3D ADVISORS

Research Notes

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Research Notes are a brief description of the insider trading, accounting, or governance behaviors that we have been investigating for possible inclusion in standard 3DA reports, and may also include other information of general interest to 3DA subscribers. The ⬆ symbol indicates that we have observed management behavior that suggests a bullish sentiment.

Companies in this Research Notes

- ADTRAN Inc. (NASDAQ: ADTN) ⬆
- Bebe Stores, Inc. (NASDAQ: BEBE)
- Bunge Limited (NYSE: BG)
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- Freeport-McMoRan Copper & Gold Inc. (NYSE: FCX) ⬆
- Staples Inc. (NASDAQ: SPLS)

3DAdvisors Research Notes

ADTRAN Inc. (NASDAQ: ADTN) ⬆

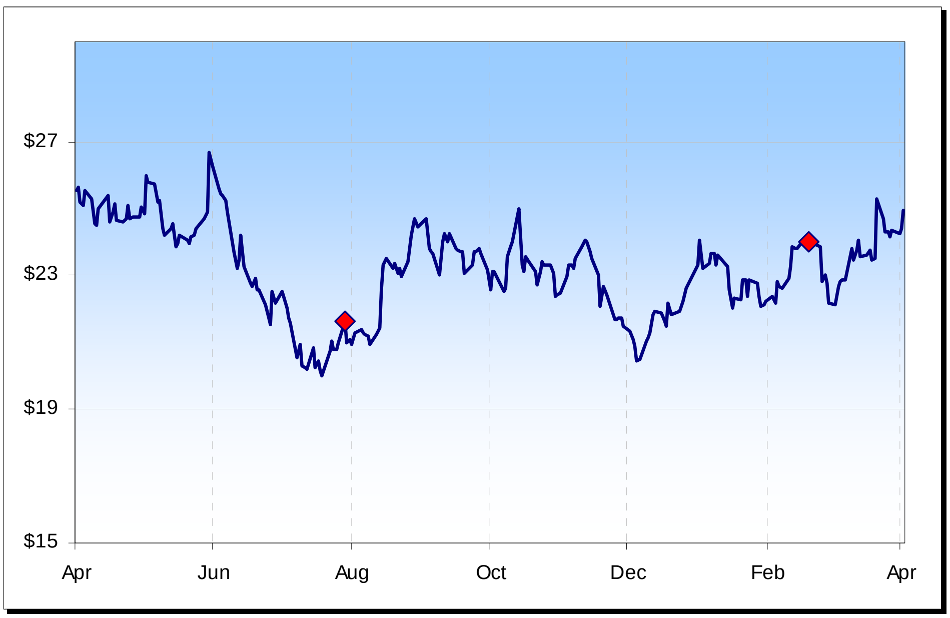
Large GRAT contributions from largest individual shareholder reveal expectations for higher share price

- In a Special Report issued on August 2, 2006, we covered the subtly bullish activity of ADTRAN Founder and Chairman **Mark Smith** and his wife, who contributed a large percentage of their ADTN ownership to a Grantor Retained Annuity Trust (GRAT). We should preface this update on Smith's activity by reporting his passing on Tuesday, March 27th after suffering complications from pneumonia.

- Prior to his death, Smith's wife used 3 million shares, which had been gifted to her by her husband last July, to fund a second GRAT on February 21st. Following the transaction, 7 million of the 8 million shares owned by the Smith's, which comprise 10% of the outstanding ADTN shares, were deposited in the two GRATs.

- As a brief refresher, GRATs are used to pass along a maximum amount of wealth to heirs while minimizing gift and estate taxes in the process. In order for the trust to return tax-free gains to the beneficiaries, the assets must appreciate at a rate higher than the IRS "hurdle rate", which in February was 5.6% (down from 6.0% at the time of their July 2006 contribution). So, although there is little downside risk, the Smith's are betting ADTN shares will appreciate no less than 5.6% on an annual basis. We should also add that if a grantor dies during the life of the annuity period, the trust assets will be includible in the grantor's estate and the tax advantages would be lost. This is not applicable in the ADTRAN case because Smith's wife was the donor, nor does his passing alter the fundamental sentiment implication.

Figure 1. ADTN Daily Closing Price, 04/03/06 through 04/05/07. Red diamonds are the dates where Chairman Mark Smith and his wife contributed 4 million and 3 million shares to GRATs. Source: Reuters and ADTN SEC Filings.



- Despite ADTRAN's earnings woes since last July, the issue has ultimately trended higher, first gaining 18% in the month following the first Smith GRAT contribution. More recently, the issue reached a six month high in March even though the Company reported a 47% drop in 4Q earnings on January 22nd. Despite the issue trading to a near-term high, we are still yet to see any insider profit taking with the exception of President, COO **Danny Windham**, who sold in February just after resigning.

