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

Insider Research Bulletin

October 8, 2004

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Insider Research Bulletin describes significant insider trading behavior that we have identified at the following companies and is a summary of the first step in our research process. The next step is that these same companies will undergo a review of accounting and governance behavior, and if we identify indicative behavior in one or both areas, then a "full 3DA research report" will be published on that company. Note: Inclusion of a company in this report by itself does not necessarily mean a full research report will be published.

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

Companies in this Bulletin

- Fifth Third Bancorp (NASDAQ: FITB)
- Ryder System Inc. (NYSE: R)
- Westwood One Inc. (NYSE: WON)

Discussion of 3DAdvisors Findings

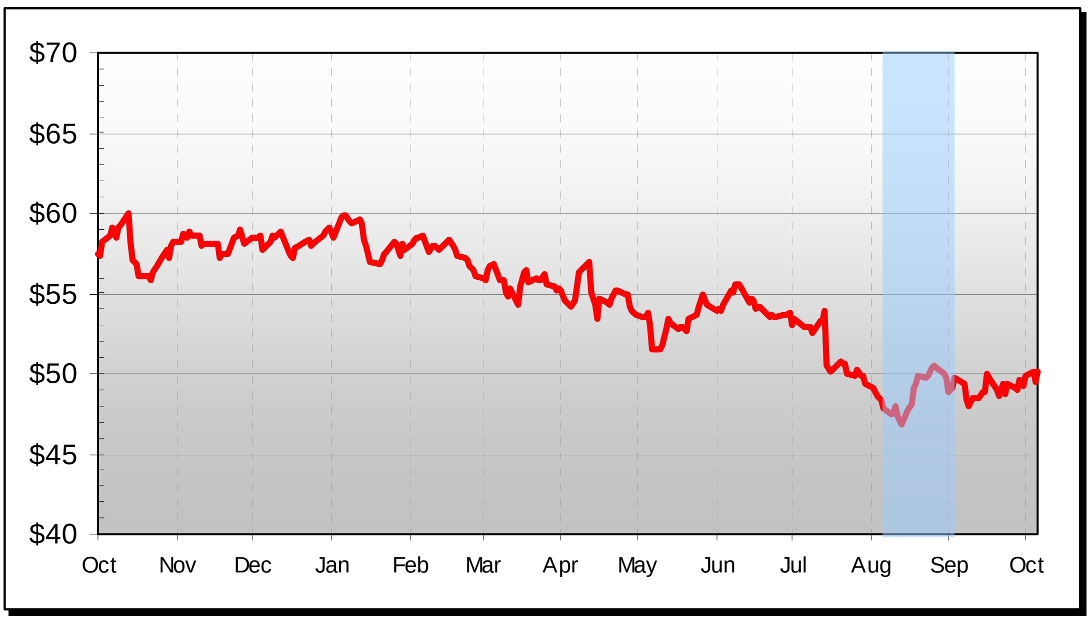
Fifth Third Bancorp (NASDAQ:FITB)

A recent and very curious round of insider distribution at Fifth Third Bancorp (FITB) has our attention. Not only has the selling been conducted in a way meant to go undetected, but it also has occurred at a price level and time that seems very contrary to the Street consensus regarding future prospects for the Company. It is generally thought that FITB has resolved most of the regulatory issues that have plagued it and that the shares are poised to finally firm up after over two years of price deterioration.

Barred from making acquisitions for over a year, pursuant to a Federal Reserve Bank investigation, until the Company completed required steps to "address and strengthen Fifth Third's risk management process and internal controls", FITB is finally back on the acquisition path with its recently-announced acquisitions of Franklin Financial Corp. and First National Bancshares of Florida (First National). Yet, with the Federal Reserve issue resolved and acquisitions again underway, challenges still remain as FITB repositions its balance sheet for the anticipated rise in interest rates. Share buybacks will slow too.

In the midst of this, we are fascinated by the fact that, so far, four key FITB executives have entered into forward sale contracts during the one-month period between early August and September as FITB shares hovered at about 18-month lows in the $48 to $49 range   Making this activity even more interesting is the fact that all four took rather heavily discounted payments for their shares that were pledged in the “Variable Prepaid Forward Contracts”, each accepting between $38 and $39 per share in return for the pledge to deliver the shares three years out. This 20% discount, on average, for the pledged shares, is much higher than the 10% we normally see in such transactions. Though the percentage holdings reductions, for those involved, were not high (averaging 15% each), the stealthy nature of these distributions, combined with the hefty discount accepted by the insiders involved (from an already-low stock price) causes us to wonder whether some future unknown event still exists. Otherwise, why wouldn’t they have waited instead of monetizing these shares at such low prices?

