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

Insider Research Bulletin

August 27, 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

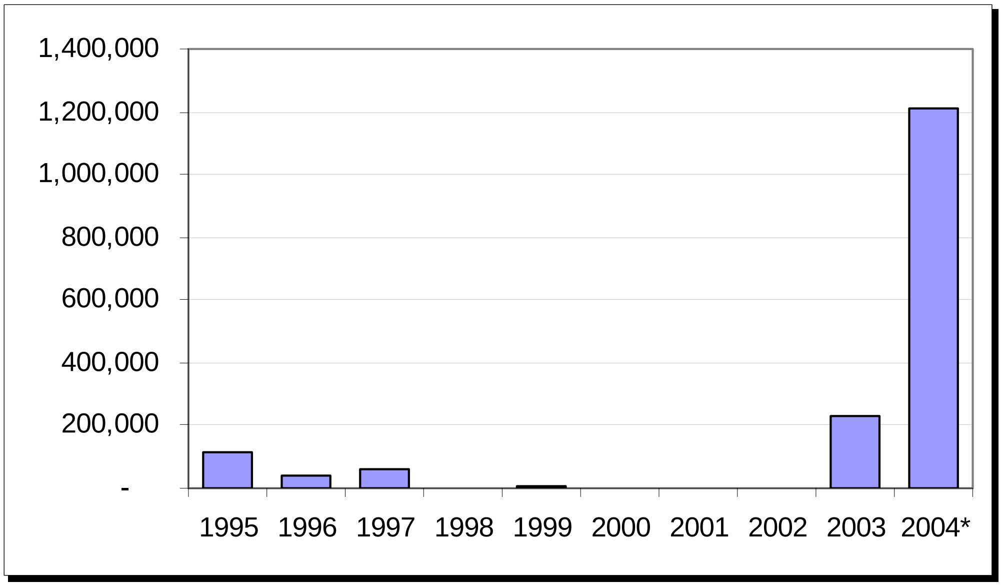
- Phelps Dodge Corp. (NYSE: PD)
- Rambus Inc. (NASDAQ: RMBS)
- SCANA Corp. (NYSE: SCG)

Discussion of 3DAdvisors Findings

Phelps Dodge Corp. (NYSE: PD)

Copper prices have reached highs last seen in 1996 and 1997, which coincidentally is the last time shares of Phelps Dodge traded near its current levels. It is also the last time, prior to 2003, that we saw any selling by Phelps executives. When we have seen them sell in the past, their actions have been quite prescient. Now, we can't forecast what will happen to copper prices in the upcoming months, but insiders recently unloaded an unprecedented amount of shares after a surge in the stock price. In all, from June 18th through August 12th, eight insiders sold 589,806 shares between the prices of $70.67 and $80.99. Analysts and Company execs have been forecasting a continued rise in copper prices, but prices have actually declined over 10% since March causing the issue to slide, which is just after insiders held their largest ever round of selling. Both have slightly rebounded since and insiders not only sold the momentum, but also have trimmed very large portions of their holdings in the process. Senior V.P. and CFO **Ramiro Peru** sold 70% of his holdings, while five additional executives reduced their actionable positions (common stock plus exercisable options) between 44% and 54%. Chairman, CEO **J. Steven Whisler** has also picked up his selling, dumping three times more this year than he had over the past ten and reducing his position by 51%.

Figure 1. Total Shares Sold by Phelps Dodge Section 16 Insiders, 1995 to 2004. Source: PD SEC Filings



* Sales through August 12, 2004 only

In addition to the lofty reductions, there are some additional details to the trading behavior of certain executives that are worth noting. For example, Peru exercised nine series of options to acquire shares to execute his sales, while three others exercised at least four different series of non-expiring options. It is rare to see insiders, in any company, clearing out this many different series. Also, two execs skimmed options, accepting a slim spread between an option's exercise price and the market price when they sold. Since PD execs do hold expensive options that for years have been underwater, it is easy to discount these transactions considering the stock's run. But keep in mind that these options have years remaining before expiration and if those skimming felt the issue had upside, they could've held them longer in anticipation of higher profits.

We should mention that the Company has ownership guidelines in place and despite the heavy reductions all executives are in compliance. However, they have been severely diminishing their options holdings. Ramiro Peru and David Colton had 175,564 and 107,933 exercisable options in mid-2003, respectively, and now have less than 40,000 apiece remaining. These won't be replenished anytime soon as the named executives were granted an aggregate 276,400 options in 2002 but only 55,000 in 2003 (2003 grants were actually made in February 2004). The process will be even slower given that the Company terminated its option reload program in 2003.