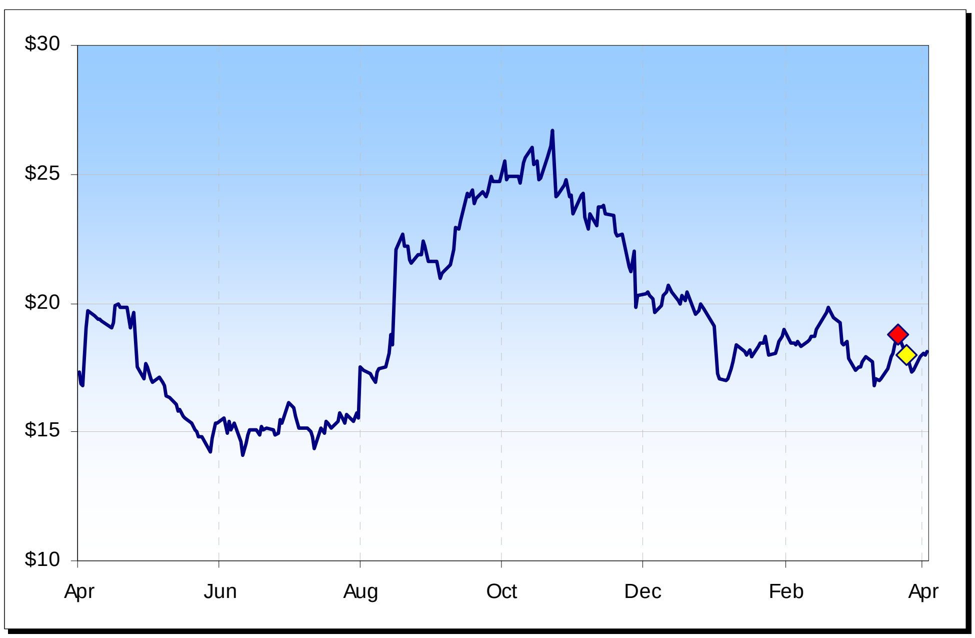
- On a final note, the Company filed 18 separate amendments to SEC Form 4s previously released between October 2005 and December 2006. The amendments were issued to correct a variety of errors and happen to be one of the larger mass revisions of its kind that we can recall. One feasible explanation is that management is planning for a sale of the Company and performed a thorough examination of historical SEC filings on request of its independent auditor. Contributions to a GRAT, in anticipation of such a transaction, would be a classic way to shield any deal premium from taxes to beneficiaries of the trust. This theory might be even more plausible now that its founder and largest shareholder passed away.

Bebe Stores, Inc. (NASDAQ: BEBE)

Executive selling continues as shares weaken

- Although the scale of first quarter insider selling at Bebe Stores was not in line with the volume during the prior three month period, we are intrigued that insiders surfaced at all. After 306,000 shares were sold in Q4 at an average price of $25 (for additional details, please see 3DA reports dated 12/08/06 and 01/22/07), four executives sold 118,000 shares in Q1 at 30% lower prices. Meanwhile, the majority of the recent sales were executed in the aftermath of the Company's reporting declining fiscal Q2 earnings (period ending December 31st) and two subsequent months of disappointing comp sales.

Figure 2. BEBE Daily Closing Price, 04/03/06 through 04/05/07. Red diamond is where SVP Thomas Curtis sold 69,985 shares; Yellow diamond is where VP Susan Peterson adopted a 10b5-1 trading plan. Source: Reuters and BEBE SEC Filings.



- In the interest of full disclosure, some of these sales were executed under ongoing 10b5-1 trading plans entered into last year. However, insiders are always permitted to terminate a plan if they believe the stock is undervalued. The fact that these sales were even executed reveals the respective plans were not established with minimum sale price requirements, proving their willingness to take cash for the shares irrespective of price. Some of the notable insiders who continued selling at significantly lower prices under 2006 sales plans are: Chief Administrative Officer **Susan Wambach** (47) and veteran directors **Barbara Bass** (56) and **Corrado Federico** (66).

- The March actions of Senior V.P. of BEBE SPORT **Thomas Curtis** (44) and Vice President of Design **Susan Peterson** (49) are even more notable as they both initiated new activity during the quarter:

- Curtis, a nine year Company employee, was quick to monetize 70,000 options on March 22nd and March 23rd at $18.50, after the issue gained 8% on the week (the shares lost the gains the following week on an analyst downgrade). Curtis' transactions were not part of any 10b5-1 plan. The options, which were not set to expire until July 2012 at the earliest, accounted for 50% of his actionable holdings, which takes into account his zero balance in common stock. This was the lowest price Curtis has accepted for his shares since November 2004, having been a seller at $27 in 2005 and $22 in 2006.

- V.P. Peterson adopted a *new* 10b5-1 plan on March 27th with the issue trading at $18. According to a Company press release[1], she plans to sell approximately 80,000 shares over the course of 18 months, although from our experience these plans are typically fulfilled well in advance of the reported expiration date. What stands out to us is that Peterson currently holds only 70,000 vested options (no common stock) and will have roughly 7,000 shares vest each month for the remainder of the year. The plan distributions will shed no less than 60% of her ownership. We should also point out that she sold fewer shares (45,000) under her 2006 plan at significantly higher prices.

