



#### This 3DAdvisors Report Covers:

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

## Insider Research Bulletin

June 23, 2008

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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

- ▶ Gymboree Corp. (NASDAQ: GYMB)
- ▶ J.B. Hunt Transport Services Inc. (NASDAQ: JBHT)
- ▶ McDermott International Inc. (NYSE: MDR)

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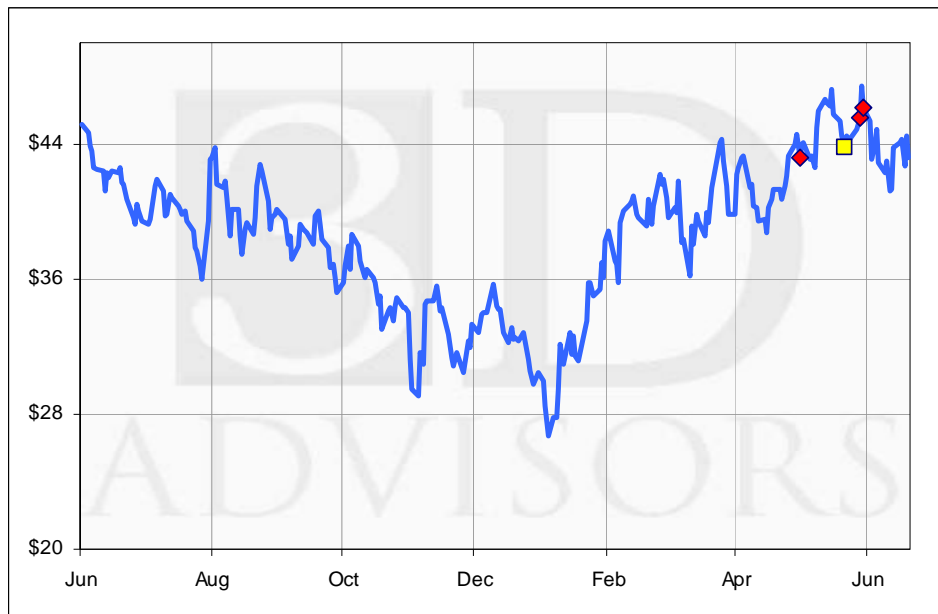
## Discussion of 3DAdvisors Findings

### Gymboree Corp. (NASDAQ: GYMB)

On the surface, children’s apparel retailer Gymboree Corp. would not strike one as the most attractive short candidate due to its current earnings momentum and Wall Street fanfare. The shares traded to an all-time high just ahead of its first quarter earnings release on May 21<sup>st</sup> and the Company did not disappoint, reporting earnings of \$0.86, a 28% increase over the year-earlier quarter, which bested the analysts’ consensus by \$0.02. Management also raised its earnings expectations for the remainder of the year, increasing guidance 3.5% to a range of \$3.10 to \$3.15. But whereas management at The Children’s Place Retail Stores, Inc. (NASDAQ: PLCE) issued a degree of caution with its 2008 outlook due to the current economic environment, Gymboree’s Chairman and Chief Executive **Matthew McCauley** stated, “Looking forward, we are not anticipating the macro environment to change significantly”. Two differing viewpoints indeed, but record sales by three of Gymboree’s top executives shortly after these comments were issued suggests there might be more skepticism

amongst the management hierarchy than they would like investors to know. With the number of shares short jumping 11% in the aftermath of the earnings release, the third largest increase in the past year, it would seem not all investors have fallen for management's song and dance.

**Figure 1.** GYMB Daily Closing Price, 06/01/07 through 06/20/08. Yellow square indicates date of 1Q08 earnings release; Red diamonds represent dates of insider sales before and after earnings were reported. Source: Reuters and GYMB SEC Filings.



The selling in the current quarter actually began in April, when named officer **Lynda Gustafson**, the Company's Controller, dropped nearly 70% of her actionable holdings just one day before the first quarter closed. Though this was not her largest sale based on volume, Gustafson had never before sold such a high percentage of her holdings. Shortly after earnings were released, COO, CFO and board member **Blair Lambert** and Senior V.P. **Marina Armstrong**, both named executives, surfaced on May 28<sup>th</sup> to sell 55% and 45% of their holdings, respectively. Both officers sold at a record clip in terms of volume and percentage. Two days later CEO McCauley dropped 46% of his ownership. Though we have just four sellers to report, Gymboree has only six Section 16 officers in total. The other two, President **Kip Garcia** and V.P. of Finance **Jeffrey Harris**, sold 30% of their personal holdings in February. Each officer will have stock options become exercisable through the end of the year, but these amounts are negligible; the bulk of their derivative equity scheduled to vest over the next 52 weeks will not become actionable until next April.

With the issue having climbed almost 90% from a January low of \$25 to an all-time high of \$47 in May, we suspect valuation may be an internal concern. Insiders have never before sold in concert to this degree, but what really drew our attention to the activity, in addition to the large holdings reductions, is the fact these record sales were executed at the same time Gymboree, for the first time in 2 ½ years, threw the brakes on its persistent stock buybacks. Since November 2005 the board has authorized five repurchase programs. The last plan, adopted in November 2007, was completed in

February and for the first time during this stretch a new plan was not initiated immediately after the conclusion. The question of a new plan came up on the first quarter conference call:

**Analyst:** With these increased number of Crazy 8s, even though CapEx might go up a little more, you're still going to obviously be generating free cash and have cash, so can we look for a new buyback program? What are you waiting for, for that leg?