Figure 1. FITB Daily Closing Price, October 1, 2003 Through October 6, 2004. Shaded blue area is the period where four insiders entered into forward sales contracts. Source: Reuters and FITB SEC Filings.



One possible unknown event could be that the informal SEC investigation, begun back in late 2002 upon emergence of the Federal Reserve Bank’s findings, could still be going on. FITB ceased disclosure of the investigation after this year’s first quarter Form 10-Q. That document contained the last reference to the investigation, saying that the Company continues to respond to the all of the Commission’s requests. It stands to reason, however, that if the Commission had revealed to FITB that it had completed its investigation, the Company would have wasted no time in disclosing this good news. Certainly, by abstaining from all reference to the SEC investigation, FITB wants investors to assume that the matter is closed and closed it could be as our checks with the SEC General Counsel’s office reveal that when an investigation is concluded where the Commission will not pursue the commencement of enforcement proceedings, the staff *may* inform the Company involved. In other words, the SEC is not necessarily required to inform a Company that a given investigation is over. But, we think it's safe to assume that if the Commission had told the Company its investigation was over, investors certainly would have been told about it.

The individuals involved used the same broker (J.P. Morgan Chase), making the disclosures of the contracts uniform throughout the group. Each insider involved gifted shares to a trust, and then entered into the forward contract with the broker. We mention this because it is evident that we believe a fifth individual may enter into a contract (see below) as she has recently formed a trust where she has gifted shares in the same fashion as the others.

It is important to note that the disclosure of each of these contracts, which occurs in footnote form on the various Form 4 filings of the individuals involved, avoids using the word "sale" in any of the text, choosing instead to refer to these as "Contracts" and even going so far as to indicate that the transaction involved was one where an acquisition has occurred. The way they did this was to check the "Acquired" box, with their reasoning, we're sure, being that a contract had been acquired. To us, the presentation of these contracts represents a total obfuscation designed to camouflage the fact that these insiders monetized significant amounts of stock without having to report a "sale". Remember too that they each accepted steep hair cuts (20%) from already depressed price levels in order to get the cash.

- **George A. Schaefer Jr. (58)** – President and CEO. In early July, Schaefer adopted a 10b5-1 trading plan, saying that he intended to sell 335,000 shares over the next 12 months. On August 11th, he entered into a forward sale contract in which he took in $9.22 million ($38.42 per share) in return for the pledge to deliver 240,000 shares in August of 2007. We feel that this forward sale is in addition to his 10b5-1 plan for in his subsequent Form 4 filing, which disclosed his sale of 32,000 shares on September 15th, he continued to show the 240,000 shares as being held by his Family Limited Partnership (FLP), of which he and his wife are the only partners. Since these shares (under the forward sale) are not to be delivered for three years and his 10b5-1 plan specifies that he plans to sell 350,000 shares over the next 12 months it is fairly clear that the two events are mutually exclusive. We are, however, interested that he chooses to continue to show the 240,000 shares as holdings in his FLP without at least footnoting that they are pledged. Most other forward sales disclosures that we see either eliminate the pledged holdings from the related insiders' holdings or include them with a footnote referring to the forward sale. Instead he continues to report the shares in his holdings totals (on subsequent Form 4 filings) with no further mention of the August 11 forward sale.

- **Michael D. Baker (53)** – Executive V.P. On August 6th, Baker entered into his Variable Prepaid Forward Contract covering 174,288 FITB shares. In doing so, he took in $6.7 million ($38.56 per share) in return for the pledge to deliver the shares in August of 2007. This trade effectively reduces his actionable holdings by 17%.

- **Robert P. Niehaus (57)** – Executive V.P., Retail Banking, Affiliate Administration and Marketing. On August 4th, Niehaus entered into his Forward Sale Contract (virtually identical to the others) pledging to deliver 150,000 shares of FITB common (in August of 2007) in return for an up-front payment of $5.8 million ($38.76 per share). Of the four executing these contracts, he is the only one who has indicated that he will be retiring at the end of the year. His transaction trimmed his holdings by 19%.