- Our last coverage on the Company (Research Notes dated 01/22/07) highlighted the November resignation of Co-Founder, Vice Chairman **Neda Mashouf**, wife of Chairman, CEO **Manny Mashouf**, following their marriage dissolution. Mrs. Mashouf is widely credited with the Company's apparel design and innovation, and the Company's risk disclosure even stated that her loss "could have an adverse effect on operations and as a result, business could suffer". We are already seeing signs of design issues following her departure, as the Company's spring offering prompted one analyst to downgrade BEBE to "hold" based on the following assessment:

> ***"…we believed the company would be clean and fashion-right by the middle of March, when it would have its annual fashion show and be geared up for an Easter shift-driven boost. While we have seen improvements, we believe BEBE still lags its competitors and the spring season will remain highly challenging."[2]***

[1] "Bebe Stores, Inc. Vice President Adopts Rule 10b5-1 Trading Plan", BusinessWire-FirstCall, March 27, 2007.
[2] "Bebe Stores Shares Decline As Analyst Questions Spring Clothing and Downgrades Stock", Associated Press, March 26, 2007.

Bunge Limited (NYSE: BG)

CFO leaves, insiders begin selling, and now the Company surprises the Street with break-even quarter while fundamental and accounting concerns remain

- We were originally drawn to BG last year by a combination of behaviors which we covered in two separate reports on 06/09/06 and 08/24/06 involving key insiders taking restricted stock awards in cash (with no Form 4 filed), multiple accounting gimmicks used to generate earnings and significant and rapidly growing balance sheet exposure related to receivables from and advances to Brazilian soy bean farmers. Despite these issues, BG has been, until recently, on a sustained and painful (for us) upward trajectory, driven by all sorts of energy (alternative fuels bio-diesel and ethanol) and commodities-related hype.

- But when the Company announced on 02/08/07 that CFO **Frank Wells** was leaving to become the CFO at Loblaw Companies Ltd., it raised some eyebrows among followers of BG, especially given the Company's well-earned reputation for creatively making its numbers while numerous questions about certain accounting treatments persisted, quarter after quarter. Our interest was renewed and increased considerably with last week's unexpected announcement by the Company that its "lower than expected agribusiness results" would drop Q1 Net Income (to be released on 04/26/07) to "near breakeven", a long way down from the $0.75 per share consensus estimates for the quarter. Though the Company has blamed the problem on bad bets in its hedging activities, given the prior accounting and disclosure behaviors we have observed we are not necessarily ready to accept that explanation at face value.

- Amidst the departure of a somewhat controversial CFO, and now an unexpected and significant quarterly miss, the insider selling by key operating executives, who have historically executed very few open-market transactions, has picked up very visibly. Some specifics include:

  - **Alberto Weisser (52) -** Chairman and CEO. The selling surge by BG insiders started with Weisser unloading 75,683 shares on the first available date allowable, December 26th, under his 10b5-1 plan announced earlier that month. While his sale amounted to just 9.4% of his actionable holdings at the time, we find it significant that it was his first-ever open market sale.

  - **Frank Wells (46)** - Departed CFO. Wells, who formally left his position as the Company's top finance executive on 04/01/07, wasted no time in selling out of his entire actionable position of 247,000 shares between February 13th and March 31st, getting between $76 and $85 for them. Prior to this, Wells had never surfaced to sell. And while we would normally discount activity by a departing executive, given the many questions we have about the Company's accounting and related disclosure practices, Wells behavior is clearly deserving of careful consideration, in our opinion.

  - **Flavio Sa Carvalho (64)** - Chief Personnel Officer. He dropped 38% of his holdings by selling 20,000 shares in March at prices between $83 and $84. Sa Carvalho, one of the few Bunge insiders to sell in 2006, has now trimmed 74% of his holdings since January of 2006.

- **T.K. Chopra (age not disclosed)** – Comptroller. Chopra received $83 each for the 3,500 shares he sold on February 20th, and has trimmed 33% from his holdings in the process.

- **Archibald Gwathmey (56)** - Co-CEO, Global Agribusiness. Gwathmey acted in March as well, selling 66,000 shares at $76 each, shortly after Bunge shares dropped during the late February market weakness. His sale, his first since 2004, trimmed 28% from his holdings. It is interesting to note that BG Global Agribusiness is a new business platform recently born out of a re-organization of Bunge's Agribusiness segment, which is where the recently disclosed problems occurred that will result in the upcoming shortfall in quarterly earnings.

- Though certain indications are that this year's soy bean harvests in Brazil have been better for the farmers than the past two disastrous periods, they are far from out of the woods with regards to their outstanding amounts owed to Bunge, which translate into well over $1 billion in balance sheet risk for the Company. It is also quite apparent that Bunge has not ceased certain behaviors related to farmer receivables and advances, but these are just two of the many areas we continue to monitor:

  - **Fertilizer Receivables** – Up significantly in 2006 at $746 million vs. $676 million in 2005, this *after* writing off $40 million. The most telling component of this is the fact that, in 2006, 63% of Bunge's fertilizer sales were made on credit. In 2005, 85% of such sales were done on credit. So, although Bunge can state that it may have tightened its credit policies (a fact we have confirmed through our Brazilian contacts), outstanding receivables are getting older. By the Company's own admission, in addition to a growing number of delinquencies in such receivables, "certain farmers increased their accounts receivable balances with us in order to acquire additional fertilizer products for the 2006 planting season." Though Bunge has increased its allowance for these from $117 to $144 million, it appears to be woefully light.

