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✓ **Insider Trading**: Insider Trading Behavior
Accounting: Quality of Earnings Issues
Governance: Corporate Governance Issues

Insider Research Bulletin

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Contact: Bob Gabele (954) 728-9671 or bgabele@3DAdvisors.com

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

- Adtran, Inc. (NASDAQ: ADTN)
- Boston Scientific Corp. (NYSE: BSX)[1]
- Dow Chemical Co. (NYSE: DOW)
- Louisiana-Pacific Corp. (NYSE: LPX)
- Rambus, Inc. (NASDAQ: RMBS)

Discussion of 3DAdvisors Findings

Adtran, Inc. (NASDAQ: ADTN)

Apparently, Adtran insiders aren't as optimistic as the rest of the market about improving industry fundamentals as they've diverged from their historical trading patterns we're familiar with. On January 26th and January 27th, four insiders sold 276,828 shares between $34.59 and $36.50 per share. The sales came just after the company announced fourth-quarter earnings and as the stock jumped off what appears to be an established base at around $30 - $31. What has caught our attention about the recent activity is the pickup in volume throughout 2003 and into 2004. Excluding 2000 (when insiders sold 341,446 shares at prices similar to where they made the recent trades), insiders had only sold a total of 46,400 shares from 1999 through 2002. Then, as the stock rebounded through 2003, insiders unloaded 1.93 million shares. Those numbers don't even include the sales by Company CEO, Chairman Mark Smith, who went on a selling spree of his own which is outlined below. Also unsettling, Smith wiped out 65%

[1] BSX was also covered in the Insider Bulletin of 12/09/03.

of his actionable position (common stock plus exercisable options at the time of the sale) while a director emeritus cashed out of almost his entire position.

- **Mark Smith (62)** – Chairman, CEO, co-founder. Since 1999, Smith, who held over 24 million shares (35% stake in the Company), never surfaced with any selling of his Company's stock. This pattern changed dramatically in 2003 when he unloaded 17 million shares from January 2003 through November 2003 at $16.50 to $34.48. The sales, which the Company reported were made for diversification purposes, reduced his holdings in the Company by 65%. While he does still have a sizeable stake in the Company (10% ownership stake), Smith doesn't receive stock option grants and doesn't have any stock options, either exercisable or unexercisable.

- **Danny Windham (43)** – Senior V.P., GM-Enterprise Solutions. On January 26th and January 27th, Windham exercised four series of non-expiring options (expiration dates: 9/08, 7/09, 7/10, 7/11) and sold the underlying 170,210 shares. This is the first time we've ever seen Windham exercise this many options series and sell the shares. Not only is the option behavior unusual for Windham, but his selling volume has picked up – having only sold a combined 155,000 shares between 1999 and 2003, most of which (128,000 shares) were sold in February 2003.

- **James North (66)** – Director Emeritus. North, a board member from 1993 through December 2002 is still counsel to the Company and has been given the title of Director Emeritus. On January 26th, he sold 90,000 shares at $34.59. The selling is quite unusual for North who was an infrequent seller in the past. He began dumping shares in April 2003 and continued selling until his most recent trade wiped out the last shares he held in the Company.

- **Robert Fredrickson (52)** – V.P.-Carrier Network Sales. Like North, Fredrickson was a relatively infrequent seller until 2003, when he began selling shares in February and continued to sell through August. However, his activity prior to last year was very telling, beginning with a sale in February 2000, which preceded a drop from $40 to less than $10 by yearend. Then, Fredrickson bought shares in December 2000 at the lows, which he sold in August 2001 ahead of a one-month, 25% slide.

- **James Matthews (46)** – Senior V.P.-Finance, CFO. On January 26th, Matthews sold 10,000 shares at $35. This was his first sale since filing as a Section 16 filing insider back in December 2001.

<u>Boston Scientific Corp. (NYSE: BSX)</u>

In an Insider Research Bulletin dated December 9, 2003, we highlighted Boston Scientific insiders aggressively selling shares into the stock's strength. The selling has persisted. After having sold 2.9 million shares between September and November, seven BSX executives unloaded an additional 2.15 million shares from December to February at $34.75 to $43.10. To reveal just how extreme the selling over the past six months has been, insiders had only sold 4.65 million shares from 1999 through August 2003. Granted the stock has raced to five-year highs, but the fact that four insiders were willing to part with 20% to 95% of their holdings while one also cashed out all his remaining options leads us to wonder if this is just normal profit-taking. The last time we saw insiders congregating to sell this many shares was in May 1999, when executives sold 4.57 million shares immediately preceding the stock's four-month depreciation from $22 to $10.