**Blair Lambert, COO/CFO:** In terms of cash and whether you can expect buyback. We're always looking at shareholder value and continue to assess all opportunities out there, and buyback is certainly one of them and we're constantly evaluating what the best return on the investment is for the shareholders. So there's nothing in the near term plan, but rest assured, we're constantly looking at the best use of that cash.

Gymboree reported having \$58 million cash at the end of the first quarter, the largest amount since February 2003. The Company does not have any current or long term debt on the books and capital expenditures for the year were projected to come in below 2007 despite an increase in the number of new openings for its Crazy 8 concept store. With all required variables for buying back stock currently on par or better to past periods, it seems to us the only reason Gymboree has shelved its repurchases is due to valuation, or as CFO Lambert put it, they see better uses for their cash. While the buybacks could be reinstituted down the road, the fact that they have been curtailed for now, combined with the recent trading behavior of insiders, provides a pretty strong, if not obvious signal to investors.

- **Matthew McCauley (35)\*** – Chairman, Chief Executive Officer. McCauley has made a fast rise to the top post since joining the Company in 2001 and serving in a number of lower level officer positions through early 2005. His sales have been scarce since initially registering as a Section 16 insider in May 2003, but his last two, executed in April and June 2007 were executed at short-term highs just before the shares would reverse course. His latest trade, a sale on May 30<sup>th</sup> covering 113,178 shares seems similarly well timed as he dumped the shares at \$47, right at the high, before the issue traded back down to \$41 over the next ten sessions. The disposed shares were acquired on the same day when he exercised options from six different series with expiration dates between September 2012 and February 2015. **The shares accounted for 46% of his actionable holdings.** McCauley is scheduled to vest in 122,000 shares and options through the end of 2009 (see Appendix A).
- **Marina Armstrong (45)\*** - Senior V.P. of Stores, Human Resources, Loss Prevention and Play & Music. Armstrong executed 13 sales between 2002 and 2007 but none gets close to matching the volume of her most recent disposition. On May 29<sup>th</sup> she cleared out all stock options from her June 2012, September 2013 and February 2014 series, immediately selling the 82,085 shares for \$45 each. The sale **erased more than 40% of her ownership**, by far the highest percentage reduction associated with any of her past sales. She will have only 55,000 shares and options become exercisable by December 2009 (see Appendix A).

- **Blair Lambert (50)\*** - Chief Financial Officer, Chief Operating Officer, Director. Lambert joined the Company in 2005 after serving in the same finance position at a number of retailers since 1998. His last stint at Illuminations.com lasted only five months before the company went bankrupt. He has not been shy about taking profits during his time at Gymboree, but his holdings actually increased year over year despite the selling. That was until this year. On May 28<sup>th</sup> and May 29<sup>th</sup> Lambert not only monetized 35,417 of his new-hire options not set to expire until January 2015, but also sold an additional 38,000 out of his common holdings, which in total **represented 55% of his position**. This was by far his largest sale to date. Lambert will pick up another 75,000 shares through next year from the vesting of derivative equity (see Appendix A).
- **Lynda Gustafson (43)\*** – V.P., Controller. Gustafson has been a low volume trader since registering as a filing insider back in February 2005, but only because she has limited ownership to take profits on. For this reason her trading decisions are just as telling as those mentioned above with larger ownership positions. Gustafson monetized options from all three of her fully or partially vested option series (expiration dates: April 2013, November 2014 and February 2015) between March 19<sup>th</sup> and April 30<sup>th</sup> while also lightening her common stock holdings. In all, she sold 12,352 shares which **comprised nearly 70% of her actionable ownership** and left her holdings at their lowest level on record. The disposed shares will not be replaced in full by the 6,600 options and shares that will vest through the end of 2009 (see Appendix A).

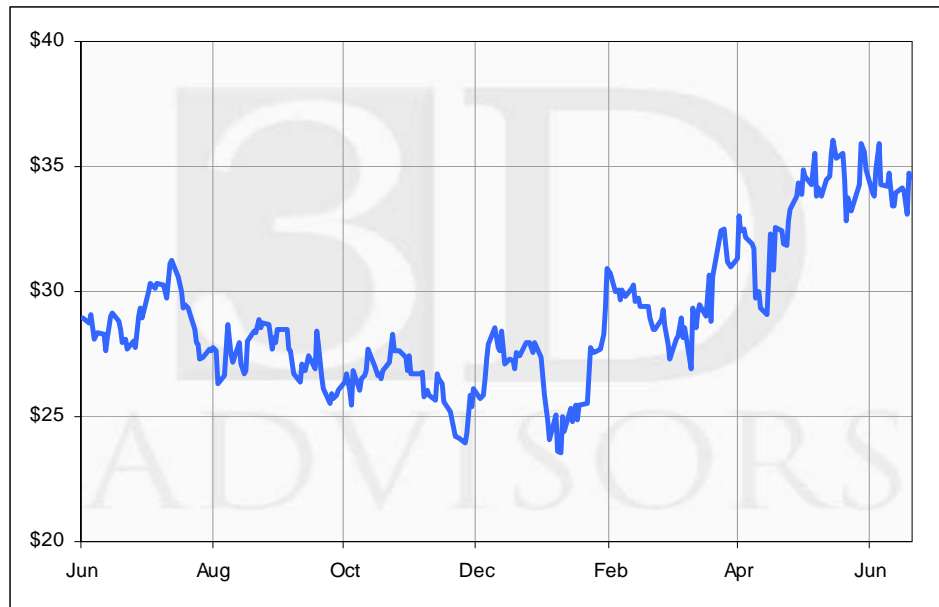
\* Indicates individual was a "Named Executive" in the Company's last proxy.