  - **Advances to Farmers** – Separate from Fertilizer A/R's these advances represent financing services to farmers. Though their outstanding amount has decreased somewhat, to $866 million from $924 million the prior year, one must wonder how much of the $119 million in interest income recorded in 2006 relates to these and, more importantly, if it will ever be collected. Bunge claims that these advances are secured by collateral of either crops or property. Our Brazilian contacts tell us that, by virtue of liens, Bunge is now recognized as, indirectly, one of the biggest landowners in Brazil. The problem is that the process of repossessing land can take 10 years.

  - **Foreign Exchange Gain on Debt** – Each period, Bunge gets plenty of earnings juice on its foreign exchange "gains or losses" on third-party debt and short-term inter-company debt, which are *"recorded to foreign exchange gains (losses) in our consolidated statements of income"*. Each year, this income contribution gets larger as, for the past three years, Bunge has been able to consistently book gains on these. The amounts are hardly insignificant as Bunge added $175 million to earnings in 2006 vs. $112 million in 2005 and $85 million in 2004 as a result.

- **Unexplained Reclassifications Continue** – With each period, Bunge reclassifies "certain product lines from the agribusiness segment to the edible oil products segment". Though not a new practice, the reason for this behavior is never explained leaving one to wonder why.

- **Reversals Sustain Quality of Earnings Questions** – In 2006, Bunge reversed its Deferred Tax Valuation Allowances by $67 million (they acted similarly in 2005 with a similar reversal of $79 million). The actual net recorded benefit would have been greater had it not been for reversals related to "the correction of certain tax benefits recognized from 2001 to 2005", totaling $21 million where it seems that they had jumped the gun in prior periods. They also had to record a $14 million income tax expense "relating to certain income tax contingencies". With movements such as these in and out of just about every period, Bunge seems to sustain its reputation for "Black Box" methods and related quality of earnings questions.

- **Inventory increases** – Bunge's negative cash from operating activities picture for 2006 was most affected by a bulge in inventory, which drained $729 million from Cash from Operations which ended the year a negative $289 million vs. a gain of $382 million in 2005. Interestingly enough, there were no related analyst questions during the Q4 conference call.

- **Freight costs** – Ocean freight is a major cost element in the agribusiness segment. It has become increasingly difficult to fully recover freight costs for shipments made to customers under previously-contracted long-term freight agreements. Agribusiness results were adversely affected in 2006 by this continuing problem.

<u>Centex Corp. (NYSE: CTX)</u>

Centex obfuscated disclosure of 10b5-1 plans is most egregious we've seen

- We had to do a double-take when our 10b5-1 screens identified the adoption of trading plans at beleaguered Centex. Besides the fact that Centex is an ailing home builder that cut 30% of its workforce, it also happens to have the greatest share price losses in 2007 (25%) of its peer group. Our first inspection of the plan details disclosed in the SEC Form 8-K filed on March 13th had us believing the plans were established for the four executives to monetize options scheduled to expire in April 2008. But as many of the ensuing facts would show, this was just one of the truly questionable practices utilized by the Company in this situation.

- A close inspection of the executives' options holdings reveals a remarkable twist: they hold fewer options scheduled to expire next April than they registered to sell. In other words, they have snuck additional non-expiring options into these plans. It is quite rare that we ever encounter fallacious 10b5-1 disclosure, especially when the Company uses precise language to spell out the facts. The exact description of Chairman, CEO **Timothy Eller's** (58) intentions reads:

“All of the options to be exercised have expiration dates in April 2008.”

