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

Insider Research Bulletin

July 9, 2004

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

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

Companies in this Bulletin

- Chico's FAS Inc. (NYSE: CHS)
- Station Casinos Inc. (NYSE: STN)
- Capital One Financial Corp. (NYSE: COF)

Discussion of 3DAdvisors Findings

Note on 10b5-1 Plans: These programs, once filed by an insider, cannot be altered. They can, however, be cancelled prematurely and supplanted by new ones when insiders wish to become more aggressive with their selling. Likewise, should insiders sell their intended amount of 10b5 shares ahead of schedule, they are free to file a new, more aggressive, 10b5-1 plan. This report contains evidence of both behaviors.

Chico's FAS Inc. (NYSE: CHS)

Chico's shareholders were the recipients of four two-for-one stock splits between 2000 and 2002. During the period, insiders showed little desire to hold onto their swelling positions as they unloaded 15 million shares (split-adjusted) between 2000 and 2003, nearly three times what they had sold during the four preceding years. At that time, the selling did not concern us as insider holdings remained significant and, given the 800% move in the shares, during the period, the profit taking seemed in order.

Now however, with the shares showing signs of slowing momentum, insiders have not only stepped up their selling paces but are trimming significant amounts from their holdings totals in the process, amounts far exceeding anything we've seen in past years from these individuals. From March 8th through June 23rd twelve insiders sold 1,831,932 shares between $43.50 and $47.11, and this during a four month period while the shares have been trading essentially sideways after four years of 40% annual returns.

This continued selling has led to acute holdings reductions by a handful of key insiders. Six of the sellers reduced their holdings between 35% and 76%, including President, CEO **Scott Edmonds** and COO, CFO **Charles Kleman**. Also involved were co-founders **Marvin and Helene Gralnick** who we've known to be aggressive sellers over the years. The couple, which holds their shares jointly in a limited partnership, has now sold 70% of their ownership stake since last year. The large reductions are more significant considering option grants have decreased for a few of the sellers over the past couple years, including Executive V.P., Chief Merchandising Officer **Patricia Murphy Kerstein**, whose grants shrank from 112,500 options in 2001 to 50,000 options in 2003.

- **Scott Edmonds (46)** – President, CEO, Director. Edmonds' ten-year service with the Company paid off when he was promoted to his current position last September. Not only was he rewarded with a sizeable increase to his base salary ($498,413 in 2003 to $900,000 in 2004), but was also granted 225,000 options for the promotion – considerably more than any other senior executive received during the year. Upon receiving the options, Edmonds was quick to monetize his long-vested positions. On March 8th he exercised all of his vested options (expiration dates: 2/11, 2/12, 2/13) and sold the underlying 195,833 shares, grossing $9.1 million. Though the transaction size happens to be in line with his historical selling pattern, the related effect on his holdings is an entirely different matter as the sales resulted in a **76% reduction of his actionable position**. His ownership stake of nearly 260,000 shares in early 2004 is now down to just over 60,000 shares as of July 7th. This is hardly the endorsement we would expect from a newly appointed Chief Executive.

- **Marvin (69) and Helene (56) Gralnick** – Chairman and Director. It is difficult to ascertain the selling of the husband and wife team that co-founded the Company back in 1983. Though they have each held management positions and were given separate stock options, they jointly hold all their options and common stock in a limited partnership called Rodin, Ltd. They each file trades as indirect transactions on separate Form 4s, which to the untrained eye would appear to be two distinct transactions. Just last year Marvin relinquished his CEO title to Scott Edmonds, while Helene retired from her Senior Vice President of Design and Concept position. But don't be misled by their retirements - the two remain actively involved in the Company's management. Though we've been monitoring what has been frequent and heavy selling by the couple over the past few years, their recent activity has taken on a new magnitude: What was just last year a 4 million share ownership stake has now been reduced to 1.1 million shares after they sold 904,100 shares between March 8th and June 23rd – a **70% reduction** since the 2003 Proxy. Marvin exercised four series of options, which weren't set to expire until 2011 at the earliest to acquire 287,200 shares, while Helene exercised three series of non-expiring options (expiration dates: 2/11, 2/12, 2/13) and received 105,000 shares.

