



This 3DAdvisors Report Covers:

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

Insider Research Bulletin

May 11, 2005

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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

- ▶ AutoDesk Inc. (NASDAQ:ADSK)
- ▶ Sepracor Inc. (NASDAQ:SEPR)

Discussion of 3DAdvisors Findings

The insider activity at AutoDesk has been relentless since we last covered intensifying distributions in two separate editions of *Insider Research Bulletin* (04/16/04 and 06/21/04); the effect of the selling definitely needs to be addressed. Insiders sold a record number of shares throughout 2004, as the volume exceeded 5.4 million shares (adjusted for the 2-for-1 split in December), far outpacing the previous record number of shares distributed in 1997 (3.8 million shares). Much of the selling can be attributed to the issue establishing new all-time highs during the course of the year, but we've never subscribed to the idea that a surging stock price alone is enough of a catalyst to cause executives across the board to sell off the vast majority of their ownership positions, especially holdings that insiders spent a number of years building.

What has transpired at AutoDesk is trading behavior that should not be ignored. This management team has scaled back its holdings to levels we haven't seen in years, and many of these individuals took steps to ensure the aggressive selling would continue. So far this year, that is exactly what we've witnessed, as five executives and two directors sold a total of 1,426,242 shares from February 25th through May 6th at an average price of \$30, nearly 26% off the six-month high.

Figure 1. ADSK Daily Closing Price, May 3, 2004 through May 10, 2005. Blue shaded area is where five executives and two directors sold 1.4 million shares. Source: ADSK SEC Filings.



Since our last report, a number of executives have adopted 10b5-1 trading plans, announcing their intent to commence, or really continue, steady distribution. We find the Company's disclosure of these plans to be rife with exaggeration, as they claim the plans allow for the "exercise of **certain** options" and that the plans were "established as part of the officers' individual long-term strategies for asset diversification and liquidity." The first half of that statement loses us, since we've seen this group exercise nearly **all** of their vested options under their respected 10b5-1 plans. We have seen numerous instances at other companies where an insider established a pre-arranged trading plan to monetize one or two options series, and clearly lays out what the investment community can expect to see. But this certainly isn't the case at AutoDesk, where their idea of "certain options" really means everything exercisable. Another facet of their disclosure has us intrigued, as they claim that the trading plans "must be in effect at least 90 days before trading commences." Again, this is very misleading. General Counsel **Marcia Sterling** and COO **Carl Bass** each established their first trading plans in March, and in both instances, sold shares on the very first day the plans were adopted. We find it ironic that Sterling, who presumably has responsibility for monitoring the filing compliance of other executives, is among the more aggressive sellers.

As the most aggressive sellers, Sterling and Bass drained the majority of their holdings (exercisable options and common stock) under the shield of their 10b5-1 plans. Both of them have picked up their selling pace in the past year, but the recent activity

clearly defies the spirit of these trading plans, which were created to provide safe harbor protection for *reasonable* diversification. The table below shows just how severe the selling has impacted the holdings of AutoDesk's top managers.

Table 1. Holdings Reductions of ADSK Named Executives Since 2004 Proxy. Source: ADSK SEC Filings.

Named Executive	Title	Holdings As Of:			Chg Since '04
		05/05/03	05/05/04	05/01/05	
C. Bartz	CB, CEO, Pres.	5,601,126	6,359,460	5,714,968	-10.1%
C. Bass	COO	264,038	112,368	13,989	-87.6%
G. Bado	VP	- -	89,456	40,526	-54.7%
A. Castino	CFO	- -	60,000	102,932	- -
M. Sterling*	SVP, GC	- -	238,802	25,130	-89.5%