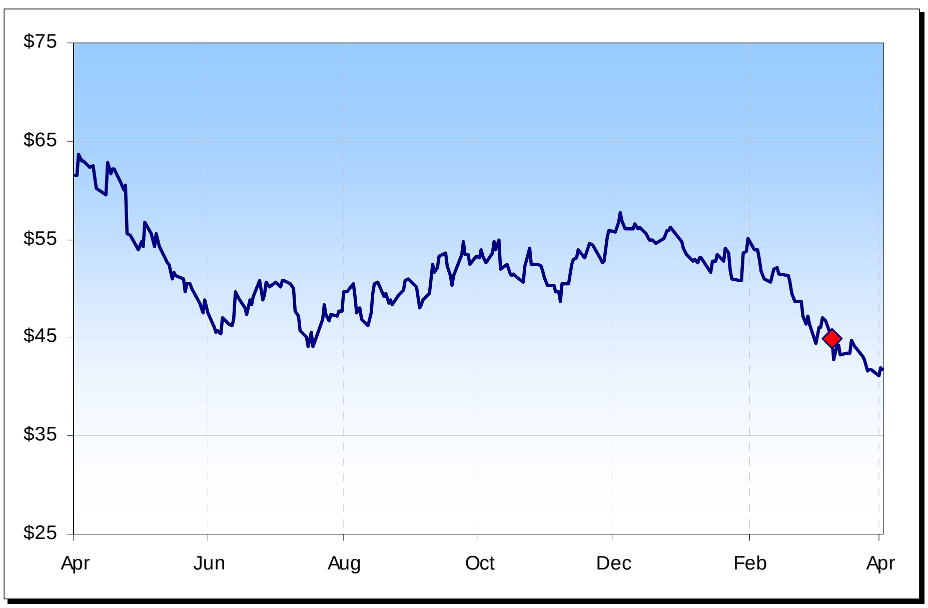
In reference to the shares to be sold by Senior V.P., Strategy and Corporate Development **Robert Stewart** (52), Chief Legal Officer **Brian Woram** (46) and Co-President, Co-Chief Operating Officer of West Region, Centex Homes **David Barclay** (54), it is similarly disclosed:

“…entered into trading plans under Rule 10b5-1 on the same date covering their stock options expiring in April 2008.”

Executive	Shares To Be Sold Under Plan	April 2008 Options Held	Current Actionable Ownership[1]
T. Eller	762,808	640,000	2,487,043
R. Stewart	44,440	0 [2]	123,260
B. Woram	59,550	19,998	223,939
D. Barclay	63,994	33,330	255,926

[1] Does not include out-of-the-money stock options
[2] Stewart joined the Company in May 2000, after the April 2008 award was issued

Figure 3. CTX Daily Closing Price, 04/03/06 through 04/04/07. Red diamond is where four CTX insiders adopted 10b5-1 trading plans. Source: Reuters and CTX SEC Filings.



To further illustrate the extent of the obfuscation of the facts in the above disclosures, one needs to look no further than the options held by Steward, 44,440 of which are intended to be sold under his plan. Upon joining the Company in May of 2000, he was granted his first options for 30,000 shares which were not to expire until May of

2010. Subsequent option grants to him would have later expirations. The implication that ANY of his options would be expiring this April represents one of the more intriguing acts of deception that we've encountered in some time.

- Not outlined by the Company is when we should expect the commencement of the sales, but we anticipate seeing activity very soon. One SEC filing unrelated to the 10b5-1 adoptions show there is a Company imposed blackout period between March 16th and April 27th, preventing insiders from trading before the fiscal Q4 earnings release date of April 25th. By adopting their sales plans just ahead of the blackout period, insiders effectively exempted themselves from that window, allowing for them to cash out before the earnings date. This should not sit well with shareholders looking for a near-term reversal of fortunes.

- Fortunately our screens caught the SEC Form 8-K disclosing these plans because the Company clearly obscured the information for the investor community. For one, the 10b5-1 information was revealed on the same 8-K as the immaterial details of the resignation of a trustee on one of the Company's indentures. There is no description for the 10b5-1 activity on the filing's "table of submitted documents" and inside there is no separate headline, leading the casual observer to miss the disclosure entirely. Even more obvious is the absence of an accompanying press release. Though such releases are not required by Rule 10b5-1, Centex has a history of issuing press releases for trading plans[3]. This is definitely one of the more egregious examples of deceitful Section 16 reporting we have encountered.

Cooper Companies Inc. (NYSE: COO)

Options skimming; selling at lower prices; and reversals of certain behavior raise multiple red flags

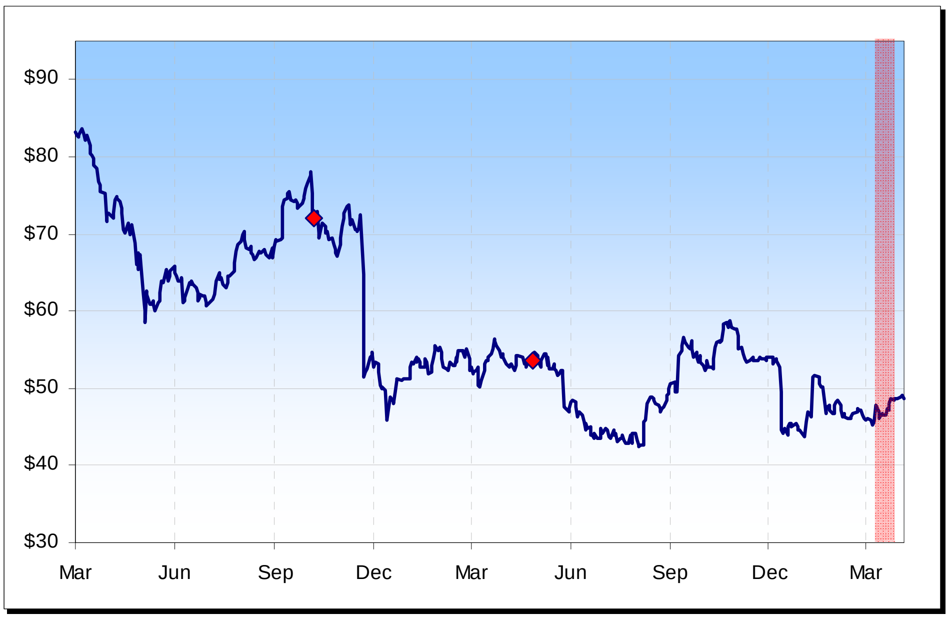
- We were quite interested to see that Cooper Companies board member **John Fruth** (65) was elected to serve a second term at the 2006 shareholder's meeting. After Cooper acquired Ocular Sciences, where Fruth served as chairman and chief executive for twenty years, he immediately began cashing out his new COO stock. Based on his trading behavior, we were even more surprised when he was just voted in for a third term at the March 20th annual meeting as he had sold nearly the last of his 2 million shares just days earlier. But Fruth was not alone, as four additional insiders sold in March, marking the first round of consensus insider selling since 3Q05, when insiders cashed out just before the shares lost 30% after the Company lowered earnings guidance for 4Q05, 2006 and 2007. A more comprehensive account of the earlier insider profile along can be found in 3D reports dated 10/07/05 and 04/28/06.