- **Patricia Murphy Kerstein (60)** – Executive V.P., Chief Merchandising Officer. Kerstein has habitually sold annually or semi-annually dating back to 1999, which is why her 25,000-share sale (at $46.50) on March 9th seemed routine at the time. When she surfaced to sell 100,000 shares three months later on June 9th at prices ($44.75) lower than where she executed the March sale, she had our attention. Not only was this Kerstein's largest sale since joining the Company six years earlier, but also **reduced her actionable position (common stock plus exercisable options) by 50%**.

- **Charles Kleman (53)** – Executive V.P., COO, CFO, Treasurer, Director. On March 8th the fifteen-year Company exec **sold 35% of his position** with a 200,000-share sale between $46 and $47.07. Kleman exercised three series of non-expiring options (expiration dates: 5/06, 4/08, 4/09) to acquire the shares to sell.

- **John Burden (67)** – Director. Burden has been a frequent seller since joining the board in 1997. His sales were heaviest between 2000 and 2002 when the stock split four times during the period. More recently, he sold 30,000 shares at just over $46 on March 8th and **reduced his holdings by 50%** in the process.

- **Barry Shapiro (49)** – Senior V.P., Logistics & Distribution. Shapiro made his first transaction on March 8th since joining the Company in February 2001. He sold 45,000 shares at just over $46 and **trimmed his actionable position by 67%**. This is a sizeable sale for Shapiro considering he has only been granted a total of 30,000 options in 2003 and 2004.

Station Casinos Inc. (NYSE: STN)

Late in 2003 Station Casinos began making long overdue changes to its board of directors, as the Company had one of the most incestuous boards we've encountered. The lack of independent directors and governance controls led us to pay extra attention to significant insider selling over the past few years. Apparently, the board makeover hasn't provided the results shareholders may have hoped for, as from March 1st through June 22nd seven insiders sold 2,647,311 shares between $38.51 and $49.75, and this is just the tip of the iceberg: Total annual sales have increased sequentially since 2001, when insiders sold less than 900,000 shares. This year alone, sales through June 2004 have reached 4.4 million shares.

Camouflage for the increased selling volume is provided by the establishment of 10b5-1 trading plans, which each of the current sellers implemented late last year. In Station's case however, the use of these plans has gone far beyond their implied intent of orderly diversification. Our judgment is that insiders have exploited these trading plans to unload large quantities of stock, but are finding cover behind what they feel is fair divulgence of the activity. In contrast to most companies that utilize pre-arranged trading plans, Station reports the specifications of each plan on an 8-K filing. However, their disclosure fails to mention that while a plan is established with a fixed period of time for the insiders to sell the authorized allotment of shares, most have sold the shares far ahead of schedule. Of the eight plans that ended by April, five were terminated ahead of schedule by an average of three months (the average plan life was six months) because insiders exhausted their allotment.

What's more, each of these Station insiders has immediately established a new, more aggressive plan so that their selling can continue uninterrupted. In nearly each instance, execs have increased the authorized allotment of shares they can sell under the new plan. For example, Chairman, CEO **Frank Fertitta's** January through June plan allowed him to sell 775,000 shares, which he increased to 1.25 million shares in the April through October plan. Executive V.P., Chief Legal Officer **Scott Nielson's** February to May plan authorized the sale of 50,000 shares, but his new April to October plan gives him the ability to sell 150,000 shares. So we have a situation here where selling under 10b5-1 plans is being inferred as benign but in reality, is becoming progressively more aggressive as time goes on. Finally, they waste little time in selling the shares – most make their first trade on the plan's commencement date. Section 16 legal experts usually recommend waiting for a period of time, after filing a 10b5 plan, before selling shares.

But there's more. The heavy dispositions have begun to diminish the holdings of a few key executives. Frank Fertitta's actionable position (common stock plus exercisable options) is down from 10.4 million shares in 2002 to 6.3 million, while Executive V.P., Chief Development Officer **William Warner** has sold 78% of his holdings since January.

