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 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. The ⬆ symbol indicates that we have observed trading behavior that suggests a bullish sentiment.

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

Companies in this Bulletin

- Apollo Group Inc. (NASDAQ: APOL)
- Oracle Corp. (NASDAQ: ORCL)
- Shaw Group Inc. (NYSE: SGR)

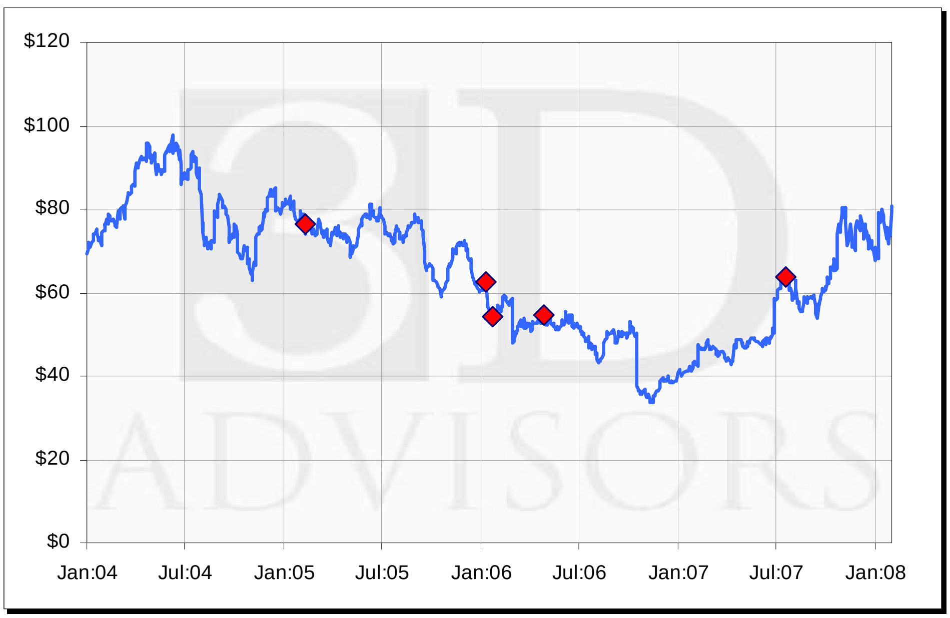
Discussion of 3DAdvisors Findings

Apollo Group Inc. (NASDAQ: APOL)

Without question, for-profit education company Apollo Group has been one of the more controversial companies we have covered in the last five years. Investors have suffered through the recruiter pay scandal, which led to a class-action lawsuit and resulted in a stiff $280 million jury award, a number of smaller-scale investigations and a very public option backdating investigation that the SEC closed without enforcing any penalties yet managed to purge the executive hierarchy nonetheless. What has not been lost in all of this, at least to us, is a continuous pattern of opportunistic and questionable trading behavior on the part of Company insiders that began in advance of the early 2004 accounts that Apollo misled the financial community by withholding specific government reports. Now, as we enter what should be an encouraging turning point for the Company with these issues seemingly in the past and a new management team at the helm, the unsavory trading behavior has re-emerged and increases our guardedness with regards to the current industry events unfolding around Apollo.

Unbeknownst to the investment community at the time, Apollo insiders were aggressively taking profits in the months leading up to a Company press release[1] in February 2004 that announced the dismissal of a Qui Tam (read: whistle-blower) lawsuit but failed to mention a Department of Education report on Apollo's student recruiting practices that asserted that the University of Phoenix based its recruiters' pay on the numbers of students they brought in, and punished underperforming recruiters by isolating them in glass-walled rooms and threatening to fire them if they failed to meet management goals, possibly violating federal law. During that time, Company insiders aggressively cashed out of stock on the open market and, more interestingly, Executive Chairman/Founder **John Sperling** and his son, Executive V.P., Vice Chairman **Peter Sperling** hedged their sizeable positions by entering into large forward sale contracts. A bit later, the formerly aggressive insider sales subsided for a lengthy period as Apollo shares declined throughout 2004 and even 2005 after the DOE report became public. Hidden from most investors, however, was the fact that both Sperlings surreptitiously accelerated their forward sale use into declining prices during this timeframe.[2]

Figure 1. APOL Daily Closing Price, 01/02/04 through 02/01/08. Red diamonds are the dates of earlier 3DAdvisors reports (Special Report: 02/09/05, Research Notes: 01/01/06, 01/23/06, 04/28/06 and 07/20/07). Source: Reuters and 3DAdvisors, LLC.



All of this did little to restrain Apollo insiders from selling shares as their stealthy trading behavior continued right up to the Company's option backdating investigation of 2006. Although the SEC had begun probing backdating as early as 2005, it was not until a June 2006 Lehman Brothers report implicating Apollo, that the State of New York and SEC initiated their own investigations into the Company's option granting practices. It

[1] "Apollo Group Inc. Announces Dismissal of Qui Tam Lawsuit," BusinessWire-First Call, February 27, 2004.
[2] For those unfamiliar with forward sales, see: "Forward Sales, Exchange Funds and Zero Cost Collars", a 3DAdvisors, LLC Special Report published on 11/03/04, and an update published on 02/09/05 featuring the forward sales of Peter and John Sperling.

does not seem a coincidence that while regulators were on the prowl, John and Peter Sperling entered into their largest forward sale contracts on record (April 2006) just before the news broke. A lengthy investigation and restatement period prohibited insiders from trading until July 2007. Immediately after the blackout was lifted, however, the Sperlings collectively sold forward yet another 2.5 million shares.

Considering the regulatory and governance issues that have dogged this Company, and after nearly the entire executive management team has been replaced (with the exception of the Sperlings, of course), we would have anticipated a radical reformation of Apollo's corporate culture, especially as it pertains to insider trading behavior. But with the Sperlings still at the top, it is becoming increasingly apparent that little has changed and that the new executives have adopted some of the same questionable trading practices as their predecessors. Most recently, between October 26th and January 16th, thirteen insiders, including the majority of Section 16 filers with stock at their disposal, sold a total of 1,627,607 shares. This does not even include the 1 million shares delivered by Peter Sperling since October under expiring forward sale contracts. The group move, along with the heavy volume, is certainly notable and has a very familiar feel to similar past behavior that immediately preceded significant price volatility.

For starters, the recent selling round began on the heels of the October 22nd release of Apollo's fiscal 4Q07 and full-year financial results. The Company reported that the board had increased its share repurchase program to $500 million but what was not apparent at the time was that even though it was authorized to repurchase more shares, Apollo had not done so under an already existing authorization during Q4. Granted, the Company was prohibited from repurchasing shares during the lengthy 2006 through July 2007 restatement period. It's hesitancy to do so in Q4, however, once the window opened, is made more interesting by the fact that it was during this very quarter where insider selling began to accelerate significantly. Their collective move to cash in, coupled with the Company's hesitancy to repurchase shares during the period is a potential telegraph that lower share prices for APOL may be in the offing.