- As a result of their 2005 activity, there is currently a slew of class action suits and shareholder derivative complaints filed against the Company and several current and former insiders, Fruth and Chairman, President, Chief Executive Officer **A. Thomas Bender** (69) included. With legal and governmental eyes on the Company insiders' trading behavior, it almost seems implausible that insiders would surface to sell at the current prices. But they have nonetheless, and have done so in very bearish

[3] "Centex Executive Adopts 10b5-1 Plan", PRNewswire-FirstCall, November 23, 2005.

fashion. After depositing 48,000 shares into a family trust in January, Fruth cleared out the trust shares between March 15th and March 19th at $47, a 20% discount to the prices he accepted for his shares last September. CEO Bender, who apparently thought the shares were attractive last July, paying $43 for 10,000 shares, reversed the trade by selling 66,000 shares at marginally higher prices in March ($46 to $48). Our experience has been that reversals such as these should not be taken lightly.

Figure 4. COO Daily Closing Price, 03/01/05 through 04/04/07. Red diamonds are the dates of prior 3DAdvisors reports (10/07/05 and 04/28/06); Red shaded area is where insiders have recently sold shares. Source: Reuters, 3DAdvisors, COO SEC Filings.



- Another insider who exhibited very informative behavior is CooperVision's chief financial officer **John Calcagno** (49), who sold 85% of his ownership on March 21st. Calcagno exercised his last three vested option series, none of which was scheduled to expire until October 2012 at the earliest, to sell 36,000 shares at $46, after having sold in March 2006 at $56. These sales were definitely rushed as he skimmed roughly one-third of the options, receiving a very slim spread between the exercise and market prices (12%). Two board members who have been with the Company since 1993, **Allan Rubenstein** (63) and **Steven Rosenberg** (59), sold in March as well, both monetizing options not at risk of expiring. Rubenstein's sale shed roughly 40% of his actionable ownership.

- The March sales certainly do not imply management's sponsorship for the restructuring and management changes announced on April 3rd. Two years after the Ocular acquisition, the Company will finally be merging the headquarters of CooperVision and The Cooper Companies, a decision that apparently did not sit well with long-time executive **Gregory Fryling** (53), the president and chief operating officer of CooperVision, who immediately resigned "to pursue other opportunities". We expect to see Fryling taking profits on his way out. The Company also announced that CEO Bender would be resigning at yearend. Based on CooperVision CFO Calcagno's sale and the fact he was not promoted to the vacated

CooperVision COO post (Company CFO **Steven Neil** received the job), we might very well see his departure as well. Even though the Company seems to be getting back on track, the behavior of key insiders does not reassure us that this will be an easy process.

Forest Laboratories Inc. (NYSE: FRX)

Acceleration of insider selling appears linked to disappointments with new drug pipeline

- With 66% of its product sales coming from one drug, the anti-depressant Lexapro, and 21% attributable to the Alzheimer drug Namenda and 5% to Benicar (hypertension), Forest is basically a three-product Company scrambling to replace its pipeline before the Lexapro and Namenda patents run out in 2012 and 2013, respectively. Their plans took a severe blow when Forest unexpectedly cancelled its collaboration agreement (with Replidyne) to develop Faropenem, a highly anticipated oral treatment for pneumonia, bronchitis and sinusitis.

- By all indications, Faropenem was ready to be launched in late F/Y 2007 (period ending 03/31/07). The Company had built pre-launch and roll-out expenses into its budget and had been extensively and positively positioning its plans for the anticipated approval of the new drug. Plans were put abruptly on hold when, in late October, the Company announced that it had received a non-approvable letter from the FDA and it would have to evaluate its options. With the collaboration with Replidyne just one year old, and seemingly every management implication that it would continue its approval efforts, the sudden February 2007 announcement that it was canceling its plans for the drug came as a surprise. This caused some analysts to take $300 million off projected 2008 revenues for FRX. We are interested in the differences in disclosures between the two companies. Where Replidyne had provided in-depth discussions about its clinical trials, efficacy issues and discussions with the FDA in its recent SEC Form 10-K, Forest seemingly kept most of the problems "under the rug".