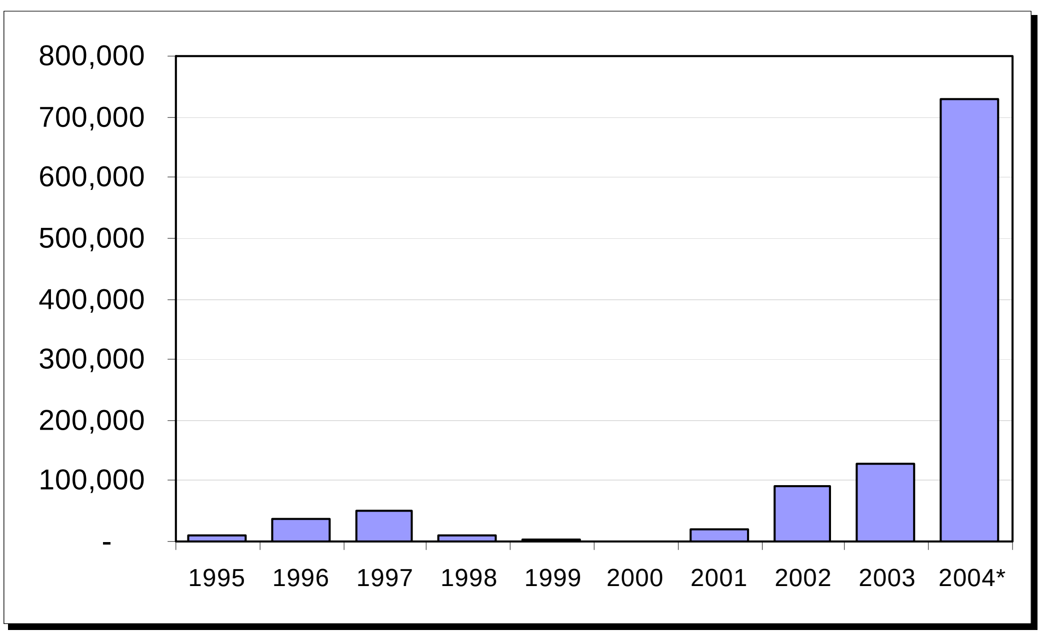
- **Robert J. King Jr. (48)** – Executive V.P. King entered into his Forward Sale contract on September 1 by pledging to deliver 120,000 shares (in September of 2007) in return for an up-front payment of $4.7 million ($39.39 per share). In doing so, he trimmed his holdings by 16%.

- **Diane L. Dewbrey (39)** – Senior V.P. Dewbrey appears to be the next person to enter into one of the Forward Sale contracts. We say this because, on September 15th, she gifted 59,975 shares to trusts, one where she is trustee, and the other where her spouse is the same. This is consistent with the behavior of others in the above group who first gifted shares to trusts (where they are trustees) which, in turn, entered into the Forward Sale contracts with J.P. Morgan. We are keeping an eye out for her subsequent forward sale equal to the amount of shares gifted.

Ryder System Inc. (NYSE: R)

Shortly after reporting less than spectacular fourth quarter and 2003 financials, Ryder System insiders held an anomalous round of selling which we highlighted in a March 24th *Insider Research Bulletin*. Since that time, the issue has steadily appreciated despite surging oil prices, which have been apparently counterbalanced by strong second quarter earnings. But after abstaining from selling since the first quarter, insiders have resurfaced with a second round of heavy distributions. Between August 2nd and September 2nd eight executives, including six from the earlier round, sold 344,448 shares at a weighted average price of $43.19.

Figure 1. Shares Sold Annually by Ryder System Insiders. Source: R SEC Filings



* 2004 is through October 6th only.

Mentioned in the last report was the fact that the February and March volume was the heaviest in the past ten years by a considerable margin. Insiders sold as much in that two-month period as they had in the prior ten years combined. Aggregate 2004 selling stands alone historically as the chart above indicates.

In spite of the all-time high prices for Ryder shares, this year's sudden and dramatic change in trading behavior is deserving of close attention. After years of building their ownership levels, a large majority of Company executives have spent the year exercising their options and selling off the shares. Their holdings are down to levels we haven't seen in over four years. With the exception of a small number of vested options, just about all of the sellers this year have trimmed down their holdings to leave just enough shares to meet the Company's mandated ownership guidelines, which require senior executives to hold common stock equal to one year's annual base salary. A few of the sellers in the recent round have just enough shares to meet their targets, but that will change if the stock price drops below $40. Should execs fall below their targets, they will be forbidden from exercising stock options for cash until the guidelines are satisfied. We will be monitoring their holdings to see if the Company actually upholds these penalties. Two final notes: first, it should be noted that a majority of options granted over the past three years have February vesting dates, so new options will become accessible four months from this report. However, the amount of shares that will vest for each exec is rather insignificant and will do little to replenish their actionable positions. For example, **Vicki O'Meara** and **Tracy Tegnelia** will each have two options series vest for a total of 15,000 shares, while **Robert Sanchez's** two vesting series will provide him with less than 11,000 options. This is all they will have become exercisable until February 2005. Secondly, we should point out that there has been no word from the Company of any executive departures.