Of the 1.6 million shares sold since October, 1.05 million came out during a three day period between January 14th and January 16th, the very day the verdict was read in the class-action lawsuit that stemmed from the 2004 recruiting scandal in which shareholders were awarded up to $280 million. A coincidence? Maybe, but just three trading sessions later, Sallie Mae sent a letter to Corinthian Colleges (NASDAQ: COCO) notifying them that it would stop providing loans to sub-prime borrowers. While Corinthian has the most exposure to students requiring such loans, the ramifications resonated throughout the industry as all for-profit educators traded down on the news, including Apollo's 6% setback. It has been widely expected that Sallie Mae would take this step and due to Apollo's close relationship with the nation's largest student loan provider, it raises our antennae as to just how fortuitous these sales were. Although 'insider trading' has never been a focus of the SEC's numerous Apollo investigations over the years, there very well might be grounds for them to take a closer look. Here are some examples why:

We performed an analysis of Apollo insiders' historical option-related selling and found that of the 120 transactions since 2005, only once did an insider monetize an option for less than a 40% pre-tax profit. That sale was the result of former Chief Information Officer **Robert Carroll** acting on his options before they were forfeited due to his resignation. During the January 14th to January 16th round of sales there were three executives who 'skimmed' multiple option series with at least seven years remaining before expiration for profits ranging from 6% to 11%. It seems as though they anticipated an event that could drag down the shares, which in turn would leave these high-priced options under water. One such executive, Chief Communication Officer **Terri Bishop**, a veteran named executive officer, cleared out her entire position, including vested options and her last remaining common stock. We would think, based on the scope of Bishop's duties and past involvement with other suits brought against the Company, that she would have a finger on the pulse of the recent class-action trial. We expand on the details of Bishop's trades along with those of her peers below.

On a final note, with all of the Company's issues that have been squarely a result of management misconduct, we are very surprised to find there has been a specious shift in the Company's compensation policy, which of course, favorably benefits the executives. After a major overhaul of the Compensation Committee in 2006, which involved the resignation of the two lone Committee members during the backdating period, the first order of business for the new Committee members was to redefine the peer benchmark group used to determine executive pay levels. It was decided that it was no longer reasonable to measure compensation against its own industry peers, a group of seven for-profit education firm, and a list was put together of companies that were…

> **…similarly-sized, highly-successful service-based businesses whose executives possessed: sophisticated brand management experience; significant marketing/advertising experience (including the use of the Internet); experience with large employee populations; Internet related content and transaction experience; nationwide retail presence; and consumer, rather than business, service experience.**[3]

The twelve companies that will now be used for Apollo's executive pay benchmarking are:

Autodesk, Inc.	Intuit, Inc.
E*Trade Financial Corp.	Laboratory Corp. of America Holdings
Expedia, Inc.	Sabre Holdings Corp.
Expeditors Int'l of Washington, Inc.	TD Ameritrade Holding Corp.
Fiserv, Inc.	The E.W. Scripps Co.
International Game Technology	The Washington Post Co.

We assume it is pretty self-explanatory, judging by the list of names above, why this resolution is unsettling. Apollo is now the lone education company that exclusively

[3] The bolded passage and the table below come from the Company's most recent Proxy, filed on 01/25/08, page 20.

uses a non-industry peer group for establishing executive comp. One of the many things that struck us is that not one company in the education industry has a chief executive that ranks in Forbes' 2007 list of the top 500 highest compensated, including Apollo. Of the twelve companies that make up the new benchmarking peer group, ten have a chief exec on Forbes' list, including three in the top 100. Because of Apollo's 'controlled company' status, Chairman Sperling and "other senior executives" are permitted to sit in on Compensation Committee meetings, which would otherwise be strictly prohibited under NASDAQ and SEC listing requirements for non-controlled companies. While the Company has taken steps to clean up a number of governance and compensation weaknesses, this shows it still elects to take advantage of certain non-shareholder friendly liberties afforded by its controlled status. Here are some interesting compensation disclosures that have surfaced since the new Committee was introduced:

- The annual bonus program is subject to the approval of Class B shareholders (John and Peter Sperling). Named officers will receive 50%, 100% or 200% of their target bonus if fiscal 2008 revenues increase 6%, 9% or 12% over 2007. On a four year basis, Apollo has an average revenue increase of 20%. The profit component of the bonus will be a little more difficult to attain, but for the most part the bar is not set very high.

- With the exception of Chairman Sperling, no other executive had an employment agreement until the 2007 hiring of EVP **William Cappelli** and CFO **Joseph D'Amico**. Cappelli, formerly a research analyst with Credit Suisse with no prior corporate management experience, was given a four-year employment agreement with a base salary of $500,000 (equal to CEO Mueller), 1 million stock options, and restricted stock valued at $5 million to compensate him for "forfeited compensation opportunities at his former employer". D'Amico was provided a similar agreement, including the same $500,000 base, a guaranteed bonus of $700,000, plus 500,000 stock options and 60,000 restricted shares. These are by far the most generous new-hire packages we have seen for a non-CEO officer in the Company's history.

- As a result of the new peer benchmarking group, equity compensation was increased across the board for incumbent officers. Chairman Sperling's award increased from 100,000 options in 2006 to a total of 384,000 options and restricted shares in 2007. Similarly, CEO Mueller jumped from 240,000 options in 2006 to 768,000 options and shares in 2007. Even CCO Bishop's equity was raised by 40% year-over-year.

Over the past few weeks Apollo's management team has taken a number of steps to downplay both the impact of the class-action verdict along with the potential ramifications of Sallie Mae's decision to stop providing loans to a specific category of students. Based on their trading behavior leading up to and during the course of these events, we suspect there is more disquiet within the executive office than they currently want the investment community to believe. For us to ignore the history of this group, even though many of the current players were not involved in past transgressions, would be a gross underestimation of the influence and control of the Sperling family. Given that these behaviors have persisted and even expanded with a new management team, we have moved on to an examination of the Company's accounting practices and have begun looking into certain fundamental items. We are likely to have more to say on APOL shortly.

- **Peter Sperling (48)** – Senior V.P., Vice Chairman. Peter Sperling has not been an active open market seller since before the recruiting practices scandal. Instead, he typically used an assortment of forward sale contracts to monetize more than 5 million shares, including the 1 million pledged to an undisclosed third party in July. His activity over the past three months is not only unusual in the context of his historical trading behavior, but reminds us of his most aggressive profit taking that occurred in the months leading up to the 2004 setbacks. Sperling sold 500,000 shares this past October after the Company released FYQ4 earnings, just days before delivering 203,000 shares in settlement of a November 2004 forward sale contract. He then delivered another 500,000 shares on January 2nd which was stipulated under another forward sale, which he followed up by selling 290,000 shares on January 15th and January 16th (the eve of the class-action jury verdict). If we discount the 3 million shares he currently has tied up in six open forward sale contracts, along with the 1.7 million shares pledged as collateral for a bank loan, then **the stock disposed since October accounted for 25% of his actionable position**. We should point out that these large sales came just before he settled another 244,000 shares on January 31st and is scheduled to deliver 1 million more in April. Although his ownership is still substantial, his selling has taken a more aggressive pace than in recent years.