#### J.B. Hunt Transport Services, Inc. (NASDAQ: JBHT)

Despite the continuation of record high diesel prices, a bull case is being made, in certain Wall Street camps, for the trucking industry. Although few are predicting a near-term turnaround for what has been one of the most challenging periods in the last two decades, a number of analysts and media outlets have prophesized trucking and logistics companies are poised for quick gains at the onset of an economic recovery. But what has us mystified is that diesel continues to hover near all-time high prices, first quarter earnings reported by trucking firms came in below expectations, the Department of Transportation continues to report declining freight activity figures, and yet, the DJ Trucking Index is up 18% on the year, outpacing the S&P by 28%. At the top of the list, at least in terms of market cap, is J.B. Hunt Transport Services, whose 25% year-to-date gain bests all but 4 of the other 22 companies in the Index. JBHT currently trades at 18 times forward earnings, which values it near the top of its peer group. The question remains whether the recent momentum that has carried the shares to a new all-time high is justified, or if the shares are poised to collapse under the weight of a decelerating economy and deteriorating fundamentals.

While we are well aware of the bull case being made by some for JBHT (and some others in the sector), we are also well aware there is a fair amount of skepticism regarding the shares given the fact that about 16.4 million shares are short, or about 20% of the float. Normally, we might avoid JBHT due to this relatively high short interest, but there are some unique aspects to the trading profile that are not broadly known and thus we feel we have some important information to add.

**Figure 2.** JBHT Daily Closing Price, 06/01/07 through 06/20/08. Source: Reuters.



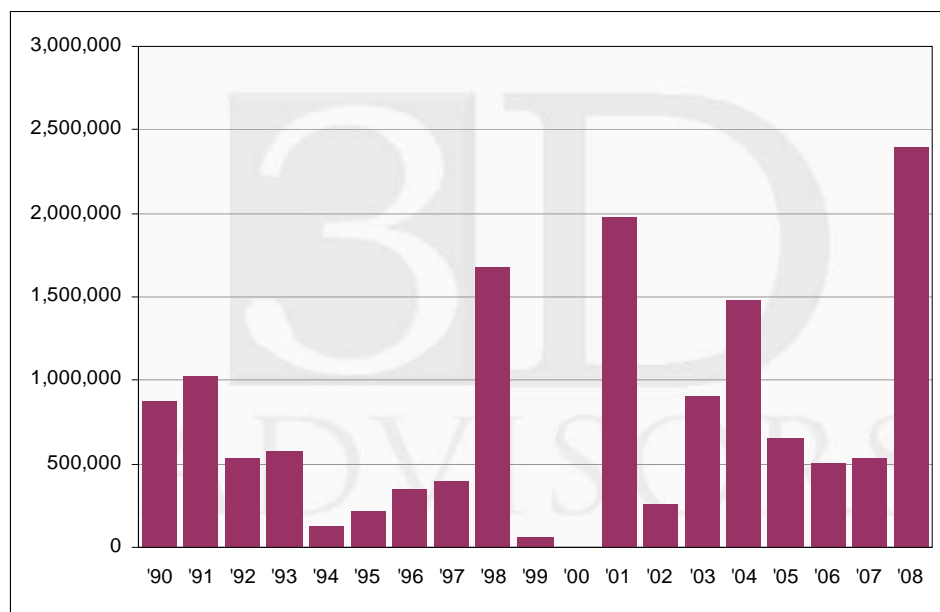
One would be hard pressed to find bearish signals more convincing as those currently imparted by the JBHT insiders. Not only do we have historically large open market selling volume and resulting holdings reductions, but ownership positions are highly leveraged by personal borrowings. Additionally key officers are clearing JBHT stock out of their 401(k) plans. While JBHT officers and directors have been active traders in the past, we have not seen selling to this degree in the past 18 years. If we exclude the sales of Company founder **Johnnie B. Hunt** (passed away in December 2007), who controlled 27.5% of the outstanding shares and are now owned by his wife, **Johnelle Hunt**, the selling volume through the first half of 2008 already surpasses the volume for any *full year* going back to 1990 (see Figure 3 below). We can also report that the number of insiders that have sold shares so far this year (15) exceeds the highest total for a full-year by 50%. With the shares trading at record prices we can certainly appreciate there will be a number of insiders who opt to take profits and lighten their positions to a certain degree, but the break in their behavior is so extreme and stands in such stark contrast to the bullish sell-side opinion that it really stands out to us. Here are the additional details on the trading profile at JBHT, some of which are fairly rare and not broadly known.

#### *Significant Amount of JBHT Shares Pledged*

We have issued a continuing series of Special Reports ([09/14/07](#) and [05/14/08](#)) on the topic of corporate insiders who use their stock as collateral to secure personal loans and margin accounts and the risks associated with this behavior. Due to the laconic wording used by J.B. Hunt to disclose this information, our screens did not pick up on the considerable amount of stock five insiders have put up to effectively monetize their common stock holdings. Had we spotted this earlier, the Company would have been a focus name in our last Special Report. Heading the list is the aforementioned Johnelle Hunt, who just recently resigned from the board after 15 years due to the

Company's mandatory retirement age. However, she still serves as JBHT's corporate secretary. It is reported that 19.7 million of her 34.4 million shares are currently pledged, although the Proxy does not provide any more color on her indebtedness or what financial institution(s) currently hold these shares. Executive Chairman **Wayne Garrison** and President, CEO **James "Kirk" Thompson** collectively pledged nearly 1 million shares for undisclosed uses, while **Director Bryan Hunt**, son of Johnelle and J.B. Hunt, now has his entire actionable position pledged as collateral following his most recent sales. In total, the 20.5 million shares currently tied up by J.B. Hunt's insiders for their personal borrowings accounts for 16.4% of the outstanding shares, a dangerously high percentage should the issue suffer a substantial price correction.