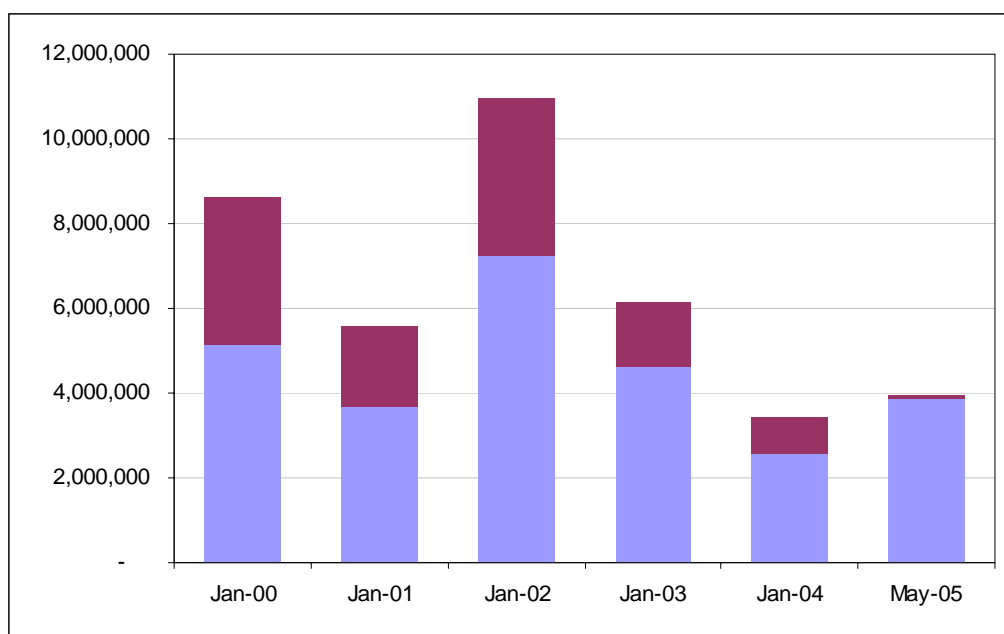
* Marcia Sterling held 425,000 shares in May 2002.

Even more compelling than the dwindling overall actionable holdings of the management team is the lack of vested options held (see Figure 2 below). As a group, the Company's named executives (excluding CEO Carol Bartz) held nearly four million exercisable options in 2002. After the past year of monetizing their options, the current executive team holds less than 90,000 vested options. Though a handful of options will vest at the end of 1Q06, we are very suspicious of their short-term diversification strategy which has left their options holdings at a nonexistent level, relatively speaking. We should point out that the Company established stock ownership guidelines for executives in December 2004. AutoDesk didn't disclose what the criteria are for the guidelines, but most of the execs do have reasonable common stock positions. Our concern is that with these guidelines in place, they will strive to hold the bare minimum of common stock required to meet the guidelines, but will continue to divest the generous amount of options they are granted.

- **Carl Bass (47)** – COO. Bass has served in a number of different roles since joining the Company in 1993, most recently being named COO in 2002. Despite the increase in incentive awards that came with the promotion, it wasn't until December 2003 that he began selling. What has since transpired is quite remarkable. Each quarter, Bass has unloaded a large number of shares, never allowing his holdings to replenish. His sales have clearly had a material effect on his holdings, which in May 2003 totaled 264,038 shares and now just include 13,989 shares of common stock (adjusted for 2-for-1 split in December 2004). Including the 200,000 shares he sold on March 23rd and April 6th at an average price of \$30, Bass has sold 752,498 shares since 2004, **equal to 88% of his holdings**. What doesn't show in the holdings table above is that nearly as soon as each of his options vests, Bass has quickly exercised them, turning the underlying shares into cash. Most recently, he cleared out all of his vested options which included three series with expiration dates ranging between March 2012 and March 2014. Even more compelling, after the past year of heavy selling, Bass adopted a 10b5-1 trading plan on March 23rd, the day he executed his

first sale of the year. The move would lead us to believe that it is his intention to continue selling, but since he currently doesn't have any vested options, this would be impossible. Investors should be aware that the Company's second in command refuses to build a meaningful ownership position. Bass will have 50,000 options vest in June and another 50,000 become exercisable in September (see Appendix A). If his past behavior continues, it won't take long for these to be exercised and sold.

Figure 2. Exercisable Options Holdings of ADSK Named Executives. Blue are the holdings of Carol Bartz only; Red is the total held by other named executives. Source: ADSK SEC Filings.