- **John Sperling (86)* –** Founder, Executive Chairman. It is rare for us to emphasize the trading behavior of an individual of John Sperling's age, but he is not the average 80-year old insider. Sperling ran the Company for nearly 35 years and continues to play a role in the day to day operations. Although his chronic profit taking between 1996 and 2003 makes it unrealistic to characterize him as a proficient seller, his behavior both before and after the Company's troubles are a testament to his intent and guile. Sperling sold 500,000 shares between October 2003 and January 2004, right around the time the recruiter pay practice issues surfaced. Once all eyes were on the Company, he began subtly monetizing his position at successively lower prices with forward sale contracts, including one before and another just after the SEC's option backdating investigation was opened in July 2006. As APOL shares traded to new highs this year, Sperling resurfaced on the open market for the first time in three years, selling 685,000 shares between January 14th and January 16th. He still has 2.1 million shares tied up in yet-to-be-settled forward sales. Although the sales covered less than 5% of his total ownership, we are drawn to the fact that he has surfaced along with the rest of this group in this large round of selling.

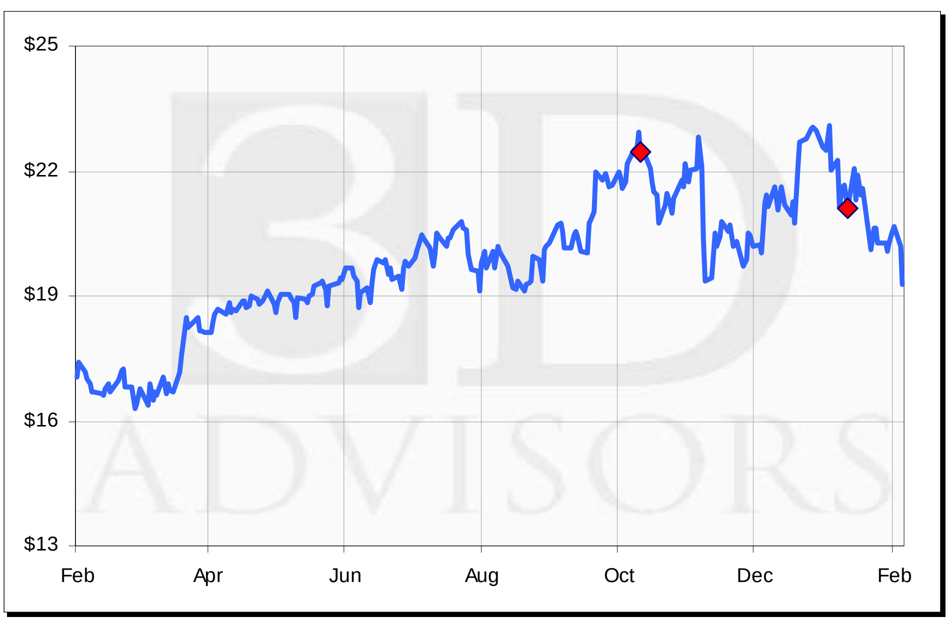
- **Terri Bishop (54)*** – Senior V.P., Chief Communication Officer. With the exception of a brief one-year stint elsewhere, Bishop has been with Apollo for the last 25 years and in her current position, overseeing public and government relations, since 1999. Despite the long tenure, she only became a Section 16 filer in June 2006, yet her recent trades require little historical perspective. On January 14th Bishop **cleared out her entire position**. Not only did she monetize all vested options from six different series, none of which was set to expire any earlier than January 2012, but she has liquidated her entire common position as well. Included in the option series exercised were two that yielded just a 6% profit and were not scheduled to expire until August 2014 and November 2015. We do not have to remind our clients that her actions telegraph possible concern the issue might reverse course, leaving the options out of the money. Ms. Bishop will have 41,000 options vest in the second half of 2008.

- **William Pepicello (58)** – President of University of Phoenix. Pepicello took over the helm of University of Phoenix in September 2006 after serving in different positions at the Company's flagship program for ten years. On January 14th he surfaced with his first trade, a 6,250 share sale, but do not discount the trade's size. Despite holding lower priced vested options, Pepicello cleared out a series that yielded a pre-tax profit of 9%, well below the average spread on insider option-related sales. A looming expiration of the options was not one of the motivations for him to act, as they were not set to expire until August 2014. It would seem that like Bishop, he was willing to collect even a small profit rather than take the chance further volatility left them underwater. In total, **the shares sold in January accounted for 30% of his actionable position**, although he will have another 28,000 options become actionable this year.

Oracle Corp. (NASDAQ: ORCL)

Since covering the aggressive profit taking of Oracle insiders in a 10/11/07 Insider Research Bulletin and subsequent Research Notes on 01/11/08, we continue to see evidence that Oracle insiders are not willing to bet on significant near-term upside above the $20 price level. While Oracle has resisted the credit squeeze that has affected many of its big tech counterparts, its insiders must be recognized as being the most aggressive sellers in the industry over the past two quarters. And while it can be said that Oracle insiders across the board entered 2007 with some of the largest ownership positions around, this trend has quickly been reversed by the 16.6 million shares distributed over the last thirteen months, not including the 90 million shares sold by Chief Executive **Larry Ellison**. Not only have there been enormous percentages of their individual holdings shed, but some of the sellers have also accepted lower prices for their shares in January than they had just three months earlier.

Figure 2. ORCL Daily Closing Price, 02/01/07 through 02/05/08. Red diamonds are the dates of earlier 3DA reports. Source: Reuters and 3DAdvisors, LLC.



The most distinctive facet of their sales is without question the large ownership reductions. It is no small feat for any corporate insider to unwind an ownership position as large as those at Oracle. All ten of the Company's executive officers owned more than one million shares and vested options in January 2007, including six holding more than three million. As the table below indicates, five of the ten executives shed between 65% and 99% of their actionable holdings - large figures by any account but even more striking due to the sizeable positions here. This is a very experienced management team, so these positions were built up over a number of years. It is very surprising that after waiting so long for Oracle shares to trade out of the teens, they accelerated their ownership diversification in the $20 range. Since the issue typically rallies on earnings releases, it would seem they do not anticipate the fiscal Q3 release in March to be a catalyst for a move above the current prices.

Insider	Position	% Ownership Sold (Since 01/01/07)
Charles Phillips, Jr.	President, Director	99%
Derek Williams	EVP of Asia, Pacific and Japan	97%
Juergen Rottler	EVP of Customer Services	90%
Keith Block	EVP of North America	75%
Sergio Giacoletto	EVP of Oracle EMEA	65%
Charles Rozwat	EVP of Server Technologies	45%

While Oracle followers might at this point be indifferent to CEO Ellison's sales that are reported on the news wire seemingly each day, we feel it deserves a mention. Ellison entered into a 10b5-1 trading plan in September 2007 with the intent of selling 100 million shares over a one-year period (through September 2008). We have now seen that he is well ahead of the reported pace, having already sold 87 million shares, and should sell the full allotment seven months ahead of schedule. While the 100 million shares account for just a small percentage of his 1 billion plus position, we remind our clients that nearly half of his remaining holdings (525 million shares) are pledged as collateral for various lines of credit. For more information on the risks associated with insider pledged shares, please see the 3DA Special Report of the same name posted on 09/14/07 (search by ticker symbol SRPT).