Table 1. Beneficial Ownership of Key Station Casinos Insiders. Source: SEC Filings

	3/15/2001	2/28/2002	2/28/2003	6/29/2004
G. Christenson	843,252	1,139,799	1,167,008	369,416
Frank Fertitta	10,292,910	10,474,621	8,494,345	6,304,896
Lorenzo Fertitta	6,594,018	6,689,812	5,944,086	5,280,832
Scott Nielson	623,262	874,326	891,899	745,139
Blake Sartini	6,122,926	4,956,239	6,303,724	4,016,129
William Warner	---	123,394	339,286	165,844

Due to the still-significant ownership positions of Station insiders, many might overlook the recent activity, but one still must take into account the fact that their holdings are being reduced at increasingly rapid rates.

Over the past year we've witnessed a high turnover of Station directors. Four board members (two of which were independent) resigned in the past year, including the unexpected departure of **Lynette Boggs McDonald**, who retired less than a year after joining the board. It should be noted that McDonald, recently appointed by the governor to the Clark County (Las Vegas) Commission, might have resigned for conflict of interest concerns. The fact stands, however, that she was on the audit committee and had replaced an audit committee member who had resigned within the previous year.

In fact, both departing independent directors, including McDonald, were members of the audit committee, including one who left just months before Station dismissed its auditors, Deloitte & Touche in September 2003. On December 1, 2003, Station's board was composed of eight directors, only three of which were independent by NYSE standards. Four of the directors, at the time, were family members, including Frank and Lorenzo Fertitta and Delise Sartini who are siblings – Blake Sartini married into the family. Currently, the board has fixed the number of directors at seven, which since May 2004 has consisted of four independent directors.

Table 2. STN Board Composition (* Independent Director). Source: STN SEC Filings

Board Composition – 12/01/03	Board Composition – 7/01/04
Frank Fertitta	Frank Fertitta
Lorenzo Fertitta	Lorenzo Fertitta
Blake Sartini	Blake Sartini
Delise Sartini	James Nave *
Glenn Christenson	Lowell Lebermann *
James Nave *	Lee Isgur *
Lowell Lebermann *	Robert Lewis * (joined May 2004)
Lynette Boggs McDonald *	

- **Glenn Christenson (54)** – Executive V.P., CFO. Christenson has been with the Company since 1989, but it wasn't until 2003 that we saw a spike in his selling. Since last year, he has sold 934,124 shares, considerably more than the 149,200 shares sold between 1997 and 2002. Recently, he sold 135,000 shares of common stock between April 21st and June 15th from $48.06 to $49.22, amounting to a **43% reduction** since the beginning of the year. Christenson's recent selling is part of his second10b5-1 trading plan he entered into in April and lasts through October. His first trading plan was filed in August of 2003 and since that time, he has reduced his holdings from 1.16 million shares to 369,416 shares, a 68% reduction.

- **Scott Nielson (46)** – Executive V.P., Chief Legal Officer. Nielson is currently trading under his third 10b5-1 plan since November after having sold all the authorized shares in the prior two plans. His selling volume hasn't changed from plan to plan, but he has definitely used the cover of the 10b5-1 rule to increase his annual selling from earlier levels. Between 2000 and 2003, the thirteen-year Company vet sold 189,708 shares, which he has nearly matched halfway through this year. Since January Nielson has sold 175,136 shares, with 95,136 shares of that total being sold between March 1st and June 7th from $38.51 to $49.15. Following this round of selling Nielson owns 745,139 shares.

- **William Warner (39)** – Executive V.P., Chief Development Officer. Unlike Nielson, Warner initiated a new 10b5-1 trading plan that appears to have significantly increased the number of shares he is authorized to sell each month. Under the former plan, which had a term from January 2004 to January 2005, Warner sold 30,000 shares per month in March and April. He then entered into a new plan in late April and is now selling 90,000 shares per month. Warner sold all authorized shares in the first plan ten months ahead of schedule. This increased aggressiveness is interesting because he has the smallest actionable position of all executives listed in the Proxy. Since January he has sold 236,100 shares (he had only sold 194,635 shares between 2000 and 2003), **reducing his holdings by 78%**.