- **George Bado (age not disclosed)** – VP, Worldwide Sales. Bado first filed as a registered Section 16 insider back in June 2004, but appears to have quickly picked up similar habits demonstrated by some of his peers. Bado has been shedding his holdings since last November, when he sold 46,974 shares at \$31.67. A month later he adopted a pre-arranged trading plan, but executed no transactions under the plan until he sold 15,526 shares out of his common holdings on March 17th at \$29. Then on April 5th, the day his April 2014 option vested, he exercised the options and monetized all 30,000 shares at \$31.40. The selling has **shed 55% from his holdings** over the past year, and now leaves him with just 25,000 vested options and 15,526 shares of common. His actionable holdings will be replenished in November, when 87,500 new options will vest (see Appendix A), but we are still interested in the fact that he's been selling out of his common holdings when he didn't have exercisable options at his disposal.
- **Marcia Sterling (60)** – Senior V.P., General Counsel, Secretary. Like the others, Sterling has shed a majority of her holdings over the past year. Since last June, she **sold 90% of her ownership position** including a total of 396,436 shares, 92,716 shares of which she sold between March 14th and April 4th at an average price of \$29.

Her holdings of 425,000 shares in mid-2002 are now down to just 25,000 shares of common stock, as she recently monetized all of her vested options comprised of four non-expiring series (expiration dates: 3/11, 3/12, 3/13, 3/14). The March/April activity was under the cover of a 10b5-1 trading plan which she adopted on March 14th and she will be able to resume selling under this plan when additional options vest. By year end she will gain access to just under 60,000 options (see Appendix A), but that will hardly repair the damage already done to her holdings.

- **Mary Alice Taylor (54)** – Director. During her eleven year tenure as an AutoDesk board member, we had only seen Taylor surface to sell once, when she distributed 28,000 shares in March 2004 at \$14. Apparently, the surging stock price has finally motivated her to pick up her pace. Between February 25th and March 8th Taylor exercised three older options series (expiration dates: 6/07, 6/08, 6/09) and sold all 120,000 newly-acquired shares at \$30, **wiping out 40% of her holdings**. Taylor also sits on the boards of Allstate (NYSE:ALL) and Blue Nile (NASDAQ:NILE), but hasn't sold shares of either company in the past two years.
- **Carol Bartz (55)** – Chairman, President, CEO. There is little we can say about Bartz's activity beyond the fact that it is ever-present. Bartz enacted a trading plan back in May 2002, which was later amended, and has been selling monthly ever since. Her holdings have been replenished by generous stock option awards over the years, so the selling has not provided us with many clues. However, she has accelerated her volume in the past six months and is now on pace to sell a record amount in 2005. Year-to-date, Bartz has sold 900,000 shares, which is quickly catching up to the 1.2 million shares she sold in 2001.

Sepracor Inc. (NASDAQ:SEPR)