Table 1. Actionable Holdings Reductions by Top Ryder Insiders. Source: R SEC Filings

Named Executive	1/15/2002	1/15/2003	1/15/2004	10/5/2004	Reduction Since 2003
Gregory Swienton	161,587	545,401	727,815	727,815	--
Tracy Leinbach	88,021	117,793	153,213	69,373	41%
Challis Lowe	20,630	49,437	83,575	6,908	86%
Vicki O'Meara	129,823	154,927	175,322	15,485	90%
Anthony Tegnelia*	--	--	153,678	15,611	90%

* Since Anthony Tegnelia wasn't a named executive until late 2003, we computed his reduction since January 2004.

- **Vicki O'Meara (46)** – Executive V.P., Chief of Corporate Operations. O'Meara's activity is by far the most aggressive of the group. After only having sold a total of 40,000 shares over the past seven years, she exercised seven different options series with expiration dates ranging between June 2007 and February 2010 to acquire 159,937 shares. She immediately sold the shares on August 11th and August 16th at $43 and **cleared away 83% of her ownership position**. O'Meara's holdings now consist of 25,000 vested options and 8,900 shares of common stock.

Should the issue drop below $45, she will be out of compliance of the ownership guidelines.

- **Tracy Leinbach (44)** – Executive V.P., CFO. Leinbach is a seasoned twenty-year Ryder employee, but has served in an executive role since 2000. Since filing, she had only surfaced with one sale in February 2004, selling 53,590 shares at $35.85. After seven months of inactivity, she recently surfaced with a 35,250-share sale at $43, which combined with her February activity has **reduced her holdings by 56%** year-to-date. The sale stemmed from the exercise of two options series, which were set to expire in 2005 and 2006, and made up roughly 30% of her vested options holdings. Following the sale Leinbach holds nearly 30,000 shares of common stock and exceeds her ownership requirements.

- **Robert Fatovic (age not disclosed)** – Executive V.P., General Counsel, Secretary. Fatovic is the newest member of Ryder's executive team, only having been appointed to his position in early 2004. Typically, we'd expect to see Fatovic building a stock position, even more so in this situation considering the Company has ownership guidelines in place. Yet just months after filing for the first time as a Section 16 insider, Fatovic exercised nearly all of his vested options on August 27th and sold the underlying 19,027 shares at $43.40. The transaction **wiped out 78% of his actionable position** (common stock and exercisable options), leaving him with less than 6,000 shares of common stock and 2,500 vested options.