- **Keith Block (46)*** – Executive V.P., North America. A 22-year Oracle employee, Block has traded in seven of the last eight quarters, selling a total of 3.8 million shares during this timeframe. Even with all the options in which he became vested over the past two years, it is no wonder **his ownership is down 75% since mid-2006**. Apparently he sees little upside in the shares over $20 as one half of the 3.8 million sold has come out over the past two quarters as he sold 1.3 million in October at $21 and another 600,000 on January 25th at $20. Sales since October involved the monetization of options from four different series, none of which was scheduled to expire before July 2013. Although he will have another 1.25 million options become exercisable in June and July (see Appendix A), we fully anticipate more selling from him after the next earnings report, further contracting his holdings before they new equity vests.

- **Sergio Giacoletto (58)** – Executive V.P., Oracle EMEA. Giacoletto had not surfaced more than once in any calendar year between the times he filed as a Section 16 insider in 2000 and 2005. Times have clearly changed as he has traded each quarter since October 2006, selling three times the amount (2.4 million) of stock he sold over the prior six years. Most recently he exercised the remainder of his lower priced options from two series with expiration dates of June 2015 and July 2016. The first block of 125,000 shares sold on January 11th at $21.50 and then he increased his volume (250,000 shares) on January 31st at 7% lower prices ($20). Like Block, he has **shed 75% of his holdings since mid-2006**; the only remnant of Giacoletto's ownership consists of one high-priced option series ($15.86 strike price) that he has been reluctant to act on thus far. The 687,500 options he will vest in this year will replace only the amount of the stock sold over the last two quarters (see Appendix A).

- **Charles Rozwat (59)*** – Executive V.P., Oracle Server Technologies. Not only has Rozwat been a more consistent seller over the past year, but he has also increased his volume as well. Having averaged 140,000 shares from 2004 to 2006 his average quarterly volume has swelled to above 615,000 over the past 52 weeks. Most recently he sold 860,000 shares in October at prices as high as $22 and then sold 200,000 more on January 31st after the stock traded down to 10% to the $20 range. **The 2.4 million shares sold over the past year accounted for 45% of his holdings**, which will not be replaced in their entirety by the 1 million options he will vest in this year (see Appendix A).

- **Juergen Rottler (40)** – Executive V.P., Oracle Customer Services. Rottler joined Oracle in 2004 after a lengthy career with Hewlett-Packard. He had been one of the more reserved traders until 2007, having sold just 400,000 shares over his first three years. That all changed when he sold 970,000 shares, trading in and out of two separate 10b5-1 plans in 2007, which resulted in a **90% reduction of his actionable holdings**. His last sale covering 150,000 shares occurred on December 27th at $23. The Form 4 did not designate the trade as part of his July plan, but we suspect this was a filing error. Rottler is the only insider who will vest in enough shares in 2008 (1 million) to replenish the equity diversified away last year (see Appendix A).

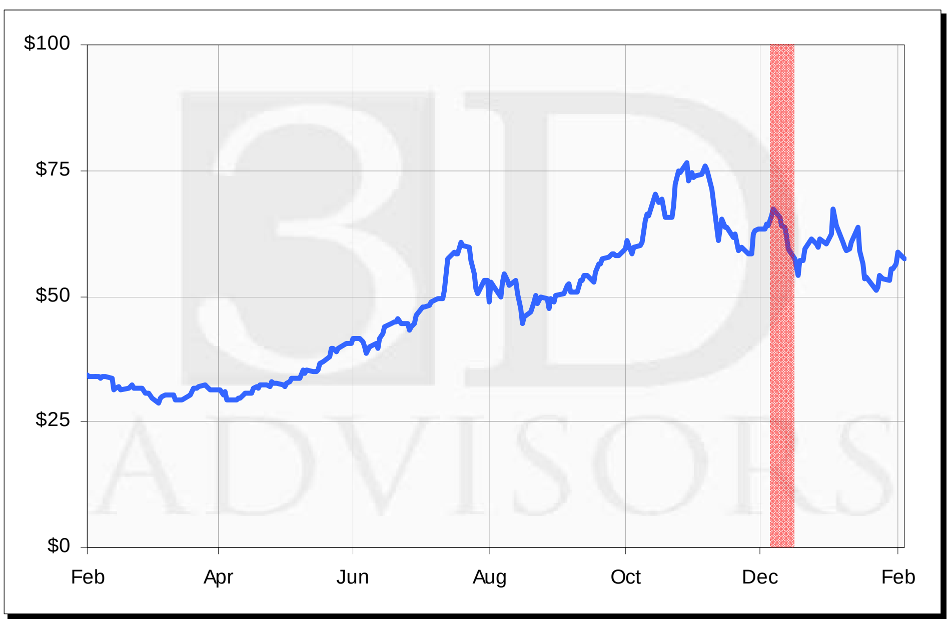
- **Jack Kemp (72)** – Director. Kemp sits on a number of corporate boards but has sold only his Oracle shares during the past two years. On January 31st he executed his largest sale since joining the board in 1996, cashing in 156,532 shares, **equal to 35% of his ownership**. To a certain degree Kemp was driven to act by the impending expiration (May 2008) of one of the two option series monetized, but those expiring accounted for just one-third of the total shares sold. Although he had previously sold only twice since 2000, this trade marked the first time he fully monetized options that were not approaching their expiration date. Even though Kemp is up there in age, Oracle does not have a mandatory retirement age policy so the sales were not motivated by a pending departure. We should also add that Kemp holds only 5,000 shares, the minimum required under the ownership guidelines, despite the many options granted him over the last twelve years.

* Indicates individual was a "Named Executive" in the Company's last proxy.

Shaw Group Inc. (NYSE: SGR)

Engineering and construction firm Shaw Group has wrestled with lengthy internal and SEC investigations related to its purchase method of accounting for certain acquisitions since 2006. The result was the exhaustive restatement of financial statements, reshuffling of the executive hierarchy, and an overhaul (still ongoing) of its internal control procedures. The incidental punishment for management was the associated trading blackout period, common for restatement processes, which prohibited them from taking profits as Shaw shares gained as much as 135% from the start of 2007. We are always alert to insiders' behavior once such restatement effort is complete and the restrictions lifted, and in this case, they certainly did not disappoint. Just two days after the filing of Shaw's SEC Form 10-K on December 5th, nine insiders surfaced with their first sales and by December 14th a new Shaw Group selling record had been set, with 1,909,516 shares hitting the market during the one-week period. An even more potentially important data point is that a year-end surge of insider selling of this magnitude, by so many individuals in a company is quite rare as most highly compensated individuals such as these choose to defer gains until the next calendar year. A review of the individual sellers suggests to us this activity was more than just their solution to offset missed profit taking opportunities during the blackout period.