- **Ramiro Peru (48)** – Senior V.P., CFO. As is the case with many in this group, Peru has been an infrequent seller over the past ten years. His only two sales came in November 2003 and February 2004 totaling 80,000 shares. But after the issue's mid-year slide and subsequent rebound, Peru jumped at the opportunity to once again take profits – only this time in a much more aggressive fashion. From June 23rd to August 2nd he exercised nine series of options, eight of which were set to expire between December 2005 and July 2012. He did exercise one series set to expire this December, but it consisted of just 2,006 options. Peru then sold all acquired 149,206 shares, grossing $11.5 million. What's more, he exercised two series with strike prices of $69 and $71 and sold the shares for $80. Granted, these options have been exercisable for five years and only recently became in-the-money, but with two and three years left before expiration, Peru's behavior doesn't convey that he believes there is a good deal of short-term upside, which is further evidenced by the fact that his recent selling **wiped out 70% of his position**. On a final note, Peru is a director at Wellpoint Health Networks (NYSE: WLP) but hasn't sold any shares there in the past two years.

- **Timothy Snider (53)** – President, COO and President, Phelps Dodge Mining Co. Though he's been a Section 16 filer since 1997, it was only last November that Snider assumed his current position. A few months later he began selling and subsequently entered into a 10b5-1 trading plan. In all, between February and April he disposed of just under 80,000 shares at a weighted average price of $78.32. His selling resumed after the issue's rebound and has now sold 115,000 shares from June 18th through August 12th at prices ranging between $70.67 and $79.72. But what's more interesting is that from July 15th through August 9th, as the price was dropping, he actually increased his volume. Like his peers, Snider exercised multiple series of options not set to expire until December 2008 at the earliest and since February has now **reduced his actionable position by 58%**.

Date of Sale	Shares Sold	Price
6/18/2004	20,000	$70.67
7/15/2004	15,000	$78.74
7/29/2004	30,000	$77.93
8/09/04	40,000	$74.11
8/12/04	10,000	$79.72

- **David Colton (48)** – Senior V.P., General Counsel. In February Colton executed his first sale since registering as a Section 16 filing insider in 1998. He exercised one option series and sold the underlying 33,000 shares at $75. With the issue's price rebounding to February levels, he surfaced with considerably more aggressive selling. Between July 2nd and August 3rd, at prices from $75.59 to $77.30, Colton exercised five series of non-expiring options (expiration dates: 6/08, 12/08, 12/09, 12/11, 7/12) and sold the newly acquired 76,300 shares. The combined February and July/August activity has **dropped his holdings by 63%**.

- **J. Steven Whisler (49)** – Chairman, CEO. Whisler has noticeably picked up his selling in 2004. After having sold 154,000 shares between 1995 and 2003, his 2004 sales have jumped to 428,000, which include a 150,000-share sale on June 23rd at $75.50; this after his last sale of 150,000 shares on March 8th came at 11% higher prices. Since February he has now **disposed of 51% of his holdings**. Whisler is also a director at Burlington Northern Santa Fe (NYSE: BNI) and America West

Holdings (NYSE: AWA) but hasn't sold shares of either company in the past two years.

- **Arthur Miele (62)** – Senior V.P., Marketing. Though the 39,933 shares Miele sold between July 29th and August 9th isn't as sizeable as the 58,600-share sale he executed in February, there is still notable significance. Miele sold the shares in February at $81 and like Snider, has been selling down since – his recent activity came at a weighted average price of $75.43. In fact, he **parted with 44% of his holdings** at the lower prices. This was Miele's third sale since registering as a Section 16 filer back in 2000.

There is one additional executive whose recent activity is noteworthy. **James Berresse**, President and CEO, Columbian Chemicals Co., exercised four series of non-expiring options (expiration dates: 12/06, 12/06, 12/07, 7/12) on July 30th and sold the shares at $77.91. The December 2006 option series he exercised cost $71.62, giving him less than a 9% profit before taxes. Option skimming is not only uncommon but one of the more valuable indicators of negative sentiment.

Rambus Inc. (NASDAQ: RMBS)

It was in a March 4, 2004 *Insider Research Bulletin* that we covered heavy selling into momentum by Rambus insiders. The issue was trading between $31 and $32 at the time. Since then, the semiconductor industry has come under considerable pressure and Rambus' impressive second quarter earnings report did little to end the deteriorating share price. What's more, analysts have been reluctant to raise their recommendations due to lingering legal issues. Recently, the stock has been trading under $14, more than 50% below the price at which executive trading behavior first caught our attention.

Figure 2. Rambus Daily Closing Price, August 1, 2003 to August 25, 2004. Blue diamond is the date of the IRB covering RMBS; Blue shaded area is the period where insiders sold 268,410 shares. Source: Reuters and RMBS SEC Filings.