**Figure 3.** Annual Selling Volume of JBHT Insiders. (Note: 2008 through 06/20/08 only)  
Source: JBHT SEC Filings.



This pledged stock profile might strike a chord with those of our clients who have read the last Special Report which included a detailed account of similar activity at JBHT competitor, Knight Transportation, Inc. (NYSE: KNX). Knight presents another example of a closely held family operation where the insiders have leveraged a significant amount of the Company's outstanding shares, placing themselves and shareholders at risk if the credit obligations go into default and the financial institutions reclaim (i.e. sell) the stock. In Knight's case, 20% of the Company's outstanding shares are pledged, but the disclosure, similarly ambiguous to that of JBHT's, fails to outline what type of credit the stock has been used to secure. There has also been insider selling at Knight as recently as May, but as we pointed out in the report, the higher volume sales occurred in the fourth quarter of last year.

#### *Officers Reversing Retirement Plan Stock Acquisitions*

Allow us to put this out there right from the beginning: insiders selling out their company's stock from personal retirement plans *before* reaching retirement age is a rare

and to us a potentially significant behavior. Most companies match or make contributions to executives' retirement accounts, such as a 401(k) plan, to promote retirement savings, so the goal of company-sponsored benefit plans is to facilitate stock accrual. This applies to J.B. Hunt, which annually contributes roughly \$6,000 to the named officers' 401(k) accounts. The implication of this behavior is fairly clear-cut, as the insider deems higher returns can be generated by investing in other assets. J.B. Hunt executives have regularly contributed to their 401(k) accounts, even making some sizeable fund transfers along the way to accumulate additional JBHT shares in their retirement accounts. That changed this quarter when three key operating officers cleared out all the JBHT stock held in their accounts. The most notable activity came from CEO Thompson who liquidated all 16,000 shares held in his retirement account. What makes his sale so noteworthy is that Thompson had reallocated \$280,000 of his plan assets last August to purchase 10,329 JBHT shares when the issue traded at \$27 and is already pulling them out after a 24% gain. But more on Thompson later.

Also selling was Executive V.P. of Sales and Marketing **Terrence Matthews**, who has regularly bought JBHT shares for both his and his wife's 401(k) accounts for the past nine years. He last purchased \$55,000 of JBHT for his account in February with the shares trading at \$30 only to then sell 100,000 of the 104,000 plan shares two months later after the issue gained 6%. It was clearly defined on the Form 4 that this was an intra-fund transfer, which indicates he sold the stock and reinvested the cash into other assets. Finally, COO Harper liquidated the 17,000 shares held in his account just three months after the Company made his annual \$6,000 contribution. Even though he has been an active seller over the years, including the monetization of shares through multiple forward sale contracts, this was the first time on record that he sold his retirement account shares. We should also point out that these 401(k) dispositions do not show up as sales on any insider data reporting website and typically go unnoticed by the investor community. Pursuant to Rule 16(a), these trades qualify as a discretionary transaction resulting in disposition of issuer securities (part of a qualified benefit plan), which require they be filed with an "I" transaction code on the Form 4s. Although the insider is in fact selling the stock on the open market, a transaction that should warrant filing the open market sale transaction code ("S"), companies do not pass up the opportunity to use the "I" code, which results in the transaction receiving less attention and scrutiny.

Executive	Position	401(k) Shares Sold	Sale Date	% of Shares Held in 401(k)
Kirk Thompson	President, CEO	16,357	06/02/08	100%
Craig Harper	COO	17,439	05/06/08	100%
Terrence Matthews	EVP of Marketing	100,000	04/21/08	96%

### *Significant Ownership Erosion*

On April 14<sup>th</sup> J.B. Hunt reported an 18% drop in first quarter profits which, contrary to most guesstimates, was not directly related to fuel prices, but a 16% decline

in loads in the Company's Truck operations. Revenues increased 10% in the quarter, but 7% of the gain was attributed to fuel surcharges passed onto JBHT's customers. On a sequential basis, earnings declined 33% from 4Q07 while operating revenues came in 9% lighter. To this, CEO Thompson commented, "Given the unprecedented rise in fuel prices during the first quarter 2008 and extreme weakness in freight demand in our Truck segment, we are actually quite pleased with the relative performance of our Company". While Thompson might say he is satisfied with the quarterly results, his behavior does little to suggest he has any confidence in the near-term prospects for the shares. Just two days after making the above statement, **Thompson began monetizing every last share and option at his disposal, including all those held in his retirement plan, and by June 2<sup>nd</sup> had cleared out his entire position.**

It should be no surprise that, when 2.4 million shares are sold in a six month period at a Company where executives and directors hold only 11 million<sup>1</sup>, that there is going to be some resulting holdings erosion. COO Harper monetized all of his available stock options while also clearing out common stock along with his 401(k) shares which resulted in a 75% reduction of his actionable ownership. Similarly, Executive V.P. Matthew's and Director Bryan Hunt's actions described above resulted in a 65% and 95% reduction, respectively, in their personal exposure to JBHT shares. The list goes on as can be expected when 15 different insiders aggressively take profits, which points to a starkly different level of confidence than certain sell-side analysts are currently advocating. We have always stressed that it is imperative to assess the downstream vesting of derivative equity when addressing the significant ownership reductions. In this case, JBHT executives sold considerably more shares in the past year than they will vest in over the next 52 weeks. The figures in the table below speak for themselves.