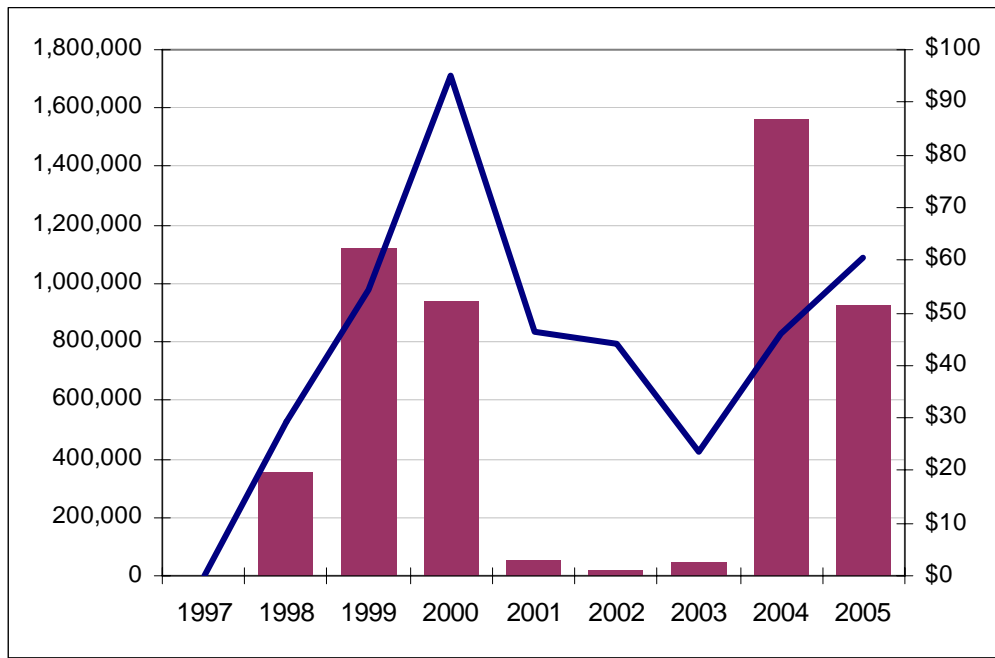
In March 2004, shares of Sepracor climbed 70% on the announcement that the FDA had issued an "approvable" letter for the Company's new drug application for the sleep-disorder medication called LUNESTA (formerly known as ESTORRA). Not only did Sepracor executives see their net worth increase substantially, but they also benefited from performance options granted in 2002, which automatically vested upon the FDA's action. Shortly after the options vested, insiders held the largest round of selling in Company history, dumping 1.4 million shares valued at \$67 million in May 2004. The selling wasn't lost on us, as we reported the activity in the June 1st *Insider Research Bulletin*.

Sepracor shares have moved higher since that time and much of the advance was attributed to the FDA's final approval of LUNESTA on December 15th. As of late, however, the shares have been volatile and insiders have chosen to aggressively cash in on improving prices in late April. From April 27th through May 4th seven of them sold 921,943 shares at a weighted average price of \$60.46. In terms of size, this round of sales was second only to last May's activity, but there is something unique about the most recent round of heavy distribution.

First, not only was last year's stock surge a definite catalyst for insiders to lock in gains, but the vesting of a large block of options gave added incentive for them to sell. Not to mention, shortly after they sold in May, another option series granted in 2002 vested in full in August 2004. So even though they pared back their holdings by

significant amounts, their ownership positions were replenished just months later. But that is a very different situation than what we're seeing now. The majority of executives have had no new options vest in the past nine months, nor will any new ones vest for another three quarters. And it should be noted that Sepracor has not granted any restricted stock in place of stock options over the years.

Figure 3. Shares Sold by SEPR Insiders (Red Bars and Left Scale) and Weighted Average Price of Shares Sold (Blue Line and Right Scale). Source: SEPR SEC Filings.



All options granted between 2000 and 2002 have vested in full and with the exception of Executive V.P. **Mark Corrigan** (more on Corrigan later), no other named executive received options in 2003 or 2004. The only unvested options held by this group are performance options granted in April 2000 that vest either when the issue trades above \$75 for ten consecutive days or in April 2007, and also those granted in February 2005 that vest one year from the grant date and are currently out-of-the-money.

Should shares of Sepracor languish at or below their current price, insiders might not have any new options vest for quite some time. For this reason, we consider the new selling to be very intriguing. Not only are they selling, in some cases record numbers, but a handful of key executives have sold startling percentages of their holdings. Senior V.P. Legal Affairs, Chief Patent Officer **Douglass Reedich**, a Company exec since 1999, distributed 80% of his holdings, while President, COO **William O'Shea** shed 30% of his position. Neither executive holds more than 1,000 shares of common stock. Then there's Executive V.P. **Mark Corrigan**, who heads the Company's R&D efforts. Corrigan sold all of his actionable shares since last May, most recently monetizing his entire holdings of April 2013 options just a week after they vested. Though he's in a different boat, as he has new-hire options which will vest in February and April 2006, they are hardly enough to replenish what he has sold.

A final cause for our interest in the Sepracor activity is the uniqueness of synchronized trading by this group. Over the past five years we've only seen three or more insiders sell within a one month period twice, whereas now we have six insiders dumping a near-record number of shares in just one week. Four insiders, including two of the recent sellers, sold 560,598 shares into weakness in September 2000 at roughly \$100. Just two months later, the issue was trading at \$61. The second instance was in May 2004 and although the issue has trended higher since that round, this second mass dispersal leads us to infer that core insiders at the company see the shares as possibly over-valued at this time.