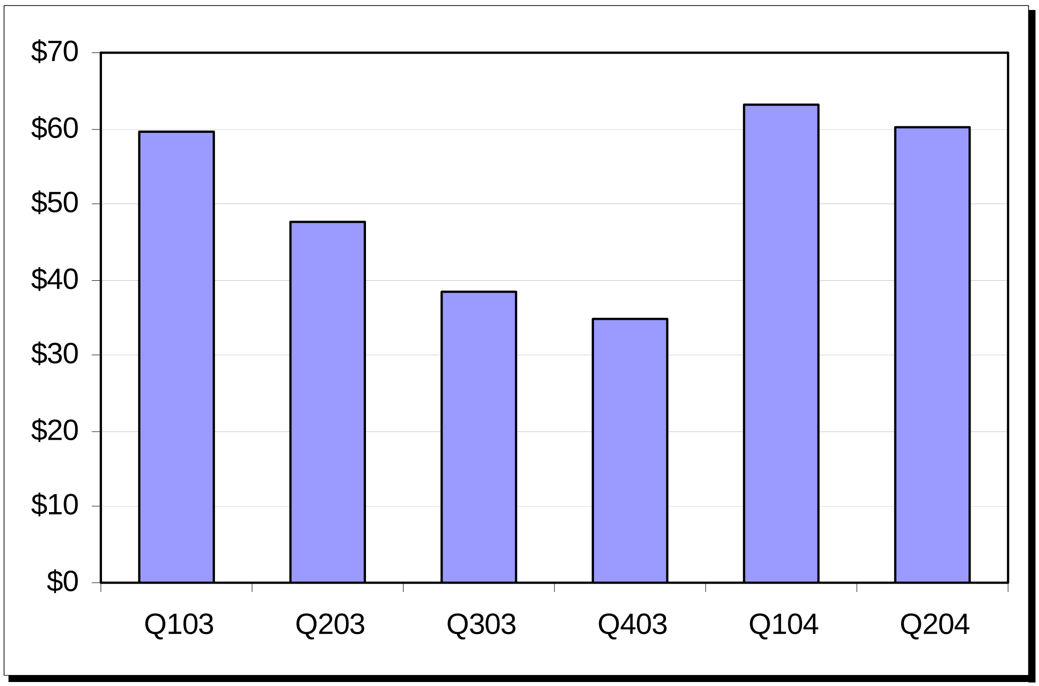
- **Robert Sanchez (38)** – Senior V.P., Chief Information Officer. Sanchez executed his first-ever sale in February 2004, exercising one option series and selling the 16,460 shares at $37. His behavior noticeably changed in the latest selling round as he aggressively exercised six non-expiring options series (expiration dates: 10/06, 9/07, 2/14/09, 2/17/09, 2/13/10, 2/17/10) and sold the acquired 37,257 shares at $43. Sanchez's 2004 selling has **trimmed his holdings by a significant 83%**. He now holds less than 9,000 shares of common stock and 12,333 vested options.

- **Anthony Tegnelia (58)** – Executive V.P., U.S. Supply Chain Solutions. Add Tegnelia to the list of Ryder execs that have cashed out a large percentage of their holdings this year. After filing to trade in 2002, Tegnelia dumped a significant chunk of his holdings in February 2004. His first-ever trade amounted to 104,733 shares, which combined with his August 5th sale of 33,334 shares at $44, has **reduced his holdings by 90%**. To execute his only two sales this year, Tegnelia exercised eight series of options with expiration dates ranging between October 2005 and October 2010 and cleared out six of them.

<u>Westwood One Inc. (NYSE: WON)</u>

There is little we can tell you regarding the broadcasting industry's woes that probably aren't already known. What we have uncovered though is that of all the mid to large-cap broadcasting-related firms, only Westwood One's insiders have sold into the subsequent weakness in their company's share price. Between August 3rd and September 24th two directors and one high-ranking executive sold a total of 711,670 shares as the issue descended from $24.22 to $19.95. One of them engaged in a forward sale contract to boot. To put the significance of these sales into perspective, insiders had only sold 265,000 shares between January and April when the stock was trading much higher in the $30 range. What's more, the Company has ramped up its share repurchasing this year and though third-quarter buyback figures haven't yet been released, we expect that they will be at least as large as the past quarter, based on statements made on the second quarter conference call. We are always on the lookout for companies increasing their buyback spending triggered by a declining share price while managers themselves are concurrently lightening their personal holdings. Westwood is an text book example of this type of behavior.

Figure 3. Quarterly Share Repurchases (Millions $). Source: WON SEC Filings.



In addition to the selling at depressed prices, a key component of this story is the selling by two industry veterans, Chairman and founder **Norman Pattiz** and Director **Farid Suleman**. Suleman's sale is his first in over two years and was executed at prices nearly 40% lower than his last. He also sits on the boards of Citadel Broadcasting (NYSE: CDL) and McLeodUSA (NASDAQ: MCLD), both of which are down considerably on the year, yet he hasn't sold shares in either. Pattiz's transaction is even more noteworthy. The Chairman entered into a forward sale contract for which he received upfront cash on nearly 40% of his ownership position. In order to acquire the shares to sell he converted shares of his Class B stock, which gave him a controlling stake in the Company's voting rights. Pattiz effectively sold his control over the Company for what seems to be an inconsequential amount of money. One might guess that he might be leaving Westwood, but it was just last December that he signed a contract extension through 2008.