- **Larry Best (52)** – Senior V.P., CFO. In our December 9th Insider Research Bulletin we reported heavy selling by Best – 2,010,656 shares between September and October. The selling, which was in conjunction with a recently adopted 10b5-1 trading plan reduced his holdings then by 36%. Best has continued to sell heavily, dumping an additional 800,000 shares from January 26th through January 30th, grossing $32 million. The recent activity shed 20% off his holdings. What's unusual is that in a 10b5-1 plan, insiders typically make reasonable sales every few months for profit taking. However, it appears that Best is using the plan to sell a large percentage of his shares.

- **Paul Sandman (55)** – Senior V.P., General Counsel, Secretary. Sandman was also a seller that we covered in the last Insider Bulletin, having sold 220,000 shares in November. He has picked up his selling into the stock's strength, having recently sold 350,000 shares on December 12th and December 15th between $34.45 and $34.95. The recent sales reduced his holdings after the November selling by an additional 40%. The selling over the past four months is heavy compared to his historical activity, as he had only sold 330,000 shares between 1999 and 2002.

- **Stephen Moreci (51)** – Senior V.P., Group President-Endosurgery. Like the above-mentioned executives, Moreci atypically began dumping shares in late-2003, selling off 75% of his holdings. Since filing as an insider in late 2000, Moreci had only sold roughly 160,000 shares from 2000 through mid-2003. More recently, on February 26th, he sold 252,500 shares, grossing roughly $10.3 million. These sales wiped out nearly his entire actionable position. What's more, he exercised five series of non-expiring options (expiration dates: 7/09, 5/10, 12/10, 12/11, 12/12) in order to acquire the shares to sell. Moreci has now exercised a total of nine different option series since he began selling in October.

- **Nicholas Nicholas Jr. (63)** – Director. Since joining the board in 1992, Nicholas Jr. (brother of Company co-founder Peter Nicholas), hasn't surfaced with any selling. In fact, we last saw him buy 40,000 shares in July 2000 just days after the stock dipped from $13 to $8. Recently though, he sold 120,000 shares on February 6th at just over $42. Most unusual about his sale is that he sold all the shares of Boston Scientific that he was holding in his self-directed IRA. The sale wiped out 30% of his holdings.

- **Robert MacLean (59)** – Senior V.P., Human Resources. From February 5th through February 27th, MacLean sold 350,000 shares from $41.02 to $42.94. Since assuming his position in 1996, MacLean's only prior activity was 240,000 shares sold in February and March 2003.

- **Fred Colen (50)** – Senior V.P., Chief Technology Officer. We last highlighted Colen reducing his holdings by 30% with sales in October and November 2003. Since then, he sold 100,000 shares from January 15th through February 27th, which shed another 25% off his actionable position. Since filing as a Section 16 filing insider in July 2001, the late-2003 sales were his first activity.

- **James Taylor (63)** – Senior V.P.-Corporate Operations. Taylor was also a part of the late-2003 selling, having dumped nearly all the stock and exercisable options he held then. Apparently, Taylor doesn't seem inclined to hold BSX stock as on February 27th he exercised options to acquire 125,000 (his last exercisable options) and sold the shares, once again clearing out his holdings.

<u>Dow Chemical Co. (NYSE: DOW)</u>

Despite recent strength in Dow shares, insider sentiment has prompted us to take a closer look. After trading to new 52-week highs, insider behavior caught our eye when they began selling shares the day of the Company's fourth-quarter earnings release. Their actions soon translated into strong signals. In all, from January 29th through February 17th, twelve insiders sold 797,334 shares between $41.25 and $43.24. Included in the activity, Dow's CFO sold 30% of his holdings, while the General Counsel trimmed his by 50%. It wasn't difficult for us to see the anomaly the recent activity represents: Since 1999, there has never been a month where we've witnessed insiders selling more than 150,000 shares. In fact, from 1999 through 2003, aggregate in insider selling (all years combined) totaled just 475,000. During that period, the stock traded at equivalent levels (even higher at times) to where insiders have recently unloaded their shares.

A few points of interest: stock ownership guidelines were established for executives in 1998. The requirement for the CEO is Dow stock equal in value to six times the current annual base salary. Stavropoulos currently exceeds the minimum requirement. Most other executives are required to own, within four years from the date they assumed their position, shares equivalent in value to either three or four times their annual base salary. With the exception of General Counsel Richard Manetta, each exec's common stock position is in accordance with Company policies. Manetta's behavior is detailed below.