- In late October, just prior to the issuance of the Faropenem non-approvable letter, FRX indicated that it would not be re-purchasing shares at levels above $50. Just afterwards, insiders began selling: In early November, **Kenneth Goodman (59)**, Forest president and COO at the time, announced his retirement at year-end. He immediately sold 3 million Forest shares, or 76% of his holdings, at $47.25 per share. Goodman would go on to sell another 300,000 shares after the February 6th announcement that plans for Faropenem had been scrapped. This time, however, he exercised options with strike prices for as high as $48.38 selling the underlying shares at just $53. Chairman and CEO **Howard Solomon (79)** followed, after the announcement, by selling 4.3 million shares, 45% of his actionable ownership, at prices in the $53 range. These sales cap off an unprecedented round of selling by FRX executives as the Faropenem situation unfolded. For more details of the insider picture please refer to our Insider Research Bulletin on March 27, 2007.

- Lexapro, Forest's most important drug, was expected to increase its market share once Zoloft came off patent protection. Instead, there has been a small loss of market share which has been masked by the fact that overall volume for this type of anti-depressant has grown. There have also been some problems with the onset of generic equivalents to Lexapro. Forest is suing Teva Pharmaceuticals (formerly IVAX) who is seeking approval for a generic equivalent to Lexapro prior to its patent expiration. In another challenge, in April of 2006 Infosint commenced legal action against FRX and its development partner in Lexapro, Lunbeck, alleging that "the importation and sale in the United States or "citalopram products" (read: Lexapro) by Lundbeck and us infringes certain claims of a manufacturing process owned by plaintiff".

- Net Proceeds from Stock Options Exercised by Employees is hitting record levels this fiscal year. This correlates with the high level of Section 16 selling. Through Q3, employee stock options have brought in over $155 million in cash, far above the $62 million at the same time last year. This compares with $79 million during F/Y 2006; $30 million for F/Y 2005 and $68 million in F/Y 2004, the year FRX shares traded in all-time high ground in that year's Q4. Add this to the tax benefit realized from the exercises through Q3 and $208 million, or 22% of the cash generated by FRX through the first three quarters of F/Y 2007 came from employees exercising options in order to sell stock.

- Forest Labs' number three product, Benicar, seems to be losing steam. Though the Company continues to state that it is "achieving meaningful growth" with regards to the drug, it goes on to explain that it is in "a very competitive category". Earnings contribution from Benicar dropped from $48 million in Q2 to $39 million in Q3. The Company explains this by commenting that this was "due to various expense allocation timing by Datichi Sankyo which can skew our quarterly contribution from one quarter to the next" (Q3 earnings conference call). The Company having explained this, we must also note that, in response to a related question in the Q2 conference call, Forest's then-president Goodman acknowledged that "in terms of Benicar losing steam, I think that is correct. The Benicar growth rate did slow earlier this year…"

- Those looking for progress in other Forest pipeline initiatives are, no doubt, monitoring the delayed $43 million milestone payment to Glenmark Pharmaceuticals with regards to the development and marketing of GRC 3886, or Oglemilast. The development of this asthma drug, currently in Phase II trials, has encountered some delays in its pre-clinical program which has, as of Q2 (period ending 09/30/06) delayed the $43 million milestone payment two quarters out, into the next fiscal year. Whether this indicates a situation to be concerned with, such as what happened with Faropenem, remains to be seen. Given the Company's proclivity for terse disclosure of the progress of its development programs, we think this delay is worth monitoring.

- In spite of the fact that Forest's Nameda patent protection expires in 2010 and, by Forest's estimates, should be extendable until 2013, a recent Q2 response to the question as to when the first time generics could file challenges on the drug is interesting. The first time such challenges, or Paragraph IV submissions, could be made would be October of 2007.

Freeport-McMoRan Copper & Gold Inc. (NYSE: FCX)

Directors as a group buy over $60 million of stock as issue moves sideways

- We are a little surprised that the escalation of insider buying at copper producer Freeport-McMoRan has not received pervasive coverage since the initial media attention paid to the sizeable January purchases of Director **Robert Day** (63). Subsequent to Day's $27 million outlay to pick up 500,000 shares in the $52 to $54 range, five board members, Day included, went out of pocket $34 million to pick up 565,042 shares between February 21st and March 26th at prices reaching $63. To put the scope of these purchases into perspective, FCX insiders previously spent just $2 million to pick up shares on the open market over the prior twelve years.

- Those of our clients with an interest in the name are already familiar with the overall Street bullishness since the closing of the Phelps Dodge acquisition. In addition to the numerous recent analyst upgrades, both major credit rating agencies raised their ratings after the Company completed $5.6 billion in equity financings which will be used to pay down debt. We are fully aware that FCX shares have appreciated nearly 25% in the past month, but insiders were eager to buy the higher prices, betting the recent run still has legs.