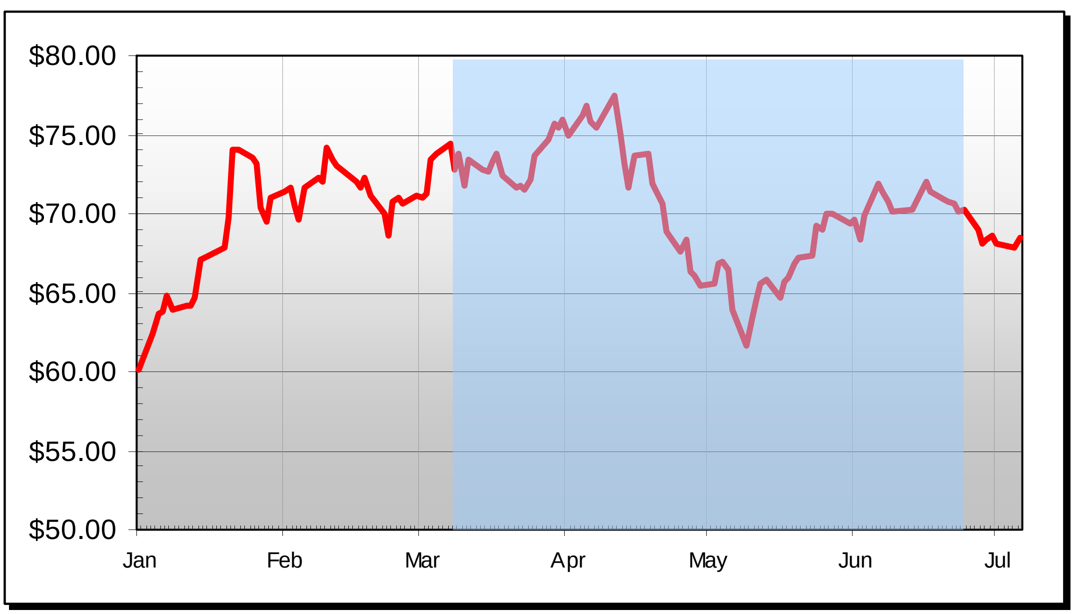
- **Frank Fertitta (42)** – Chairman, CEO. Fertitta has been in the senior management ranks since 1985 and is the Company's largest shareholder. His selling has always been rather heavy, but has dramatically intensified over the past few years. In 2001 he sold a total of 192,416 shares and has successively increased his volume each year after. His 2004 sales have already reached 2.1 million shares, which includes the 910,000 shares he sold between March 1st and June 14th, grossing $42.4 million. Fertitta's activity has swelled since he entered into his first 10b5-1 trading plan last November. He is currently employing his third plan (term: April 2004 through October 2004) and has increased his selling volume from plan to plan. The sales have trimmed his ownership stake by 40% since February 2002.

- **Lorenzo Fertitta (35)** – Vice Chairman, President. Like his brother Frank, Lorenzo has been an active seller over the past five years. This year we've seen a surge in his volume – he sold 390,500 in 2003 and has already sold 812,000 in 2004. After selling the approved 134,100 shares in his November 2003 to January 2004 plan, he dramatically increased his available shares to sell (1.55 million shares) in the ensuing plan. Most recently, Fertitta sold 735,000 shares between April 21st and June 22nd and grossed $36.3 million. Fertitta, a board member since 1991, sold the shares out of his family trust. After the sales he still has an actionable position of 5.2 million shares.

<u>Capital One Financial Corp. (NYSE: COF)</u>

Insider sales at Capital One spiked from 1.3 million shares in 2002 to over 4 million in 2003. The increase is attributed to both the adoption of 10b5-1 trading plans by executives and a large block of sales by Vice Chairman **Nigel Morris** who exercised expiring options and sold all the shares. If one discounts Morris' activity, the 2003 sales look miniscule compared to the selling pace established in 2004. Thus far insiders have sold 1.45 million shares year-to-date, including 1,102,863 shares that were sold between March 8th and June 24th at prices ranging from $65.40 to $77.53.

Figure 1. COF Stock Chart, Six months ended July 7, 2004. Blue shaded area is period where insiders sold 1.1 million shares. Sources: Reuters and Vickers.