Sales such as this seem contrary to the spirit implied by ownership guidelines. At such companies, insiders are typically unwilling to act in a manner conflicting with the established culture. Consequently, the collective action of Dow insiders, at this time, draws our curiosity that concerns over commodity-related cost increases may be well founded.

- **William Stavropoulos (63)** – Chairman, CEO. Stavropoulos, the Company's CEO from 1995 through 2000, then rehired in 2002 had not sold any shares in the past. That ended when he entered into a 10b5-1 trading plan in May 2003, just after the stock bounced in March to May from $25 to $33. He had reliably sold 65,000 shares a month until recently selling 91,228 shares on February 2nd at $41.76. Interesting about the sale, Stavropoulos had consistently disclosed that the sales were associated with his trading plan. This changed when his February transaction wasn't reported as a 10b5-1 sale, leading us to believe that the trading plan expired. This activity is unusual because we would have expected to see the CEO enter into a new 10b5-1 or at least have a similar plan to Vice Chairman Carbone, which as mentioned below is yet to expire. Stavropoulos holds over 2.3 million shares in common stock and exercisable options.

- **Anthony Carbone (62)** – Vice Chairman. Carbone's behavior is very similar to Stavropoulos's. He became a board member back in 1995 and hadn't sold any shares until he too entered into a 10b5-1 trading plan in May 2003. On January 29th, he sold 60,000 shares at $42.75. Carbone has shown consistency following his trading plan, having sold 42,000 to 52,000 shares every three months since July. Unlike Stavropoulos, his recent trade was reported to be part of his 10b5-1. Carbone holds over 850,000 shares in common stock and exercisable options.

- **J.P. Reinhard (57)** – Executive V.P., CFO, Director. Since assuming his position in 1995, Reinhard, who is also the chairman of the finance committee, hadn't surfaced with any sales. That changed on February 2nd and February 3rd when he dumped 318,000 shares at $41.31 and $41.95. The activity reduced his holdings by 30%.

- **Richard Manetta (58)** – Corporate V.P., General Counsel. On February 2nd and February 17th, Manetta sold 23,900 shares from $41.31 to $43.02. Most unsual about his sales is that it reduced his holdings in the Company by 50%. But while the reduction itself is a concern, even more so is the effect it has on his ability to meet stock ownership guidelines the Company has in place for its executives. Manetta, who assumed his role in 2001, has until 2005 to build a stock position equal to four times his annual base salary. Currently, he owns $2,000 in common stock and needs to get that position to $1.8 million.

- **Fernando Ruiz (47)** – V.P., Treasurer. Ruiz, a Section 16 filing insider since August 2001 made his first-ever sale on February 2nd – dumping 75,057 shares at just over $41. To do so, he acquired shares from the exercise four series of non-expiring options (expiration dates: 2/06, 2/07, 2/08, 2/09). This is a reversal of sentiment for Ruiz, who last surfaced with a transaction in April 2002, acquiring 1,010 shares from an option exercise and holding the underlying shares.

- **Frank Brod (48)** – V.P., Controller. Brod sold 44,850 shares on February 2nd and February 17th at $41.50 and $43.16. Since filing as an insider in June 2000, his only prior sales were 1,500 shares in May 2002 at $32.95 and 3,300 shares in August 2003 at $34.

<u>Louisiana-Pacific Corp. (NYSE: LPX)</u>

We expect to see company insiders taking profit in a stock that has appreciated from $7 to $25 in a year. However, LPX insiders recently sold copiously more than what we've come to expect, and a handful of trading pattern variations and governance concerns caught our attention. On the heels of the fourth-quarter earnings report, six insiders sold 699,238 shares from February 9th through February 23rd between $22.80 and $24.53. The abnormal insider activity might have been partially triggered by the Company's announced plans to relocate from Portland, Oregon to Nashville, Tennessee, as they began selling shares right around the time of the September announcement. However, the February activity has reached levels never seen before. Company insiders sold more shares in February than they had between 1999 and 2003 combined. Also, executives made more sale transactions in February than they had in any month dating back to 1999, a telling sign that insiders were herding together to unload their stock. The second heaviest month of sale transactions was October 2003, just after the Company's announced relocation. It will be interesting to see if the selling persists as housing starts continue to stall, as they have been trending down since November. Included in the activity, two executives and a director trimmed their holdings between 50% and 95%. Before going to print, the Company lowered its fourth-quarter earnings $0.08 per share due to a $20.1 million court ruling against the Company. We wonder if there's more behind this announcement.