But what has our attention now is the continuation of selling by execs and directors despite the greatly reduced share price. Between May 3rd and August 18th five RMBS insiders sold 268,410 shares as the stock trended lower from $20 to $15. These sales have contributed to 2004 selling volume approaching the all-time high number of shares sold annually since 1997. From 2000 to 2003 insiders sold 3.3 million shares at a weighted average price of $40. This year's sales already top 2.3 million shares and have been executed at a weighted average price of $30.

A majority of the shares sold since May were sold under pre-established 10b5-1 trading plans adopted last year. While insiders can't always control the timing of their sales under such plans, they do have the ability to terminate the plan altogether. That this group has allowed these sales to continue is what has grabbed our interest this time. Chairman **William Davidow** actually made his first-ever sales only recently under a trading plan he set up in February. He had numerous opportunities in the past to sell at considerably higher prices and could have even started his 10b5-1 selling sooner. But while it wouldn't seem that there's a great deal of downside to come, these insiders aren't exactly giving signs that they see an upcoming rebound either.

A few points of interest: according to the Company, Rambus' board is comprised of six independent directors out of a total of nine members. However, in addition to the three executive directors there is a fourth member, **P. Michael Farmwald**, that co-founded the company in 1990, served in an executive role for a number of years, and has the second largest ownership position of all executives and directors. This hardly constitutes independence, yet he is one of three members of the Compensation Committee, which determines the chief executive's compensation. This could explain why the metrics used to determine **CEO Geoffrey Tate's** compensation is much more ambiguous than we're accustomed to seeing. Not to mention the fact that it was Farmwald who handpicked Tate in 1990 when he founded the Company. The Proxy discloses that "the Compensation Committee took into account (i) its belief that Mr. Tate is a Chief Executive Officer of a leading technology company who has significant and broad-based experience in the semiconductor industry, (ii) the scope of Mr. Tate's responsibility, and (iii) the Board's confidence in Mr. Tate to lead Rambus's continued growth and development." Subjective determinations such as these from a Compensation Committee whose independence could be questioned are suspect, at best.

- **Mark Horowitz (46)** – Director. In view of Horowitz's 2 million share actionable position (common stock plus exercisable options), his historical selling hasn't been overly egregious. Since becoming a Section 16 filer in 2000 he had sold 60,000 shares in January and February 2001 with the issue trading at $56 and then was not heard from until he adopted a 10b5-1 trading plan in August 2003 and began selling under the plan in October. But what stands out now is that he has been selling as the stock has trended down. From October 2003 through April 2003 he sold 186,620 shares at a weighted average price of $28.93. More recently, he sold 106,640 shares from May 3rd to August 2nd at a weighted average price of $17.89. Though he still has a sizeable position, his willingness to part with shares at deteriorating prices should concern investors.

- **William Davidow (68)** – Chairman. On July 26th and August 18th Davidow executed his first sales in the past ten years, selling 40,000 shares as the issue dropped from $16 to $15. The sales were part of a 10b5-1 trading plan adopted on February 27, 2004. More unusual than these being his first sales in a decade is the fact that he started the trading plan in February when the issue was trading over $25 and didn't make his first sale until the issue had collapsed 35%. In addition to the open-market transactions, Davidow distributed 159,521 shares he held in a family partnership to the partners on August 2nd. Following the sales and distributions he still has an actionable position exceeding 900,000 shares.

- **Laura Stark (35)** – V.P., Memory Interface Division. Stark is the only current seller that doesn't participate in a 10b5-1 trading plan, which implies that she has more control over the timing of her sales. In January 2004 Stark disposed of 76,028 shares at $32, shortly after filing her Form 3 to become a registered filer. She followed that transaction with a 36,000-share sale in April once the stock slide to $21, and more recently, sold another 10,000 shares at $16.64, almost 50% lower than her first sale. Though she has decreased her volume at the depressed levels, it is still not promising to see her taking some off the table, especially since she exercised an option not set to expire until August 2011.

- **Geoffrey Tate (49)** – CEO, Director. Tate has been an active seller dating back to late 1997, but his activity became more predictable since activating a pre-arranged trading plan in July 2003. The monthly 10b5-1 sales of 33,300 shares began in October 2003 and have continued since. But the consistency doesn't mask the fact that he's continued at the same pace despite a declining share price. Between October and April he sold at a weighted average price of just under $29, but the 99,900 shares he sold between May 20th and July 20th were sold at a weighted average price of $17, nearly a 40% discount. Following the recent sales Tate still has the largest ownership position of all executives and directors – just under 5 million shares.

- **Robert Eulau (42)** – Senior V.P., CFO. After filing to trade with the SEC under Section 16 in 2001, Eulau didn't make his first sales until 2003 when he sold a total of 63,000 shares in July and October. A few days after his October sale, Eulau entered into a pre-arranged trading plan and executed his first 10b5-1 sale of 11,592 shares in February 2004 at $30.01. He has sold a like number of shares each month leading up to his most recent sale on May 4th at $20. Though Eulau's selling has since ceased and is a little more outdated than those trades by his peers, it is further evidence that these RMBS insiders were inclined to accept considerably lower prices for their shares.