A few points of interest: we are intrigued by the relationship between Westwood and Infinity Broadcasting, a subsidiary of Viacom (NYSE: VIA). Infinity owns roughly a 16% stake in Westwood and manages the Company's business and operations, for which it receives a base fee of $3 million annually, other incentive bonuses, and was

Figure 4. WON Daily Closing Prices, October 1, 2003 Through October 7, 2004. Blue shaded area is where insiders sold 711,670 shares. Source: Reuters, WON SEC Filings

granted warrants to purchase 4.5 million shares. But this isn't a loosely managed investment. Infinity has three seats on the board, including Westwood's President and CEO **Shane Coppola**, while CFO **Jacques Tortoroli** is also an Infinity employee. Rather than paying Coppola and Tortoroli's salaries, Westwood pays Infinity a management fee under the "Management Agreement" between the two firms. Considering Pattiz recently sold a large percentage of his voting rights, Infinity/Viacom's influence over the management of business operations, and Westwood's board being comprised of 46% dependent directors, it would seem that shareholder interests might not be a first priority.

- **Norman Pattiz (61)** – Chairman, founder. Pattiz has displayed a knack for timing his trades over the past fifteen years. He has bought and sold shares at opportune times and has even hedged a sizeable percentage of his holdings with a zero-cost collar back in January 2000, just ahead of the stock's slide from the upper $30's to $16 by September. After selling over 3.2 million shares between 1995 and 2001, his selling pace has slowed considerably since, despite the issue trading to new all-time highs. Between April 2002 and December 2003 he sold a total of 315,000 shares at a weighted average price of $32.17. However, the issue has steadily declined throughout the year and Pattiz recently surfaced with a clandestine maneuver that should not go unnoticed by our clients. On September 27th, with the issue down 40% year-to-date, he converted 411,670 shares of his Class B shares (nearly 60% of his Class B holdings) into Common Stock on a one-for-one basis. He then entered into a forward sale contract with Merrill Lynch, Pierce, Fenner & Smith Inc. for which he received $7.1 million cash ($17.44 per share) in exchange for 450,000 shares, which are to be delivered in September 2009. Pattiz effectively **sold 40% of his holdings** utilizing a strategy that allows him to monetize his holdings without having to report a sale of stock. Equally as significant though is Pattiz's conversion and distribution of

Class B shares. Pattiz is the sole owner of Westwood's Class B shares, and is entitled to cast fifty votes for each of his Class B shares. Prior to the recent conversion, which is the first time we've seen him convert shares in over ten years, Pattiz held 26% of the total voting power of the Company. Not only did he swap out a substantial portion of his ownership stake but also surrendered a considerable amount of control in the Company he founded.

Table 2. Beneficial Ownership of Chairman Norman Pattiz. Source: WON SEC Filings

03/30/01	04/12/02	04/11/03	04/13/04	10/10/04
1,987,060	1,160,710	1,259,710	1,059,710	609,710

- **Farid Suleman (52)** – Director. Though Suleman is currently just a board member, he has a much more intimate understanding of Westwood's operations than the average director. Not only was Suleman Westwood's chief financial officer between 1994 and 2002, but is also the chief executive of Citadel Broadcasting (NYSE: CDL), which owns radio stations with programming produced by the Company. Suleman has had an extensive career within the broadcasting industry and his behavior warrants close attention. With that said, Suleman surfaced for only the second time in the past ten years with a sale on August 3rd. After selling 300,000 shares in May and June 2002 at $39, he recently exercised one option set to expire in October and sold the underlying shares at $24.22. The significance of this sale is not lost simply because he sold shares acquired from an expiring option. With the stock trading at prices nearly 40% lower than his last sales, we might expect to see him holding some of these shares, or if he needed the money he could've sold some of his shares in Citadel or McLeodUSA where he has been a board member since 2002. He hasn't sold shares of either in the past two years.

- **Gary Yusko (age not disclosed)** – Executive V.P., Finance. Insider selling at gradually declining prices is something we're constantly on the lookout for. It is slightly more common when an executive has a pre-arranged trading plan in place since they frequently have less control over a sale's execution. This is not the case for Yusko who has not only been selling as Westwood's share price has stumbled, but he has increased his volume into the weakness. Yusko sold 100,000 shares at **$36** in March 2002, then 30,000 shares at **$33** in December 2003 and distributed another 30,000 shares in June 2004 at **$24**. More recently, he exercised one option series with a March 2009 expiration and $12.69 strike price and sold the newly acquired 100,000 shares as the stock bottomed at **$19.95**. Yusko has not been listed in any past proxies and his stock options haven't been disclosed on his Form 4s, therefore we do not have an accurate picture of his holdings. We can report that he holds 10,011 shares of common stock, which is considerably less than many of his peers of similar rank.