Officer	Position	Shares Sold Last 52 Weeks	Options/Shares Vesting Next 52 Weeks
W. Garrison	Exec Chairman	1,402,591	60,000
K. Thompson	Pres, CEO	334,309	82,980
C. Harper	COO	202,935	38,490
J. Walton	CFO	81,332	21,332
P. Bergant	CMO	189,814	18,336
T. Matthews	EVP of Marketing	172,264	28,890

Here are the details on the more noteworthy activity by selected insiders:

- **James "Kirk" Thompson (54)\*** – President, Chief Executive, Director. Thompson heads the list of JBHT insiders who executed record sales this year. After never having sold more than 160,000 shares in any one of the past fifteen years, he

<sup>1</sup> This excludes the 34 million shares owned by Johnelle Hunt.



dumped 271,000 shares between April 17<sup>th</sup> and June 2<sup>nd</sup> at prices between \$31 and \$35. Included in the total, Thompson sold 192,000 out of his common holdings, and then on June 2<sup>nd</sup> monetized all 62,000 options that vested on the prior day. He additionally cleared out all 16,357 held in his 401(k) account. Following these trades, Thompson now holds only 200,000 shares of common stock all of which, according to the current Proxy, are pledged as collateral for undisclosed loans or margin requirement. In other words, **Thompson cleared out his entire actionable position**, which is even more unmistakable based on 401(k) account liquidation. Roughly one-third of the total sold in the past two months will be replaced by the 82,000 options and shares he will vest in over the next two years (see Appendix B).

- **Wayne Garrison (55)\*** – Executive Chairman. Garrison has been JBHT's chairman since 1995 but held a number of executive positions between 1978 and 1991. Although he has been a frequent trader over the years, 18 of his last 19 sales occurred between 1990 and 2001. He had not sold in nearly four years. Despite the multiple sales in the last 18 years, no period of activity gets close to matching his selling volume thus far in 2008. Without any vested options at his disposal, Garrison turned to his common holdings to sell 1,002,591 shares on February 20<sup>th</sup>, netting \$28.3 million. He would resurface on May 15<sup>th</sup> and May 16<sup>th</sup>, after the shares moved up to the \$35 range, to sell another 400,000 shares for \$14.2 million. **The 1.4 million sold accounted for 20% of his actionable holdings**, which takes into account the 500,000 shares he pledged to secure an undisclosed indebtedness. He will have only 60,000 options and shares vest over the next 52 weeks (see Appendix B).
- **Alfred “Craig” Harper (50)\*** – Executive V.P of Operations, Chief Operations Officer. Harper has been on our radar for a number of years due to the multiple forward sale contracts he has opened since 2005. We can now add him to the list of open-market sellers as well, as he sold 108,047 shares since February 1<sup>st</sup>, beginning immediately after 4Q07 earnings were released. After first selling 60,000 out of his common holdings in February, he would then cash out all 17,439 shares held in his 401(k) plan on May 6<sup>th</sup>. Most recently, he monetized all 30,608 options that vested one day earlier. These sales hold even more significance since Harper is scheduled to deliver 60,000 of his remaining common shares on June 20<sup>th</sup> under the terms of a forward sale contract entered into in July 2005. After that, he will still have 40,000 shares pledged through a second contract he opened in August 2006. **By July 1<sup>st</sup> Harper's actionable holdings will be down 75% since January** and have no prospect of being replenished to their former levels (outside of open market purchases) as he will vest in only 38,000 options and shares through the end of 2009 (see Appendix B).
- **Paul Bergant (61)\*** – Executive V.P., Chief Merchandising Officer, President of Intermodal. Bergant has been a fairly frequent trader over the years, having executed 30 sale transactions between 1990 and 2007. This year has proven no different, as he sold 70,000 shares out of his common holdings on February 4<sup>th</sup> and February 11<sup>th</sup>, and once he vested in options (he had no actionable options in February) on June 1<sup>st</sup>, resurfaced to monetize all 31,332 new options on June 5<sup>th</sup> at \$34, none of which would have expired before December 2009. The 131,000 shares sold this year **accounted for 32% of his actionable holdings**, which now consist of just common stock. Based on the number of unvested options and shares he holds,

it will take more than four years to replace the ownership diversified away thus far in 2008. As of now, he has only 20,000 options and shares on tap to vest through the end of 2009 (see Appendix B).