<u>SCANA Corp. (NYSE: SCG)</u>

In the April 16th edition of the *Insider Research Bulletin* we covered an uncharacteristic round of selling by SCANA insiders. The sales preceded second quarter earnings that included deteriorating profits due to higher operating and maintenance expenses, depreciation expense and property taxes.

Within days of second quarter earnings being released, a new group of insiders sold 221,403 shares from July 27th through August 4th between the prices of $35.84 and

$36.92. Unlike the earlier round, these sales cut deeply into the holdings of a few key employees. Senior V.P., CFO **Kevin Marsh** and President, CEO-SCE&G **Neville Lorick** sold 85% and 83% of their holdings, respectively, with their first-ever sales, while Director **Harold Stowe** trimmed his position substantially.

What's not immediate apparent about the heavy reductions in actionable positions for these individuals is the fact that they were not granted any options in 2003; instead they received performance share awards which vest upon meeting total shareholder return targets. Whereas execs typically would have options vesting after the first year, these performance shares won't be obtainable for three years, and then only should the Company reach the targets. A combination of the shift to performance shares and the liquidation of options positions (along with the exercised-for shares) that has transpired this year has dramatically diminished the options held by each named executive, not to mention overall holding levels as well. Finally, SCG execs and directors have been active participants in the Company's Stock Purchase Savings Plan, which allows insiders to buy shares directly from the Company at the market price. We included these shares in our holdings calculations, but it is unclear how liquid they are since they're being held in a Company trust.

Table 1. Stock Option Holdings of SCANA Named Executives (Exercisable / Unexercisable). Source: SCG SEC Filings

Named Executive	12/31/03	8/20/04
William Timmerman	195,207 / 189,394	49,939 / 73,068
Neville Lorick	52,744 / 64,115	0 / 25,940
Kevin Marsh	62,039 / 64,115	0 / 25,940
George Bullwinkel	35,670 / 34,609	24,783 / 20,491
H. Thomas Arthur	35,888 / 35,042	50,219 / 21,557

Energy utility company insiders aren't known for heavy selling. When they have moved in the past, however, we have learned that it is a good idea to monitor the situation. Between 2000 and 2003, SCANA insiders sold a total of 45,353 shares, far less than the 550,000 shares they've now sold through just August of 2004. We highlighted a similar development at PG&E (NYSE: PCG) in the June 1st and June 20th edition of *Insider Research Bulletin*, when insiders who had sold just over 100,000 shares between 1997 and 2003 but recently surfaced to sell 1.91 million shares this year. We will continue to monitor both companies and the industry closely.

- **Neville Lorick (53)** – President, CEO-SCE&G. On July 27th and 28th Lorick exercised three series of non-expiring options (expiration dates: 4/10, 2/11, 2/12) and sold the underlying 90,920 shares at roughly $36. The sale, which was his first since becoming a filing insider in 2000, **reduced his actionable position (common stock plus exercisable options) by 83%**. Not only did Lorick exercise *all* of his vested options, but now only has 25,940 unvested options remaining, which will vest over the next two years.

- **Kevin Marsh (48)** – Senior V.P., CFO. Marsh's activity is almost identical to that of Lorick's, as he exercised *all* of his vested options (three series expiring between April

2010 and February 2012) and sold the 100,215 shares on July 27th and 28th. The sale, which was also his first since filing in 1994, **shed 85% from his holdings**. Following the sale Marsh has 4,217 shares of common stock he holds directly and 25,940 unvested options.

- **Harold Stowe (57)** – Director. Like the others, Stowe recently made his first sale, disposing of 2,349 shares on August 4th. But don't let the small volume deceive you, SCANA's seven outside directors only hold on average 6,400 shares. What's more, they don't have much incentive to build a position. There are company mandated ownership requirements for directors – but they are only required to hold 100 shares. Also, as part of their compensation they are given deferred "hypothetical shares" which vest upon retirement. So, the fact that Stowe **sold 54% of his shares** in this one transaction seems to reveal a lack of desire to accumulate shares, especially when one takes into account that SCANA expects a "significant financial commitment to the Company in the ownership of common stock" by each board member. For the record, he has 8,266 hypothetical shares.

- **Charles McFadden (59)** – Senior V.P., Governmental Affairs & Economic Development. McFadden sold 25,440 shares on July 28th and 29th at $35.84 and $36.50. This was his first sale since registering as a Section 16 filer back in 1997. It is unclear what kind of affect the sale had on his holdings since there has been no options disclosure on any of his Form 4s. Following the transaction he holds 6,402 shares of common stock and 18,571 shares under the Share Purchase Savings Plan.