Figure 4. SEPR Daily Closing Price, May 1, 2000 through May 10, 2005. Blue shaded areas are the periods where at least three insiders sold within one month of each other. Source: SEPR SEC Filings.



- **Mark Corrigan (47)** – Executive V.P., Research & Development. Corrigan joined Sepracor in 2003 after running the Global Clinical Research and Experimental Division at Pharmacia. Upon joining the Company, he was provided a stock option grant of 425,000 shares with a strike price of \$16.78, which he monetized in part shortly after the first vesting period in April 2004. He was awarded a subsequent option of 100,000 shares at \$27.70 in February 2004, which vests annually over five years. On April 27th and April 28th he **cleared out all of his actionable holdings**, exercising all his vested options (expiration dates: 4/13, 2/14) and sold the 140,000 shares at roughly \$60. Not only is this his most aggressive behavior in the past two years, but leaves him without any actionable shares until February 2006 when he will have another 20,000 options vest (see Appendix B).

- **Douglas Reedich (47)** – Senior V.P., Legal Affairs, Chief Patent Officer. Though Reedich isn't named as one of the top compensated execs in the Company's most recent proxy, he is listed on the Company's website as a top executive and has held a senior executive post since 1999. His recent activity is monumental. On April 27th and April 28th he cleared out three vested options series set to expire between June 2008 and August 2012 and sold all 256,668 shares at \$60. The sale **wiped out 80% of his position**, which is significant since he has never accumulated any common stock. Prior to these sales, Reedich had only sold 112,179 shares back in May 2004. He currently has 70,000 vested options and will only have 15,000 options vest in February 2006 (see Appendix B), which will do little to bolster his position, which just two years ago totaled 216,000 shares.

- **William O'Shea (55)** – President, COO. We last reported O'Shea monetizing a large number of options in May 2004, shortly after a number of performance options were triggered. On April 27th, he monetized the remainder of those performance options that weren't set to expire until August 2012, and sold all 275,001 shares at \$60.31. The two rounds of selling have **cut his holdings by 50%**, leaving him with just one vested option series and less than 1,000 common shares. Though he still holds a substantial amount of vested options, his ownership position which had been building since 1999 and grew to the second largest of all Company managers, has fallen to the third spot (see Appendix B).

- **Robert Scumaci (45)** – Executive V.P., Finance and Administration, Treasurer. Though Scumaci hasn't sold nearly as much (as a percentage of his holdings) as his peers, his sales totaling 150,000 shares on April 27th and April 28th are the largest we've seen from him since he filed as a Section 16 insider back in 1996. Not to mention, his activity has been rather infrequent over the years, as he's only sold twice in the past five years, once in September 2000 at \$104, which preceded a six-month, 70% drop, and again in May 2004 with the rest of his peers. His recent activity provides additional evidence that Sepracor management is taking a cautious approach with their personal holdings.

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Appendix A

Option Vesting Schedules for Selected AutoDesk Inc. Insiders

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Appendix A

Option Vesting Schedules for Selected AutoDesk Inc. Insiders

Grant Date	Options	Price	Date Exercisable	Expiration Date	Remaining Options in Series	Unvested Options in Series	Vesting Dates of Remaining Options
11/11/02	150,000	\$6.44	11/11/03	11/11/12	100,000	75,000	11/11/05
05/23/03	13,468	\$7.42	05/23/07	05/23/13	13,468	13,468	05/23/07
11/20/03	50,000	\$9.70	11/20/04	11/20/13	37,500	37,500	11/20/05, 11/20/06, 11/20/07
04/15/04	120,000	\$16.42	04/15/05	04/15/14	90,000	90,000	04/15/06, 04/15/07, 04/15/08
03/10/05	90,000	\$30.15	03/10/06	03/10/15	90,000	90,000	03/10/06, 03/10/07, 03/10/08, 03/10/09