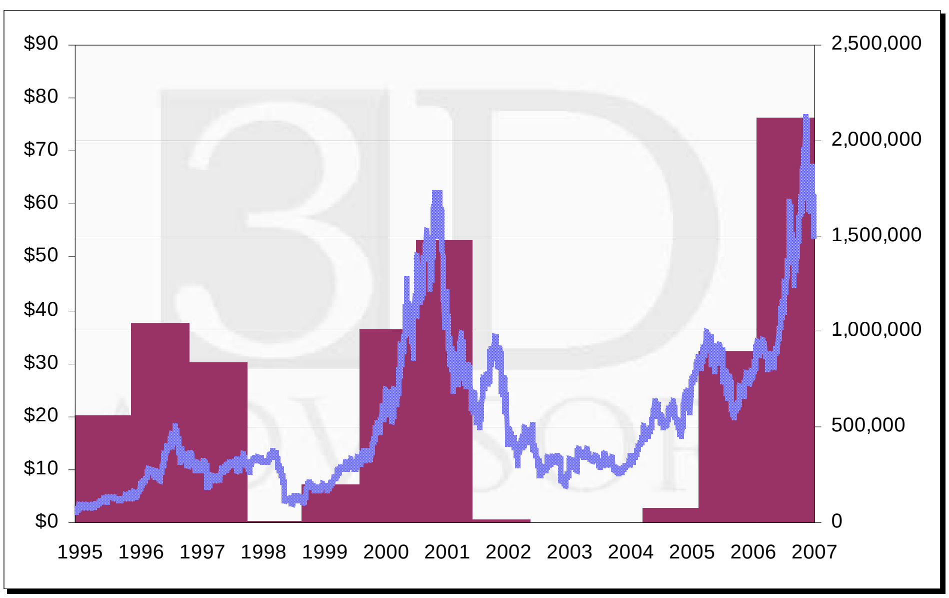
Figure 3. SGR Daily Closing Price, 02/01/07 through 02/04/08. Red shaded area is where 9 insiders sold 1,909,516 shares. Source: Reuters and SGR SEC Filings.



As much as we would like to give them benefit of the doubt, it is impossible for us to overlook the fact that four of the Company's top officers tapped into multiple option series (upwards of eight) to sell more than 75% of their actionable holdings, including **David Chapman**, president of the Fabrication and Manufacturing group, and Executive V.P. of Corporate Development and Strategy **Gary Graphia**, who liquidated their entire positions. Leading the activity though was Chairman, President, and Chief Executive **J.M. Barnhard**, an infrequent trader over the last fifteen years, who sold 40% of his ownership, which judging from Company filings, is the touchstone used for setting his annual compensation (more below). Not lost on us is the fact that at the time of the first sales on December 7th, the issue had already traded down from the high of $77 to the $67 to $68 range, and insiders continued selling the weakness all the way down to $59. CEO Barnhard's behavior suggests a certain degree of urgency as he not only accepted consecutively lower prices with each sale executed over a seven day period but also chose to do so just prior to the close of the calendar year. We doubt his tax planner was impressed. This activity differs from past selling rounds (of three or more insiders acting simultaneously) in April and October of 2000, January 2001 and January 2006, when insiders sold into sustained price rallies, not declines.

The December sales positioned 2007 as a record year for insider selling volume, and by a significant margin we might add. There had only been five other years going back to 1995 that the volume eclipsed 800,000 shares, and within each year the sales occurred or shortly into the next calendar year Shaw's shares fell victim to a substantial correction. With the exception of the 2000 sales, each of the other four rounds preceded a sell-off between 45% and 73% (average: 65%). This is a pattern that should not be ignored, especially as many of the sellers from those earlier rounds are still with the Company and took part in the December profit taking. In the Figure 4 below, the daily closing price going back to January of 1995 is superimposed on the annual selling volume to illustrate insiders' opportune trading.

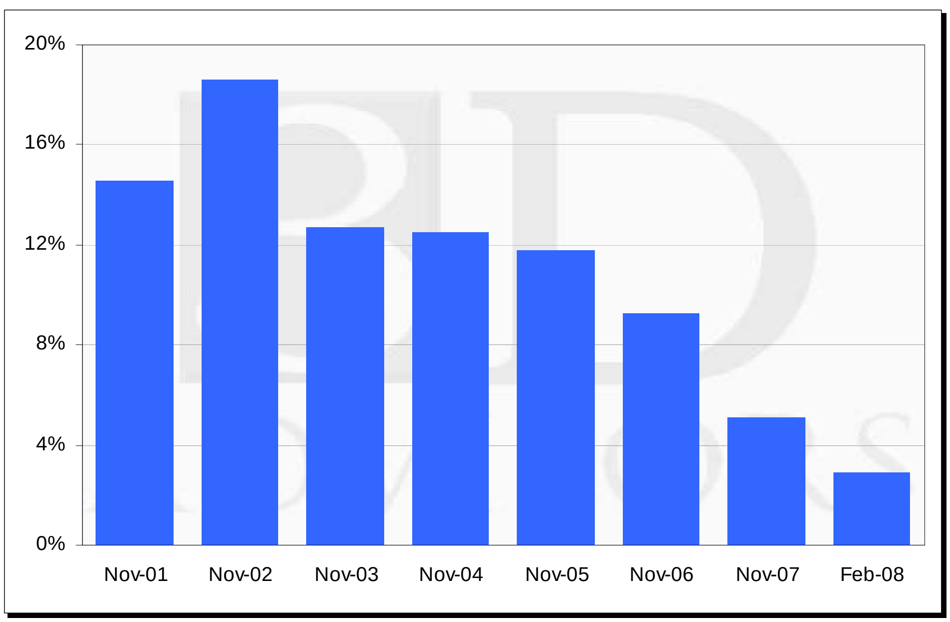
Figure 4. SGR Daily Closing Price, 01/03/95 through 12/31/07 (Blue line and left scale) and Annual Shares Sold by Insiders, 1995 through 2007 (Red bars and right scale). Source: Reuters and SGR SEC Filings.



One obvious result of the recent sell-off is the effect it has had on management's overall exposure to Company stock. Shaw Group insiders historically have been regarded as having strong ownership, controlling upwards of 30% of the outstanding shares in 2000. This can no longer be said, as their ownership had dropped to 12% by early 2006 and then to 2.9% following the December sales (see Figure 5 below). Shaw's management team no longer shows the commitment it once had to stock retention, which is also indicated by its unwillingness to implement stock ownership guidelines for officers or board members (studies have shown a correlation between stock ownership plans and improvements in firm performance[4]). Without the assistance of guidelines to motivate ownership retention, it will become increasingly more difficult for Shaw insiders to restore their holdings to former levels in view of their increased profit taking and decelerating vesting of derivative equity. First we must provide some background on their compensation philosophy.

The Compensation Committee has utilized a top down approach to executive compensation, whereas it determined that CEO Bernhard's stock ownership levels are large enough to warrant his receiving a large proportion of his total compensation in base salary and annual cash bonus. To a degree, this makes sense to us, but then they also contend that it is in the "shareholders' interests that compensation for the executive management team be consistent with that of the CEO in order to align executive behavior". Consequently, the cash component for the other executives, regardless of their stock holdings, is provided near the top of Shaw's peer comparator group, while derivative equity is awarded in line with the peer group median. In fact, a number of officers have guaranteed bonuses written into their employment agreements that award a minimum payment threshold regardless of their individual or the Company's performance.

Figure 5. Beneficial Ownership of Shaw Group Officers and Directors (as a percentage of shares outstanding). Source: SGR SEC Filings.



This might make a little more sense to us if ownership guidelines were utilized and the compensation mix included more cash for them to buy stock or exercise their options and retain the shares, but this is not the case. It is disclosed in the Proxy Statement that derivative equity grants declined from fiscal 2007 to fiscal 2008. For example, CEO Barnhard was issued 302,000 options and shares in December 2006 but

[4] Core, John E. and Larcker, David F., "Performance Consequences of Mandatory Increases in Executive Stock Ownership" (May 2000)

only 111,000 were awarded in December 2007. This trend is similar for nearly all executive officers. As a result, insiders have a waning amount of derivative equity scheduled to vest over the next few years, extending the amount of time it will take to replenish the equity recently sold.