Figure 5. FCX Daily Closing Price, 04/03/06 and 04/05/07. Green shaded area is where five insiders spent $61.4 million to buy shares. Source: Reuters and FCX SEC Filings.

- Obviously, the focus here deserves to be on Day, a board member since 1995 and the Company's Audit Committee chairman. Day spent a total of $57.4 million between January 22nd and March 26th to purchase 1,000,000 shares, paying incrementally higher prices from $52 to $64. We should add that these were all direct buys, not purchased through Oakmont Corp. (his investment company), or TCW Group, the $130 billion asset management company where he is chairman and chief executive. Regardless of whether his board peers just followed the smart money, the ensuing activity is equally deserving of attention.

- The second most intriguing buyer of the group was Director **B.M. Rankin** (77), a board member since 1995 who was a seller last year in the $60s. He reinvested those profits and more on March 26th, spending $3.1 million ($63 per share) to add 50,000 shares to his already sizeable ownership (458,000 shares before purchase). At his age, we would expect to see him scaling back holdings rather than increasing his exposure. Although Rankin has not bought shares in more than 10 years, his past three sales since 2002 have been timely, preceding short-term setbacks of 40%, 20% and 30%. Another elder director buying was **J. Bennett Johnson** (74), who paid $62 for shares after selling at half the price back in August 2004.

- Lastly, one of the most recent additions to the FCX board, private investor **Stephen Siegele** (46), has been building his ownership, first spending $1.1 million to pick up 20,000 shares in August shortly after joining the Company. He resurfaced again on March 5th, purchasing another 10,000 shares when softening gold prices dragged the issue down to $52 from $62. Yet, his most aggressive move to date, which is difficult to detect for the casual observer, is the $3 million he spent to pick up 30,000 6.75% convertible preferred shares on March 28th. These shares are convertible at any time at a minimum conversion rate of 1.3605 shares of common stock. This is a very unique situation as we are more accustomed to seeing insiders take profits after the consummation of a merger of this scale. Shareholders should be encouraged by management's very convincing show of their commitment to the Company's long-term results.

Staples Inc. (NASDAQ: SPLS)

Recent 10b5-1 sales action by key executives outweighs recent large director purchase

- When Home Depot co-founder **Arthur Blank**, a Staples board member since 2001, shelled out $2 million in March to purchase SPLS shares, most observers applauded. While we agree his action has a bullish connotation, it should be noted that Blank had the second smallest ownership position of all board members with at least five years of tenure. And let's not forget that Mr. Blank has a net worth of $1.3 billion. More to the point, his acquisition, however you view it, has inadvertently served as a smokescreen for the $59 million worth of stock *sold* in March by other executives. Insider sales are on pace to reach levels last seen in 1994.

- Typically, an insider purchase near the all-time high would outweigh profit taking at the same price level, but when the seller to buyer ratio is 5 to 1 and most of the sellers executed their largest historical dispositions, the general overtone becomes indistinguishable, or to some extent, bearish. Take for example Vice Chairman, Chief Financial Officer **John Mahoney's** (56) March 6th sale of 877,500 shares, by far his largest in the past ten years. Mahoney cleared out an option series with sixteen months remaining before expiration which accounted for roughly 40% of his actionable ownership (common stock plus vested options). Likewise, Chairman, Chief Executive Officer **Ronald Sargent** (52) monetized all 1.2 million options on March 6th and March 7th that were scheduled to expire in July and November of

2008. Neither executive was pressed to exercise all of these options immediately as they had many months to spread out the dispositions. What's more, once exercised for, the underlying shares clearly could have been retained.

Executive	Apr-02	Apr-03	Apr-04	Apr-05	Apr-06	Apr-07
R. Sargent	3,280,824	5,255,868	6,758,214	6,993,805	6,624,888	5,839,263
J. Mahoney	1,559,198	2,343,477	2,503,938	2,146,975	1,931,814	1,191,814

- Also executing their largest sales on record were General Counsel **Jack VanWoerkom** (40,000 shares) and President of U.S. Retail **Demos Parneros** (74,250 shares), each of whom has been with the Company for more than 8 years. With the exception of CFO Mahoney, the sales discussed above, and the 75,000 share sale of President of North American Delivery **Joseph Doody** did not result in material ownership reductions, but ownership totals across the board are now at their lowest levels in nearly five years.

- It is not lost on us that after reporting Q4 earnings on March 1st, which included a 1% North American same store sales increase after two consecutive quarters of 4% growth, two of the subsequent sellers were division presidents with direct oversight of domestic operations. Whether this is an indication of what we should expect in Q1 is yet to be seen, but Staples is the only one of the big three office supplies retailers that did not receive any analyst upgrades after Q4 earnings were reported. With the shares trading in a tight range between $24 and $28 since October, it does not seem to be a matter of valuation. For any of our clients with an interest in Staples, we recommend reflecting on the sales before acquiescing to Blank's purchase.