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

### McDermott International, Inc. (NYSE: MDR)

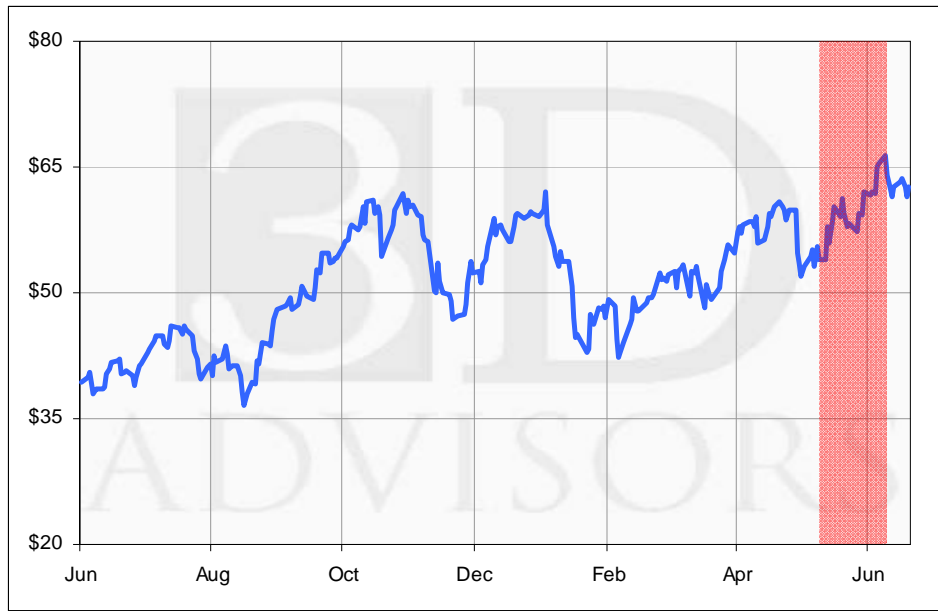
Engineering and Construction firm McDermott International Inc. has certainly benefited from the growing demand for energy as well as infrastructure spending over the recent past. MDR shares have gained 50% over the past 52 weeks, besting their peer group by 15% and the DJIA by 65% over the same period. Although its already robust backlog continues to build, the Company reported a 22% drop off in first quarter earnings on May 12<sup>th</sup>, which it attributed to weather-related downtime and fewer project close-outs. Chairman, Chief Executive **Bruce Wilkinson** did not prevaricate about the issues on the conference call, saying he was not pleased with the performance, but also went on to add, "We have much higher expectations for the rest of the year". The confidence conveyed to the analysts on the call seems to have achieved its intended effect as MDR gained 7% that day, but the ensuing trading behavior by management has done little to convince us the first quarter setback was the temporary hiccup that was suggested during the conference call.

Just two sessions after the first quarter release MDR insiders began taking profits and by June 10<sup>th</sup>, seven operating executives and one board member sold 395,000 shares at prices from \$57 to \$64. What jumps out first about the nature of the sales is that the majority of shares distributed were *not* executed under the 10b5-1 trading plans which management has regularly used since early 2006. This was the first occurrence in a number of years of an all-encompassing, impromptu diversification effort. The recent activity poses a very telling departure from their past sales which were robotically timed and covered uniform amounts of stock. For example, Chief Administrative and Legal Officer **John Nesser III** has systematically been selling 30,000 shares per month under a sales plan adopted in May 2006. Following the 1Q08 earnings release he dumped 140,000 shares. Similarly, **John Fees**, President and CEO of The Babcock & Wilcox Co. division, had sold 4,000 shares each month between September 2007 and March 2008. On May 14<sup>th</sup> he unloaded 64,000 shares. These deviations from regular trading patterns are the first of a number of red flags that raised our antennae.

Second on our list is the holdings erosion that has resulted from their selling over the past year which was exacerbated by the most recent activity. Since the beginning of 2Q07, the seven officers who recently took profits have erased 65% of their collective ownership. Included in this group is the aforementioned Wilkinson, who sold 61%, President and CEO of the J. Ray McDermott division **Robert Deason**, whose 315,000 shares disposed accounted for 65% of his actionable holdings, and General Counsel **Liane Hinrichs**, whose ownership is now 75% lighter. Of the eight sellers, including Director **Ronald Cambre**, four monetized their last remaining stock options. The reason this latter point is of great significance is because the Company has not awarded officers options since 2005, which are now fully vested. The only time-vesting (unvested) derivative equity they currently hold is one restricted stock award issued in May 2008, which is considerably smaller than previous option grants. For example, Robert Deason was awarded 50,000 and 30,540 options in 2004 and 2005, respectively, but received

only 7,620 restricted shares in 2008 which vest ratably over three years. So after having sold more than 300,000 shares in the past year, he will gain only 2,540 shares through the end of 2009. This trend is consistent across the management team and tells us they see more value in taking the cash now instead of retaining their shares for future profit taking opportunities.

**Figure 4.** MDR Daily Closing Price, 06/01/07 through 06/20/08. Red shaded area is where 7 insiders sold 395,000 shares following 1Q08 earnings. Source: Reuters and MDR SEC Filings.



We are aware that McDermott Intl. seems to be undergoing a ‘changing of the guard’ so to speak at the highest levels. At the same time former CFO **Francis Kalman’s** resignation became effective in February, Wilkinson announced he intended to retire from his executive and board posts at the end of 2008. He commented on the Q1 conference call that a search for his successor was underway, and imparted they were looking at both internal and external candidates, but did not allude to any timetable for his replacement to be named. These moves followed last year’s repositioning of long-time head counsel John Nesser to a different role. While managerial changes of this degree would normally make us a little apprehensive about the significance of the insider activity, we point out that both new General Counsel Hinrichs and CFO **Michael Taff** both sold very material percentages of their holdings in May and there was corroboration from a number of other high-level executives who have not shown any signs of leaving.

- **Bruce Wilkinson (63)\*** – Chairman, Chief Executive Officer. There has been a noticeable acceleration in Wilkinson’s ownership diversification efforts since he adopted his first 10b5-1 sales plan in November 2005. Having been a buyer between 2000 and 2003, it was not until he first began utilizing trading plans that his holdings began to steadily diminish. Under his second plan, which lasted between March 2007 and March 2008, Wilkinson sold 1.68 million shares before immediately

adopting a third plan to continue his profit taking without interruption. He has since sold another 130,000 shares between April 3<sup>rd</sup> and June 2<sup>nd</sup> and is currently on pace to monetize the remainder of his options by December. So far he has **erased 60% of his actionable holdings**. Although he does hold 700,000 shares of common and has surpassed his ownership requirement, we do not consider it a positive sign to see a chief executive clear out all derivative equity, even those who plan to leave and unwind their positions well ahead of their departure date.