The Company actually has one of the longest compensation sections we have seen since new Proxy disclosure rules were put into effect in 2007, and rightfully so, as it takes up plenty of space naming all the perks and benefits provided to the executives. Here is just a short list of some of our favorites:

- Personal use of corporate aircraft - all executives **($850,000)**
- Personal security services for CEO Bernhard **($233,578)**
- Relocation benefits for Div. President R. Monty Glover **($125,000)**
- Country Club Dues & Fees – four executives **($45,000)**
- Golf club and hunting rifle gifts to Glover **($11,192)**
- CEO Bernhard's personal trainer **($8,300)**
- EVP Richard Belk's sporting event tickets **($9,400)**
- Christmas gifts for executives' spouses **($3,573)**

In addition there are a number of interesting related-party transactions we feel our clients should be aware of, however we will save further detail for a subsequent soon to be published 3DA Full Report and, for now, address the management turnover and reshuffling: The first resignation of note came in November 2006, when President, COO **Tim Barfield** unexpectedly resigned after twelve years with Shaw, leaving options and restricted stock valued at more than $5 million on the table. The Company was rather tight-lipped on his departure. Then in July 2007, head of the E&C division, **Ebrahim "Abe" Fatemizadeh**, a top three compensated officer, tendered his resignation. This came after the Company had extended his employment term three years at the end of 2006. His settlement and release agreement was deemed "confidential" and the circumstances surrounding his departure are still unknown to the public. He cashed out his entire 217,000 share position shortly after his unvested options were accelerated, as stipulated in his employment agreement. It would take too long for us to reference all the new officers or those with a new job description, but as it relates to the named executives, only two of the five listed in the 2006 Proxy are currently named in the new filing. The turnover is suspicious considering the Company's generous compensation and benefit practices, but maybe this suggests their severance agreements are equally as rewarding.

- **J.M. Bernhard (53)*** – Chairman, President, Chief Executive Officer. Bernhard has not been a frequent seller over the years, but he makes quite a statement when he does surface. His seven individual or rounds of sales over the last fifteen years covered 520,000 shares on average. After the majority of his prior sales were executed into considerable momentum, we were intrigued when Bernhard surfaced on December 7th, with the issue already having sold off to the $67 range from a high of $77, and by December 14th cashed in a total of 989,000 shares (all common stock) at successively lower prices. Oddly enough, he did not touch any of his 1.5 million vested stock options. **The shares accounted for nearly 40% of his actionable position**, making these sales his largest ever based on percentage of holdings. We note that these trades occurred after Bernhard amended his employment agreement in January 2007, shortening the term from ten to three years. He will have 220,000 options and restricted shares become actionable in 2008, all in the fourth quarter (see Appendix B).

- **David Chapman (61)*** – President, Fabrication & Manufacturing Group. Chapman joined Shaw Group in April 2002 and heads up the smallest division based on revenue, but it also happens to make the second largest contribution to the Company's bottom line. He surfaced for the first time in the fourth quarter, selling 171,306 shares on December 7th at $67. Included in the amount disposed were shares acquired when he exercised all of his available options (four series with expiration dates of April 2012, December 2012, January 2015 and November 2016) and his only common stock, which had just vested in November. **The net result was a 100% reduction in his total actionable holdings**. Not evident in the Form 4s for these sales is that one option series monetized, which was issued to him at the time of his hire, had an extremely rare clause that guaranteed him $10 per share cash (100,000 shares) in addition to the profits from the sale. It is never a good sign when insiders clear out their entire position, and even less so when extra cash is involved that should have provided some incentive for Chapman to retain a portion of his shares. He will have 36,000 options and shares vest in 2008 (see Appendix B).

- **Gary Graphia (45)** – Executive V.P., Corporate Development and Strategy. Graphia was Shaw's head counsel from 1999 until May 2007 and apparently does not seem too thrilled with his reassignment. After having sold only twice in the past eight years, disposing just 32,000 shares, **Graphia liquidated his entire position in December**. On December 7th and December 10th he tapped into eight different option series (expiration dates: July 2009 to November 2017) and sold the remainder of his common stock for a grand total of 258,867 shares. His complete liberation from SGR stock suggests his actions have more to do with the issue's valuation than any possible discontent associated with his change in duties. The 45,000 options and shares he has scheduled to vest in 2008, all between October and December, will replace only a small fraction of what he sold (see Appendix B).

- **Robert Belk (58)** – Executive V.P. Belk was the Company's chief finance officer from 1998 until he took a brief medical leave in July 2007. Upon his return he was provided a new job function that involves responsibility for oversight of government affairs activities, and a three year contract extension to go with it. **Belk responded by selling 75% of his holdings, which had been the second largest position of all executives and directors.** On December 7th and December 14th Belk monetized 322,000 options from eight different series (expiration dates: October 2008 to November 2016) and also sold another 30,000 shares from his common holdings. The trades covered three times the amount he had sold over the last ten years. It is difficult for us to project what goes through the mind of an individual facing a serious health issue, but the fact his peers acted in a similar manner would suggest his sentiment may be quite related to that of the others. Belk has 64,000 options and shares scheduled to vest this year despite not receiving equity awards in 2007 (see Appendix B).

- **Dirk Wild (40)** – Senior V.P., Administration. We are admittedly a little confused by Wild's current role with Shaw. After serving as the chief accounting officer since 2004, and interim CFO for a brief period in 2007, he signed a two year employment agreement dated October 2007 that named him a vice president and chief accounting officer. The corporate website currently lists his title as Senior V.P. of

Administration. Regardless, we know from his new employment agreement that he intends to stick around, which makes his recent trades even more compelling. After selling just 850 shares over the past three years, Wild surfaced on December 7th to sell 51,068 shares, **equal to 92% of his ownership**. In addition to the options exercised out of six series (expiration dates: December 2011 to December 2016), he also sold about half of his common stock, which had in part vested in November. We do not anticipate Wild selling during the next few months as he will not have any new equity vest until October, at which time only 17,000 options and shares will become actionable (see Appendix B).

* Indicates individual was a "Named Executive" in the Company's last proxy.