Nearly half of the dispositions were executed by Chairman, President, CEO **Richard Fairbank**, which prompted Capital One to issue a press release disclosing the terms of his sales, which were covered by a 10b5-1 trading plan. The attempt made by the Company to forewarn investors of Fairbank's selling falls short of indicating that in addition to his activity, five other insiders joined in the round, including three that reduced their holdings between 31% and 99%. Also convincing, a few execs sold as the stock trended down. Executive V.P. **Catherine West** sold at $72 in March and then followed that transaction up with a June disposition at $64.

- **Richard Fairbank (53) –** Chairman, President, CEO. On May 17th Capital One issued a press release announcing that Fairbank entered into a pre-arranged 10b5-1 trading plan to exercise options and "diversify his financial assets". It was disclosed that he would be exercising options that are set to expire in November 2004 and September 2005, and would sell up to one million shares between June and September 2005. Fairbank wasted little time, as from June 15th through June 18th he exercised 860,000 of the September 2005 options and sold the underlying shares for $61.5 million. Fairbank has proficiently timed the stock in the past which is why we've noted not only the timing of the trading plan's commencement, but also the fact that he sold a majority of the allotment in a three-day period when he had over a year to sell. Fairbank's most recent sales were into weakness in January 2001 at $65, just before the stock slid to $46 by March, and then into the April/May 2001 rebound at prices ranging from $63 and $72, which preceded a four-month, 50% devaluation. He later purchased 150,000 shares in July 2002 at roughly $34, just ahead of a two-month, 18% spike.

- **John Finneran (54)** – Executive V.P., General Counsel, Secretary. Finneran, a ten-year company exec exercised four series of non-expiring options (expiration dates: 9/05, 6/08, 12/08, 12/12) between May 25th and June 24th to acquire 117,468 shares, which he then turned around and sold for $8.4 million. The sales, which **reduced his holdings by 31%**, were disposed of under a 10b5-1 trading plan he entered into in mid-May. These were Finneran's first transactions since he sold 305,400 shares in January 2001 at roughly $65, which preceded the stock's devaluation to $46 in the ensuing two months. This is the first time we've seen Finneran exercise this many different options series.

- **Larry Klane (43)** – Executive V.P., Global Financial Services. Klane's activity is probably the most curious of all the sellers. He established a 10b5-1 trading plan in February 2004 and sold 7,600 shares in March and an additional 7,600 shares on April 12th at $77.53. Apparently he wasn't satisfied with the allocation of shares he was approved to sell under the plan and established a new plan on April 26th. Shortly after, on May 27th he disposed of 26,015 shares, only this time at $70. His increased volume at lower prices grabbed our attention – our interest was further peaked by the fact that since February when he began selling under the 10b5-1, he has now **sold 99% of his actionable position** (common stock plus exercisable options). Since registering as a Section 16 filing insider in 2000, his only prior selling was 24,132 shares in September and December 2003, far less than the 255,015 shares he's now sold in 2004. In our conversations with the Company, on July 1st, it was revealed that Klane was not leaving.

- **James Flick (70)** – Director. Flick has been more a buyer of COF stock over the years than a seller, having purchased shares between 1995 and 1998, then later buying 2,000 shares in August 2002 at $27. His trades have been well timed over the years, which is further substantiated by his activity at FTI Consulting (NYSE: FCN), where he is a director. In December 2002 he sold 7,500 shares of FCN at its highs, and then bought back shares in February 2004. On the sell-side, his only prior disposition of Capital One was back in April 2001 at $63, just before the issue began a four-month slide to $36. More recently he sold 21,000 shares on April 27th at roughly $68. Following the sale, Flick owns 77,500 shares.

- **Catherine West (44)** – Executive V.P., President, U.S. Card. West is a participant in the *Entrepreneur Grant* program, which signifies her compensation is laden with stock options. It isn't that unusual to see her selling shares since she relinquished 26% of her 2003 bonus to receive additional options, however, her sales are still very telling. In November 2003 she filed a 10b5-1 trading plan and began selling in January. After only having sold 15,000 shares in May 2001 at $72 (the stock closed at $36 three months later), her 2004 sales have now eclipsed 126,000 shares, or **34% of her holdings**. Equally as significant as the size of her reduction is the fact that she sold shares in March at $72.80 and then accepted $64.40 for her shares two months later.