- **John Nesser III (59)\*** – Executive V.P., Chief Administrative and Legal Officer. Nesser served as McDermott's head counsel from 2000 until January 2007, having previously managed a New Orleans based law firm he founded in 1985. Considering his legal pedigree, we were surprised to see Nesser traded outside his ongoing 10b5-1 plan, adopted in May 2006. Apparently he no longer sees the need for the safe harbor protection offered by Rule 10b5 and traded without one this year. After religiously selling 30,000 shares per month with a plan, Nesser increased his volume without any constraints limiting his activity, selling 186,390 shares between March 3<sup>rd</sup> and May 23<sup>rd</sup>. The sales were the result of Nesser's having cleared out all of his remaining stock options which came from five different series with expiration dates ranging between March 2010 and May 2015. **His actionable holdings are now 35% lighter** and will not be replaced in the near term as he will have only 2,400 shares vest in 2009 (see Appendix C).
- **Louis Sannino (59)** – Executive V.P. of Human Resources. Sannino has managed the Company's HR functions for the past twenty years and has been a Section 16 filing insider for the past seven. His trades have been erratic over this period but he has made them count, averaging 115,000 shares over six sales between 2005 and 2007. This year the volume has been no different, as Sannino sold 117,000 shares on March 10<sup>th</sup> and June 10<sup>th</sup>, only now the trades have had a more damaging effect on his holdings. Without any unvested derivative equity in his possession (see Appendix C), he took profits on 60,000 of his common holdings and also cleared out his last remaining options which were not scheduled to expire until May 2015. **His ownership is down 75% in the past year** without any chance of its being replenished.
- **John Fees (50)\*** – President, CEO of The Babcock & Wilcox Co. Fees has worked for McDermott and its subsidiaries for three years and a registered insider since 2002. He has been a regular seller over the past four years, executing a total of 29 dispositions since April 2004. Between March 2007 and March 2008 his sales were systematically executed with the assistance of a sales plan, but that changed with his most recent sale. On May 15<sup>th</sup> Fees monetized the last of his vested options (expiration dates: March 2014 and May 2015) to sell 64,605 shares at \$57. **His holdings are now down 45% in the past year**, and equally important, after owning a total of 575,000 vested options and shares in 2005, he now holds fewer than 100,000 (all common stock). With just 3,000 shares scheduled to vest in 2009 (see Appendix C), there is no chance of his holdings climbing back to earlier levels.
- **Liane Hinrichs (50)** – V.P., General Counsel, Secretary. Hinrichs has held a number of roles in McDermott's legal department since 1999 but took over the top spot in January 2007. On May 15<sup>th</sup> she monetized all of her remaining options which came from three different series, none of which was scheduled to expire before April

2013. She immediately sold the exercised for 25,290 shares for \$57 apiece, **erasing 75% of her actionable ownership**. With just 2,700 shares currently scheduled to vest through 2010 (see Appendix C), it seems she has opted for cash in hand now over holding her MDR shares.

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

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## Appendix A

### Common Stock and Option Holdings for Selected Gymboree Corp. Insiders

Name	Actionable Position as of 06/09/08:			Derivative Equity Expected to Vest in Next 12 Months			
	Common	Options <sup>1</sup>	Total <sup>2</sup>	Grant Date	Strike Price <sup>3</sup>	Vesting Dates <sup>4</sup>	# Vesting
<b>Marina Armstrong</b> Senior V.P. of Stores, Human Resources, Loss Prevention and Play & Music	51,928	62,733	<b>114,661</b>	11/18/04	\$11.66	07/18/08 - 10/18/08	4,167
				03/21/05	\$12.24	07/18/08 - 03/18/09	4,688
				02/10/06	N/A	02/10/09	12,500
				02/10/07	N/A	04/17/09	26,250
				02/10/06	N/A	04/19/09	7,500
							<b>55,105</b>
<b>Kip Garcia</b> President	41,687	32,292	<b>73,979</b>	11/18/04	\$11.66	07/18/08 - 10/18/08	4,167
				02/10/06	N/A	02/10/09	12,500
				02/10/07	N/A	04/17/09	26,250
				02/10/06	N/A	04/19/09	10,000
							<b>52,917</b>
<b>Lynda Gustafson</b> V.P., Controller	3,074	3,109	<b>6,183</b>	02/07/05	\$12.00	07/07/08 - 02/07/09	3,334
				11/18/04	\$11.66	07/18/08 - 10/18/08	584
				02/10/06	N/A	02/10/09	1,250
				04/05/07	N/A	04/05/09	1,000
							<b>6,168</b>
<b>Jeffrey Harris</b> V.P. of Finance	5,655	6,646	<b>12,301</b>	06/30/05	\$13.66	06/30/08 - 05/30/09	8,748
				06/30/05	N/A	02/10/09	2,000
				04/05/07	N/A	04/05/09	1,000
							<b>11,748</b>
<b>Blair Lambert</b> CFO, COO, Director	13,137	46,747	<b>59,884</b>	01/10/05	\$12.60	07/10/08 - 02/10/09	14,584
				01/10/05	N/A	07/10/08 - 02/10/09	7,292
				03/21/05	\$12.24	07/21/08 - 03/21/09	18,750
				02/10/07	N/A	04/17/09	26,250
				02/10/06	N/A	04/19/09	7,500
							<b>74,376</b>
<b>Matthew McCauley</b> Chairman, CEO	83,267	50,188	<b>133,455</b>	02/07/05	\$12.00	07/07/08 - 02/07/09	8,334
				11/18/04	\$11.66	07/18/08 - 10/18/08	6,944
				03/21/05	\$12.24	07/21/08 - 03/21/09	9,376
				02/10/07	N/A	04/17/09	36,458
				02/10/06	N/A	04/19/09	45,000
				06/13/05	N/A	06/13/09	25,000
							<b>122,778</b>

<sup>1</sup> Total number of vested, in-the-money options.