Appendix A

Option and Restricted Stock Vesting Schedules for Selected Oracle Corp. Insiders

Grant Date	Equity Type	Options/ Shares	Strike Price (Options)	First Vesting Date	Expiration Date (Options)	Remaining Options/Shares in Series	Unvested Options/Shares in Series	Vesting Dates of Remaining Restricted Shares/Options
Keith Block, Executive V.P. of North America. Common stock holdings: 10,532 shares								
03/13/00	Options	500,000	$40.81	03/13/01	03/13/10	180,000	0	Fully Vested
06/04/01	Options	480,000	$15.86	06/04/02	06/04/11	111,510	0	Fully Vested
01/14/02	Options	1,000,000	$16.27	01/14/03	01/14/12	826,000	0	Fully Vested
08/13/04	Options	500,000	$9.90	08/14/05	08/13/14	125,000	0	Fully Vested
06/20/05	Options	1,500,000	$12.34	06/20/06	06/20/15	750,000	750,000	06/20/08, 06/20/09
07/06/06	Options	1,500,000	$14.57	07/06/07	07/06/16	1,125,000	1,125,000	07/06/08, 07/06/09, 07/06/10
07/05/07	Options	1,500,000	$20.49	07/05/08	07/05/17	1,500,000	1,500,000	07/05/08, 07/05/09, 07/05/10, 07/05/11
Safra Catz, Co-President, Chief Financial Officer, Director. Common stock holdings: 7,604 shares								
10/15/99	Options	2,000,000	$11.69	10/15/00	10/15/09	2,000,000	0	Fully Vested
03/13/00	Options	800,000	$40.81	03/13/01	03/13/10	800,000	0	Fully Vested
06/04/01	Options	2,000,000	$15.86	06/04/02	06/04/11	2,000,000	0	Fully Vested
07/03/02	Options	2,000,000	$8.68	07/03/03	07/03/12	500,000	0	Fully Vested
07/11/03	Options	700,000	$12.60	07/11/04	07/11/13	700,000	0	Fully Vested
08/27/04	Options	750,000	$10.23	08/27/05	08/27/14	750,000	187,500	08/27/08
06/20/05	Options	3,000,000	$12.34	06/20/06	06/20/15	3,000,000	1,500,000	06/20/08, 06/20/09
07/06/06	Options	4,000,000	$14.57	07/06/07	07/06/16	4,000,000	3,000,000	07/06/08, 07/06/09, 07/06/10
07/05/07	Options	4,000,000	$20.49	07/05/08	07/05/17	4,000,000	4,000,000	07/05/08, 07/05/09, 07/05/10, 07/05/11
Larry Ellison, Chief Executive Officer, Director. Common stock holdings: 1,208,571,324 shares								
07/13/98	Options	6,000,000	$4.17	07/13/99	07/13/08	6,000,000	0	Fully Vested
06/04/99	Options	40,000,000	$6.87	06/04/00	06/04/09	40,000,000	0	Fully Vested
07/11/03	Options	900,000	$12.60	07/11/04	07/11/13	900,000	0	Fully Vested
08/27/04	Options	2,500,000	$10.23	08/27/05	08/27/14	2,500,000	625,000	08/27/08
06/20/05	Options	6,000,000	$12.34	06/20/06	06/20/15	6,000,000	3,000,000	06/20/08, 06/20/09
07/06/06	Options	7,000,000	$14.57	07/06/07	07/06/16	7,000,000	5,250,000	07/06/08, 07/06/09, 07/06/10
07/05/07	Options	7,000,000	$20.49	07/05/08	07/05/17	7,000,000	7,000,000	07/05/08, 07/05/09, 07/05/10, 07/05/11
Sergio Giacolleto, Executive V.P.- Oracle EMEA. Common stock holdings: 10,422 shares								
06/04/01	Options	1,000,000	$15.86	06/04/02	06/04/11	1,000,000	0	Fully Vested
08/13/04	Options	500,000	$9.90	08/13/05	08/13/14	125,000	125,000	08/13/08

Grant Date	Equity Type	Options/ Shares	Strike Price (Options)	First Vesting Date	Expiration Date (Options)	Remaining Options/Shares in Series	Unvested Options/Shares in Series	Vesting Dates of Remaining Restricted Shares/Options
06/20/05	Options	750,000	$12.34	06/20/06	06/20/15	375,000	375,000	06/20/08, 06/20/09
07/06/06	Options	750,000	$14.57	07/06/07	07/06/16	562,500	562,500	07/06/08, 07/06/09, 07/06/10
07/05/07	Options	750,000	$20.49	07/05/08	07/05/17	750,000	750,000	07/05/08, 07/05/09, 07/05/10, 07/05/11
Charles Phillips Jr., Co-President, Director. Common stock holdings: 5,000 shares								
08/27/04	Options	750,000	$10.23	08/27/05	08/27/14	187,500	187,500	08/27/08
06/20/05	Options	2,000,000	$12.34	06/20/06	06/20/15	1,000,000	1,000,000	06/20/08, 06/20/09
07/06/06	Options	3,000,000	$14.57	07/06/07	07/06/16	2,250,000	2,250,000	07/06/08, 07/06/09, 07/06/10
07/05/07	Options	3,000,000	$20.49	07/05/08	07/05/17	3,000,000	3,000,000	07/05/08, 07/05/09, 07/05/10, 07/05/11
Juergen Rottler, Executive V.P.-Oracle Customer Services. Common stock holdings: 5,000 shares								
09/24/04	Options	800,000	$11.05	09/24/05	09/24/14	250,000	200,000	09/24/08
06/20/05	Options	1,500,000	$12.34	06/20/06	06/20/15	875,000	750,000	06/20/08, 06/20/09
07/06/06	Options	1,000,000	$14.57	07/06/07	07/06/16	800,000	750,000	07/06/08, 07/06/09, 07/06/10
07/05/07	Options	1,000,000	$20.49	07/05/08	07/05/17	1,000,000	1,000,000	07/05/08, 07/05/09, 07/05/10, 07/05/11
Charles Rozwat, Executive V.P.-Oracle Server Technologies. Common stock holdings: 29,212 shares								
11/05/99	Options	2,000,000	$14.54	11/05/00	11/05/09	2,000,000	0	Fully Vested
03/13/00	Options	600,000	$40.81	03/13/01	03/13/10	600,000	0	Fully Vested
06/04/01	Options	500,000	$15.86	06/04/02	06/04/11	500,000	0	Fully Vested
07/11/03	Options	700,000	$12.60	07/11/04	07/11/13	200,000	0	Fully Vested
08/27/04	Options	750,000	$10.23	08/27/05	08/27/14	187,500	187,500	08/27/08
06/20/05	Options	1,500,000	$12.34	06/20/06	06/20/15	1,500,000	750,000	06/20/08, 06/20/09
07/06/06	Options	1,000,000	$14.57	07/06/07	07/06/16	1,000,000	750,000	07/06/08, 07/06/09, 07/06/10
07/05/07	Options	1,000,000	$20.49	07/05/08	07/05/17	1,000,000	1,000,000	07/05/08, 07/05/09, 07/05/10, 07/05/11
Derek Williams, Chairman and Executive V.P.-Oracle Asia Pacific and Japan. Common stock holdings: 40,796 shares								
08/13/04	Options	500,000	$9.90	08/13/05	08/13/14	125,000	125,000	08/13/08
06/20/05	Options	500,000	$12.34	06/20/06	06/20/15	250,000	250,000	06/20/08, 06/20/09
07/06/06	Options	400,000	$14.57	07/06/07	07/06/16	300,000	300,000	07/06/08, 07/06/09, 07/06/10
07/05/07	Options	400,000	$20.49	07/05/08	07/05/17	400,000	400,000	07/05/08, 07/05/09, 07/05/10, 07/05/11

* Red highlight indicates options currently out of the money.