A few points of interest: in November 1999, the Compensation Committee approved an Executive Loan Program, authorizing the Company to loan executive officers up to 100% of the money needed to purchase Company stock. The loans, which have since been banned by Sarbanes-Oxley, are to be forgiven under these circumstances:

- If the employee remains with the Company through preset dates starting in January 2004 and ending in January 2006, then the loans get forgiven at increasing percentages.

- If the exec's employment terminates due to death, disability, or terminated without cause, the loan is forgiven at a prorated amount.

- If the Common Stock trades for at least five continuous dates over specified price targets after January 23, 2004 and the employee remain with the Company, the loans get forgiven at increasing percentages.

In October 2003 the stock crossed over the first price target ($16) that triggered a 25% forgiveness of the loans. On January 20th, the stock traded above the third and final price target ($20) for five days and continued to climb. It is interesting that this event came just three days before the loans were allowed to be forgiven according to the second criteria above. Before the loans were forgiven, executives were carrying obligations between $484,000 and $2.6 million. Even though loans programs of this type were permissible when the Company implemented them, we have always viewed them as a corporate governance concern.

- **Richard Frost (51)** – Executive V.P.-Commodity Products, Procurement & Engineering. From February 10th through February 11th, Frost sold 184,055 shares between $23.20 and $23.68. The activity is quite unusual for Frost, who was a buyer in October 1999 and November 2000. Since then, his only prior sales were made in September and October 2003. Regarding the recent activity, he exercised six series of non-expiring options (expiration dates: 5/07, 1/08, 2/09, 2/11, 1/12, 2/13), a telling sign of his urgency to sell. This is the first time we've seen Frost exercise this many different options series. Also, he was very close to skimming, exercising an option at $19.12 and selling the shares for $23. The sale wiped out nearly his entire holdings. Equally as concerning, Frost sold all shares he purchased using Company loans, which were just recently forgiven and became sellable.

- **Joseph Kastelic (39)** – Executive V.P.-Specialty Products and Sales. Kastelic, a filing insider since November 2000, sold 85,989 shares on February 9th and February 23rd at $23.23 and $23.65. Since 2000, his only prior sales were for 74,284 shares in August and October 2003 at $12.60 and $16.75. The recent activity trimmed his holdings by 80%.

- **Mark Suwyn (60)** – Chairman, CEO. Since joining the Company in 1996, Suwyn has been relatively quiet with his trading. However, he joined a few of the other recent sellers in August 2003, selling 162,134 shares. Nevertheless, he didn't stop there, recently dumping 337,450 shares on February 9th, grossing $7.86 million.

- **Curtis Stevens (50)** – Executive V.P., CFO. Stevens has displayed good judgment with his trades in the past, having sold shares in May 1999 ahead of a four-month slide from $23 to $13, then buying back more shares in November 1999 ahead of a two-month, 15% spike. He was inactive until August and October 2003, when he sold 77,169 shares. Recently, on February 9th and February 18th, he sold 55,000 shares at $23.94 and $24.53.

- **Paul Hansen (51)** – Director. Hansen, a director since 1999, recently made his first sale since joining the board. On February 11th, he sold 18,000 shares at $23.49. Not only was this his first transaction since buying shares back in November 1999, but the sale wiped out 50% of his holdings. Like Frost, he was relatively close to skimming, settling for a $4 profit on the options he exercised.

- **Russell Pattee (age not disclosed)** – Controller. Though Pattee is a new insider (filed in February 2004), we are interested in his recent sale. On February 9th, he sold 18,000 shares. Not only did he sell more shares than he acquired from the options he exercised, but also accepted a small profit on those options. He exercised one option at $19 and sold the shares for $22.

<u>Rambus, Inc. (NASDAQ: RMBS)</u>

With the exception of Martha Stewart, not many companies as of late have been as entangled in legal crusades as Rambus. First, the Company was put on the defensive when three competitors challenged Rambus patents and royalties owed to the Company. Rambus came out unscathed, with the exception of the EU revoking one patent for a semiconductor memory device. Then, the FTC charged the Company for deceiving an industry standards-setting organization, which was recently thrown out in court. The FTC is currently appealing that decision. Yet, while most of Rambus' litigation issues seem to be behind it, there are other concerns that could have a much more paralyzing effect. Intel, from which Rambus receives $40 million a year in royalties (Rambus declared annual sales of $130 million in 2003) is said to be developing a new interface standard for memory. Should Intel's new technology prove to be what the market is looking for, Rambus could be facing major issues down the road.