<sup>2</sup> Total actionable position includes common stock plus vested in-the-money options.

<sup>3</sup> Strike Price N/A indicates the series is restricted stock, not options.

<sup>4</sup> A range of dates indicates the options vest equally on a monthly basis. The total provided is the cumulative amount of equity scheduled to vest during the date range.



## Appendix B

Common Stock and Option Holdings for Selected J.B. Hunt Transport Services Inc. Insiders

Name	Actionable Position as of 06/20/08:			Derivative Equity Expected to Vest in Next 12 Months			
	Common	Options <sup>1</sup>	Total <sup>2</sup>	Grant Date	Strike Price	Vesting Date	# Vesting
<b>Paul Bergant</b> Executive V.P., Chief Marketing Officer, President of Intermodal	308,773	10,000	<b>318,773</b>	10/16/06	N/A	07/15/08	2,996
				11/01/07	N/A	07/15/08	5,000
				10/23/03	\$12.20	06/01/09	13,336
							<b>18,336</b>
<b>Wayne Garrison</b> Executive Chairman	5,979,090	0	<b>5,979,090</b>	10/27/05	N/A	07/15/08	5,000
				10/26/06	N/A	07/15/08	5,000
				11/01/07	N/A	07/15/08	30,000
				10/23/03	\$12.20	06/01/09	20,000
							<b>60,000</b>
<b>Alfred "Craig" Harper</b> Executive V.P. of Operations, Chief Operations Officer	159,643	0	<b>159,643</b>	10/24/02	\$7.08	06/01/09	8,890
				10/23/03	\$12.20	06/01/09	9,600
				11/02/01	\$3.47	06/02/09	20,000
							<b>38,490</b>
<b>Terrence Matthews</b> Executive V.P. of Sales and Marketing	54,093	24,008	<b>78,101</b>	08/05/02	\$5.61	06/01/09	12,000
				10/24/02	\$7.08	06/01/09	8,890
				10/23/03	\$12.20	06/01/09	8,000
							<b>28,890</b>
<b>Kay Palmer</b> Executive V.P., Chief Information Officer	55,538	0	<b>55,538</b>	02/19/02	\$5.65	06/01/09	12,000
				10/24/02	\$7.08	06/01/09	6,667
				10/23/03	\$12.20	06/01/09	8,000
							<b>26,667</b>
<b>Bob Ralston</b> Executive V.P. of Equipment and Properties	131,658	36,532	<b>168,190</b>	10/16/06	N/A	07/15/08	2,000
				11/01/07	N/A	07/15/08	3,500
				10/23/03	\$12.20	06/01/09	13,336
							<b>18,836</b>
<b>James "Kirk" Thompson</b> President, CEO, Director	200,000	0	<b>200,000</b>	11/05/00	\$3.37	06/01/09	15,200
				10/24/02	\$7.08	06/01/09	17,780
				10/23/03	\$12.20	06/01/09	20,000
				11/02/01	\$3.47	06/02/09	30,000
							<b>82,980</b>
<b>Jerry Walton</b> Executive V.P. of Finance and Administration, CFO	179,840	23,332	<b>203,172</b>	10/16/06	N/A	07/15/08	2,996
				11/01/07	N/A	07/15/08	5,000
				10/23/03	\$12.20	06/01/09	13,336
							<b>21,332</b>

<sup>1</sup> Total number of vested, in-the-money options.

<sup>2</sup> Total actionable position includes common stock plus vested in-the-money options.

<sup>3</sup> Strike Price N/A indicates the series is restricted stock, not options

Note: Red text indicates series is currently out-of-the-money



## Appendix C

Common Stock and Option Holdings for Selected McDermott International, Inc. Insiders

Name	Actionable Position as of 06/12/08:			Derivative Equity Expected to Vest in Next 12 Months			
	Common	Options <sup>1</sup>	Total <sup>2</sup>	Grant Date	Strike Price	Vesting Date	# Vesting
<b>Robert Deason</b> President, CEO of J. Ray McDermott	70,682	30,540	<b>101,222</b>	03/03/08	N/A	03/03/09	2,540
<b>John Fees</b> President, CEO of The Babcock & Wilcox Co.	96,438	0	<b>96,438</b>	03/03/08	N/A	03/03/09	3,080
<b>Liane Hinrichs</b> V.P., General Counsel, Secretary	8,154	0	<b>8,154</b>	03/03/08	N/A	03/03/09	1,350
<b>John Nesser III</b> Executive V.P., Chief Administrative and Legal Officer	328,404	0	<b>328,404</b>	03/03/08	N/A	03/03/09	2,400
<b>Louis Sannino</b> Executive V.P. of Human Resources	116,800	0	<b>116,800</b>	--	--	--	--
<b>Michael Taff</b> Senior V.P., Chief Financial Officer	2,993	23,000	<b>25,993</b>	03/03/08	N/A	03/03/09	2,297
<b>Bruce Wilkinson</b> Chairman, Chief Executive Officer	696,128	261,840	<b>957,968</b>	--	--	--	--

<sup>1</sup> Total number of vested, in-the-money options.

<sup>2</sup> Total actionable position includes common stock plus vested in-the-money options.

<sup>3</sup> Strike Price N/A indicates the series is restricted stock, not options

Note: Red text indicates series is currently out-of-the-money