Appendix B

Option Vesting Schedules for Selected Sepracor Inc. Insiders

Grant Date	Options	Price	Date Exercisable	Expiration Date	Remaining Options in Series	Unvested Options in Series	Vesting Dates of Remaining Options
Mark Corrigan, Executive VP, Research & Development. Common stock holdings: 0 shares							
04/17/03	425,000	\$16.78	04/17/04	04/17/13	250,000	250,000	04/17/06, 04/17/07, 04/17/08
02/11/04	100,000	\$27.70	02/11/05	02/11/14	80,000	80,000	02/11/06, 02/11/07, 02/11/08, 02/11/09
02/24/05	100,000	\$64.50	02/24/06	02/24/15	100,000	100,000	02/24/06, 02/24/07, 02/24/08, 02/24/09, 02/24/10
William O'Shea, President, COO. Common stock holdings: 983 shares							
10/20/99	1,000,000	\$35.43	10/20/00	10/20/09	680,000	0	Fully vested
04/27/00	50,000	\$43.66	Price Targets	04/27/10	50,000	50,000	50% vests when stock hits \$75
02/24/05	100,000	\$64.50	02/24/06	02/24/15	100,000	100,000	02/24/06, 02/24/07, 02/24/08, 02/24/09, 02/24/10
Robert Scumaci, Executive VP, Finance and Administration, Treasurer. Common stock holdings: 5,974							
07/17/97	130,000	\$12.13	07/17/98	07/17/07	125,000	0	Fully vested
06/04/98	170,000	\$18.38	06/04/99	06/04/08	78,000	0	Fully vested
02/25/99	120,000	\$29.56	02/25/00	02/25/09	120,000	0	Fully vested
04/27/00	75,000	\$43.66	Price Targets	04/27/10	75,000	75,000	50% vests when stock hits \$75
02/22/01	15,000	\$55.88	02/22/02	02/22/11	15,000	3,000	02/22/06
05/03/01	75,000	\$24.54	05/03/02	05/03/11	75,000	0	Fully vested
08/22/02	275,000	\$6.24	*	08/22/12	37,500	0	Fully vested
02/24/05	75,000	\$64.50	02/24/06	02/24/15	75,000	75,000	02/24/06, 02/24/07, 02/24/08, 02/24/09, 02/24/10
Douglas Reedich, Senior VP, Legal Affairs, Chief Patent Officer. Common stock holdings: 0 shares							
06/04/98	130,000	\$18.38	06/04/99	06/04/08	70,000	0	Fully vested
04/27/00	43,750	\$43.66	Price Targets	04/27/10	43,750	43,750	50% vests when stock hits \$75
02/24/05	75,000	\$64.50	02/24/06	02/24/15	75,000	75,000	02/24/06, 02/24/07, 02/24/08, 02/24/09, 02/24/10



Appendix B

Option Vesting Schedules for Selected Sepracor Inc. Insiders

Grant Date	Options	Price	Date Exercisable	Expiration Date	Remaining Options in Series	Unvested Options in Series	Vesting Dates of Remaining Options
David Southwell, Executive VP, CFO. Common stock holdings: 26,902 shares							
07/17/97	150,000	\$12.13	07/17/98	07/17/07	58,000	0	Fully vested
06/04/98	360,000	\$18.38	06/04/99	06/04/08	260,000	0	Fully vested
02/25/99	120,000	\$29.56	10/01/00	02/25/09	120,000	0	Fully vested
04/27/00	75,000	\$43.66	Price Targets	04/27/10	75,000	75,000	50% vests when stock hits \$75
05/03/01	77,500	\$24.54	05/03/02	05/03/11	77,500	0	Fully vested
08/22/02	300,000	\$6.24	*	08/22/12	200,000	0	Fully vested
02/24/05	100,000	\$64.50	02/24/06	02/24/15	100,000	100,000	02/24/06, 02/24/07, 02/24/08, 02/24/09, 02/24/10

* A portion of the options vested upon the Company receiving approval of its drug ESTORRA in February 2004, the remainder vested in two equal annaul installments commencing on August 22, 2003.