Appendix B

Option and Restricted Stock Vesting Schedules for Selected The Shaw Group, Inc. Insiders

Grant Date	Equity Type	Options/ Shares	Strike Price (Options)	First Vesting Date	Expiration Date (Options)	Remaining Options/Shares in Series	Unvested Options/Shares in Series	Vesting Dates of Remaining Restricted Shares/Options
Robert Belk, Executive V.P. Common stock holdings: 64,226 shares								
12/19/02	Options	50,000	$15.08	12/19/03	12/19/12	12,500	0	Fully Vested
10/10/03	Options	56,000	$11.20	10/10/04	10/10/13	28,000	0	Fully Vested
10/13/04	Options	64,400	$12.66	10/13/05	10/13/14	32,200	16,100	10/13/08
10/13/04	R. Stock	43,900	N/A	10/13/05	10/13/08	10,975	10,975	10/13/08
10/13/05	Options	49,000	$20.76	10/13/06	10/13/15	24,000	24,000	10/13/08, 10/13/09
10/13/05	R. Stock	25,000	N/A	10/13/06	10/13/09	12,500	12,500	10/13/08, 10/13/09
11/01/06	Options	50,734	$26.70	11/01/07	11/01/16	38,050	38,050	11/01/08, 11/01/09, 11/01/10
11/01/06	R. Stock	23,409	N/A	11/01/07	11/01/10	17,557	17,557	11/01/08, 11/01/09, 11/01/10
J.M. Bernhard Jr., Founder, Chairman, President, Chief Executive Officer. Common stock holdings: 165,350 shares								
02/09/98	Options	70,000	$12.00	02/09/99	02/09/08	70,000	0	Fully Vested
10/19/98	Options	400,000	$4.18	10/19/99	10/19/08	400,000	0	Fully Vested
07/28/00	Options	400,000	$21.00	07/28/01	07/28/10	400,000	0	Fully Vested
10/10/03	Options	304,000	$11.20	10/10/04	10/10/13	304,000	0	Fully Vested
10/13/04	Options	232,800	$12.66	10/13/05	10/13/14	232,800	58,200	Fully Vested
10/13/04	R. Stock	158,700	N/A	10/13/05	10/13/08	39,675	39,675	10/13/08
10/13/05	Options	206,000	$20.76	10/13/06	10/13/15	206,000	103,000	10/13/08, 10/13/09
10/13/05	R. Stock	103,000	N/A	10/13/06	10/13/09	51,500	51,500	10/13/08, 10/13/09
11/01/06	Options	206,991	$26.70	11/01/07	11/01/16	206,991	155,244	11/01/08, 11/01/09, 11/01/10
11/01/06	R. Stock	95,506	N/A	11/01/07	11/01/10	71,630	71,630	11/01/08, 11/01/09, 11/01/10
12/07/07	Options	72,130	$67.19	12/07/08	12/07/17	72,103	72,130	12/07/08, 12/07/09, 12/07/10, 12/07/11
12/07/07	R. Stock	38,862	N/A	12/07/08	12/07/11	38,862	38,862	12/07/08, 12/07/09, 12/07/10, 12/07/11
David Chapman, President-Fabrication & Manufacturing Group. Common stock holdings: 0 shares								
01/06/05	Options	50,000	$15.54	04/01/06	01/06/15	16,670	16,670	04/01/08
11/01/06	Options	35,514	$26.70	11/01/07	11/01/16	26,635	26,635	11/01/08, 11/01/09, 11/01/10
11/01/06	R. Stock	16,386	N/A	11/01/07	11/01/10	12,289	12,289	11/01/08, 11/01/09, 11/01/10
12/07/07	Options	17,265	$67.19	12/07/08	12/07/17	17,265	17,265	12/07/08, 12/07/09, 12/07/10, 12/07/11
12/07/07	R. Stock	9,302	N/A	12/07/08	12/07/11	9,302	9,302	12/07/08, 12/07/09, 12/07/10, 12/07/11
Richard Gill, Executive V.P., President-Power Group. Common stock holdings: 55,288 shares								
07/28/00	Options	160,000	$21.00	07/28/01	07/28/10	60,000	0	Fully Vested

Appendix B

Option and Restricted Stock Vesting Schedules for Selected The Shaw Group, Inc. Insiders

Grant Date	Equity Type	Options/ Shares	Strike Price (Options)	First Vesting Date	Expiration Date (Options)	Remaining Options/Shares in Series	Unvested Options/Shares in Series	Vesting Dates of Remaining Restricted Shares/Options
12/19/02	Options	100,000	$15.08	12/19/03	12/19/12	18,369	0	Fully Vested
11/01/06	Options	20,294	$26.70	11/01/07	11/01/16	16,531	15,220	11/01/08, 11/01/09, 11/01/10
11/01/06	R. Stock	9,364	N/A	11/01/07	11/01/10	7,023	7,023	11/01/08, 11/01/09, 11/01/10
12/07/07	Options	15,193	$67.19	12/07/08	12/07/17	15,193	15,193	12/07/08, 12/07/09, 12/07/10, 12/07/11
12/07/07	R. Stock	8,186	N/A	12/07/08	12/07/11	8,186	9,302	12/07/08, 12/07/09, 12/07/10, 12/07/11
Gary Graphia, Executive V.P.-Corporate Development and Strategy. Common stock holdings: 0 shares								
10/13/04	Options	41,000	$12.66	10/13/05	10/13/14	10,250	10,250	10/13/08
10/13/04	R. Stock	28,000	N/A	10/13/05	10/13/08	7,000	7,000	10/13/08
10/13/05	Options	34,000	$20.76	10/13/06	10/13/15	17,000	17,000	10/13/08, 10/13/09
10/13/05	R. Stock	17,000	N/A	10/13/06	10/13/09	8,500	8,500	10/13/08, 10/13/09
11/01/06	Options	30,440	$26.70	11/01/07	11/01/16	22,830	22,830	11/01/08, 11/01/09, 11/01/10
11/01/06	R. Stock	14,045	N/A	11/01/07	11/01/10	10,534	10,534	11/01/08, 11/01/09, 11/01/10
12/07/07	Options	11,510	$67.19	12/07/08	12/07/17	11,510	11,510	12/07/08, 12/07/09, 12/07/10, 12/07/11
12/07/07	R. Stock	6,201	N/A	12/07/08	12/07/11	6,201	6,201	12/07/08, 12/07/09, 12/07/10, 12/07/11
Dirk Wild, V.P., Chief Accounting Officer. Common stock holdings: 4,426 shares								
10/13/04	Options	15,600	$12.66	10/13/05	10/13/14	3,900	3,900	10/13/08
10/13/04	R. Stock	10,600	N/A	10/13/05	10/13/08	2,650	2,650	10/13/08
10/13/05	Options	13,000	$20.76	10/13/06	10/13/15	6,500	6,500	10/13/08, 10/13/09
10/13/05	R. Stock	6,500	N/A	10/13/06	10/13/09	3,250	3,250	10/13/08, 10/13/09
11/01/06	Options	11,649	$26.70	11/01/07	11/01/16	8,737	8,737	11/01/08, 11/01/09, 11/01/10
11/01/06	R. Stock	5,375	N/A	11/01/07	11/01/10	4,032	4,032	11/01/08, 11/01/09, 11/01/10
12/07/07	Options	3,837	$67.19	12/07/08	12/07/17	3,837	3,837	12/07/08, 12/07/09, 12/07/10, 12/07/11
12/07/07	R. Stock	2,067	N/A	12/07/08	12/07/11	2,067	2,067	12/07/08, 12/07/09, 12/07/10, 12/07/11