Thus far, Rambus stock has rocketed over the past six months primarily on its legal wins. Insiders have been quick to lock in gains, as from December 22nd through March 1st ten insiders sold 1,768,319 shares between $30 and $34.71. The selling is quite heavy, even for this group of executives that have sizeable holdings. February was heaviest month of selling volume dating back to 1999, while January and February marked the fourth and second heaviest months of sales transactions. Typically, this is something that we might discount considering three of the sellers (CEO, General Counsel, and CFO) have 10b5-1 trading plans in place, however, their sales only account for 15% of the recent activity. Lastly, these executives displayed very good timing with their sales when they converged as a group in the past. In February 2000, insiders sold 915,344 shares as the stock peaked, preceding a four-month, 60%

downturn. They again sold shares into weakness in November 2000 and January 2001, which preceded a six-month slide from $50 to just under $5.

A few points of interest: Rambus currently has four board committees, one of which is called the stock option committee. It was established in 1997 for the purpose of administering options under the 1997 Stock Plan. Not only do we find it a little peculiar that the board's compensation committee isn't responsible for these duties, but are very curious as to why the company's CEO Geoffrey Tate is the only stock option committee member. NASDAQ rules state that the compensation committee be comprised of only independent directors but says nothing about a "stock option committee". We believe this setup to be a corporate governance concern in itself as it violates the intentions of Sarbanes-Oxley, and even more so if Tate is responsible for approving his own stock option grants. Finally, CFO Robert Eulau addressed the topic of four RMBS executives and directors entering into 10b5-1 plans during the Company's fourth-quarter conference call. He alerted those on the call that they will be seeing "periodic sales of some of the holdings {of the executives} pursuant to the plan". It is pretty rare to see this brought up by the company during a conference call, and not a response to an analyst question.

- **David Mooring (43)** – President, Director. Mooring, an exec since 1991 sold 591,210 shares from January 21st through February 26th between $32.10 and $33.11. In order to acquire the shares to sell, he exercised four series of non-expiring options (expiration dates: 12/07, 11/08, 8/11, 11/12), marking the first time we've seen him exercise options. This volume is quite heavy for Mooring, whose heaviest year of selling was in 2000 (220,000 shares) when the stock was trading as high as $117. From 1999 through 2003, he had only sold 540,000 shares combined.

- **Ed Larsen (49)** – Senior V.P-Administration. Since becoming a Section 16 filing insider back in 1999, Larsen was not a heavy seller. In fact, from 1999 through 2002 he had only sold 103,000 shares. However, the rebound in 2003 sparked increased profit taking as he sold 165,464 shares last year and more recently dumped 329,391 shares from January 21st through February 26th.

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- **John Danforth (44)** – Senior V.P., General Counsel. In October 2003, Danforth entered into a 10b5-1 trading plan. While these plans aren't unusual, his timing is a little intriguing considering he entered the plan in the middle of the Company's legal battle. On January 21st he sold 40,000 shares at $33.10, and then sold another 40,000 shares on February 3rd after the stock dropped to $30. These sales were his first since filing back in October 2001.

- **Samir Patel (age not disclosed)** – V.P.-Memory Interface Division. Along with Laura Stark, Patel is in charge of the division that produces the memory interface technology, which Intel is currently trying to improve on. For this reason, we are concerned that Patel recently sold 142,220 shares on January 21st and February 18th. Also troubling is that he is now surfacing with his first-ever selling since filing back in November 1999.

- **Laura Stark (age not disclosed)** – V.P.-Memory Interface Division. Shortly after filing as an insider in January 2004, Stark sold 76,028 shares on January 21st from $22.87 to $33.15. Again, it is disconcerting to see an insider so closely involved in the Intel competition dumping shares immediately after becoming entitled to sell.

- **Mike Farmwald (48)** – Director. On January 21st and January 26th, Farmwald, a board member since 1990, sold 230,000 shares from $32.34 to $32.72. In 2001 and 2002, he withheld from selling until he dumped 440,000 shares in 2003. Even after the selling, Farmwald holds over 2.4 million shares of stock.

- **Geoffrey Tate (48)** – CEO, Director. From December 12th through February 20th, Tate sold 99,900 shares. The selling is pursuant to a 10b5-1 plan he adopted in July 2003. Currently, he has shown to consistently sell 33,000 shares per month.