.

- **Richard Carson (age not disclosed)** – Senior V.P., Fleet Management Solutions Operations. Like many of his peers, Carson exercised a large amount of his exercisable options in order to acquire shares to sell. However, his behavior was even more excessive, having exercised nine different options series (expiration dates: 5/04, 5/05, 5/06 @ $28.87, 5/06 @ $22.10, 10/06, 2/09 @ $27.03, 2/09 @ 26.83, 2/10, 10/10), only one of which was set to expire within six months. In total, Carson sold 50,680 shares on February 10th and February 17th. This was Carson's first transaction since filing in October 2003. Carson's urgency to sell is telling considering he is a relatively new filer.

- **Anthony Tegnelia (57)** – Executive V.P., U.S. Supply Chain Solutions. Tegnelia sold 104,733 shares on February 10th grossing $3.8 million. Not only was this his first transaction since filing in 2002, but he also exercised five series of non-expiring options to do so (expiration dates: 10/05, 10/06, 2/09, 2/10, 10/10).

- **Bobby Griffin (54)** – Executive V.P., International Operations. Griffin exercised five series of non-expiring options (expiration dates: 10/5, 10/06, 2/09, 2/10, 10/10) in order to sell 44,097 shares on March 3rd, grossing $1.6 million. Griffin recently sold more shares than he had combined since filing as an insider back in 2001. This is the first time that we've seen Griffin exercise a substantial number of options series.

United States Steel Corp. (NYSE: X)

As we mentioned at the beginning of the report, we uncovered a handful of companies where insiders with relatively unobtrusive trading histories recently sold. None though are as attention grabbing as our findings at US Steel. Looking back, we couldn't remember ever encountering open-market insider selling at the Company and indeed the recent sales by insiders are the first in six years. However, the activity wasn't all just open-market sales. Insiders at US Steel are granted one stock appreciation right (SAR) in tandem with each option they receive, which is unusual because SARS are infrequently used these days due to their negative accounting treatment. Also interesting is the fact that options are granted with a one-year vesting period for the full amount of options. This is rare, as options are typically granted with a three to five year vesting schedule. The SARS give insiders the opportunity to accept cash or shares in exchange for the cancellation of their options. When they do so, the disposition of shares goes under the radar and doesn't appear as selling, even though it has the same effect on their holdings. What's more, by holding a small fraction of the total shares acquired, it camouflages the fact that insiders have really disposed of significant amounts of their shares. In all, thirteen insiders sold 2,715,397 shares between February 5th and February 18th at prices ranging from $32.13 to $36.37. This is by far the heaviest SAR activity by a significant margin that we've ever encountered at the Company. Obviously, we won't be mentioning executives with any history of timing their trades well (because there's so little selling, historically), but we did uncover executives exercising multiple option series while also reducing their holdings between 33% and 70%, including one relatively new director who sold 50% of his stock. Also worth mentioning, two of the mid-level execs making open-market sales report directly to a senior executive that sold off 33% of his holdings, leading us to question why they converged to sell within a few days from each other.

Some points of interest: the 2003 proxy highlights measures taken by the Company to increase the directors' equity interests in the Company and align their interests with the shareholders. Conversely, all eight of the independent directors hold right around 1,000 shares of common stock (two have 2,000 shares while one holds 3,000 shares), which they were obligated to purchase within 60 days after joining the board in order to receive a 1,000-share grant. U.S. Steel does have in place what they call the Deferred Compensation Plan for Non-Employee Directors, which credits the individuals with common stock units, otherwise known as phantom stock. With these included in their total holdings, the directors still hold roughly 6,000 shares on average, which we consider unpersuasive if the goal is to align their interests with those shareholders. This looks like governance "window dressing" to us, more than anything else. With regard to board "independence", of the twelve board members, four are current or former Company executives. NYSE rules say that an executive must have a "five year cooling-off period" from their employment with the company before they can be considered independent. Vice Chairman Dorrance retired from his position in 2001, therefore he is technically an interested director.

- **Thomas Usher (61)** – Chairman, CEO. Last year, Usher announced that he would be retiring in 2007, which prompted the Company to redo his employment contract. He was granted 800,000 options that were to fully vest in February 2004. Immediately after vesting, Usher exercised those SARS and more, and then sold a vast majority of the shares. In all, on February 18th he disposed of 1,505,478 shares, grossing $54.7 million. The transaction trimmed his actionable position by over 70%. This is by a considerable margin the most sizeable activity of this kind that we've ever seen from Usher.

- **Roy Dorrance (58)** – Vice Chairman. Dorrance exercised four series of non-expiring SARS (expiration dates: 5/09, 5/10 @ $20.41, 5/10 @ $23, 5/11) to acquire 297,500 shares on February 18th, and then sold 270,219 of the shares, grossing $9.8 million. In the past, he had never exercised more than 2,000 SARS. The activity reduced his holdings by 47%.

- **Dan Sandman (55)** – Vice Chairman, Chief Legal & Administrative Officer, General Counsel and Secretary. Dorrance exercised SARS for the first time on February 18th, acquiring 239,000 shares and selling 214,765. Like Dorrance, he exercised multiple series, only one of which was set to expire in the upcoming six months (expiration dates: 5/04, 5/09, 5/10 @ $20.41, 5/10 @ $23, 5/11). The disposition trimmed his holdings by 43%.

- **Frank Lucchino (64)** – Director. Lucchino, a board member since just last year and member of the Audit & Finance and Corporate Governance & Public Policy committees sold 1,000 shares on February 5th at $32.13. But don't let the modest transaction avert you; there are telling signs here. Lucchino's only prior transaction was a 1,000-share open-market purchase in January 2003, which he was required to make within 60 days of joining the board, in order to qualify for a 1,000-share option grant. Not only is he selling those shares acquired just over a year ago, but also sold 50% of his holdings in the process.

- **John Goodish (55)** – Executive V.P.-Operations. On February 11th, Goodish exercised four series of non-expiring options (expiration dates: 5/09, 5/10 @ $20.41, 5/10 @ $23, 5/11) to acquire 77,250 shares, which he then immediately sold, grossing roughly $2.7 million. The sale, his first since assuming his current position with the Company in 2001, reduced his holdings by 33%.

- **Stephan Todd (58)** – V.P.-Law & Environmental Affairs. Since filing as an insider back in 1998, Todd never surfaced with any trades until he recently sold 85,000 shares on February 11th at just over $35. Todd cleared out five different options series to acquire the shares to sell, one of which was set to expire in May (expiration dates: 5/04, 5/09, 5/10 @ $20.41, 5/10 @ $23, 5/11).

- **James Garraux (51)** – V.P.-Labor Relations. Since this sale was his first in four years, it is pretty clear that Garraux also made his first sale since filing as a

Section 16 insider back in August 2000. He also cleared out a handful of options, exercising four different series (expiration dates: 5/09, 5/10 @ $20.41, 5/10 @ $23, 5/11) to sell 44,250 shares. Garraux reports directly to Goodish, who sold 33% of his holdings.