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

# Insider Research Bulletin

**August 26, 2009**

Contact: Bob Gabele (954) 779-3974 or bgabele@3DAdvisors.com
Sean Loren (954) 457-4991 or sloren@3DAdvisors.com

*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

- Chipotle Mexican Grill Inc. (NYSE: CMG)
- Equity LifeStyle Properties Inc. (NYSE: ELS)
- WMS Industries Inc. (NYSE: WMS)

---

## Discussion of 3DAdvisors Findings

Chipotle Mexican Grill Inc. (NYSE: CMG)

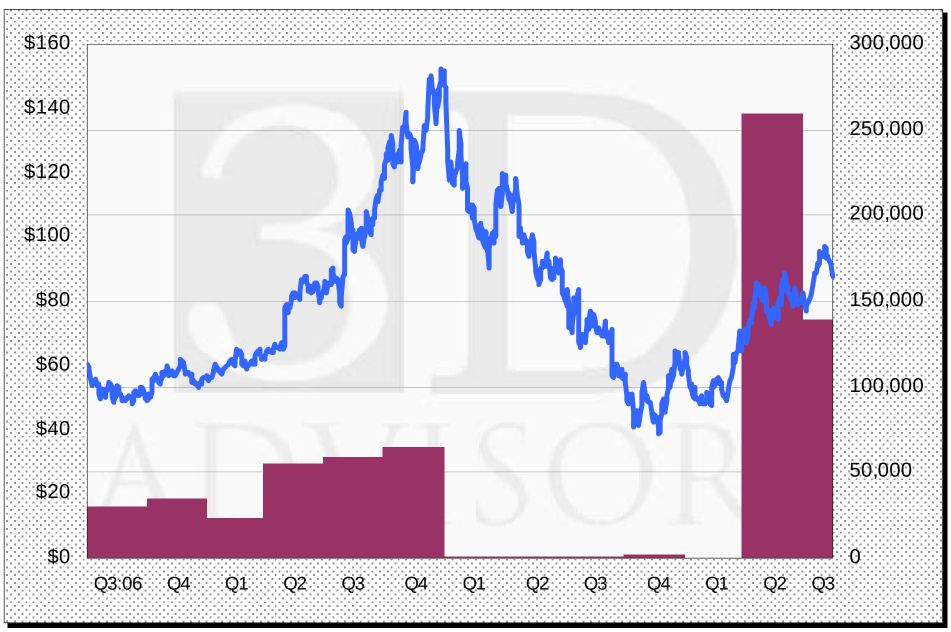
Despite having consistently increased sales and earnings on a year-over-year basis in each of the last ten quarters and proving itself more resilient to deteriorating restaurant industry trends than its peers, 'fast-casual' Mexican food restaurant operator Chipotle Mexican Grill's shares are among the top-five of most heavily shorted stocks. It is no secret why the Company has so many detractors; CMG shares currently have the highest price-to-earnings ratio (29.5) of any restaurant with a market capitalization over $500 million, while the management team sold aggressively in the second and third quarters and rising food costs and challenging fourth quarter comps stand in the way of any further gains for the remainder of the year and 2010. Even though we suspect our clients are well aware of the bear thesis, other recent high-flying fad stocks with significant bearish bets placed against them such as Crocs Inc., Zumiez Inc., and NutriSystem Inc. have taught us that insider trading behavior should not be ignored in such situations and in fact can sometimes offer important timing clues.

The insider profile at Chipotle is unique due to the Company's dual class structure (Class A and Class B), which stems from the McDonald's Corp. earlier investment and spin-off. There is an interesting dynamic between the two classes, whereas the less liquid Class B shares have historically traded at a discount to their counterpart, by as much as 31% back in October 2008. A well-known trading strategy involves playing the spread by buying the Class B shares and shorting the Class A. Chipotle's board and managers have undertaken a similar strategy of their own, as the Company continuously buys back Class B shares under a $100 million authorization announced in October 2008 while insiders aggressively sell their Class A. Despite collectively owning more Class B than Class A at the beginning of 2009, there has not been one share of the Class B sold this year.

We first started following the name back in April when insider sales commenced on the first day a trading window opened following the release of 1Q09 earnings. In a two-week span, eight executives and directors would sell 220,375 Class A shares in the low-to-mid $80s; prices considerably higher than the $37 low touched back in November but well off the issue's all-time high of $151. In an issue of *Sector Notes* we published on the restaurant group back on 05/07/09, we highlighted these sales as well as the attention they received from both the financial media and sell-side community. The Company of course downplayed the profit taking, attributing it to the timing of stock options having become exercisable during the first quarter while also proclaiming the participating executives still had substantial exposure following the trades.

**Figure 1.** CMG Quarterly Selling Volume of Class A Shares by Insiders, Q306 through Q309. Source: CMG SEC Filings.




A closer examination into their side of the story proved their comments false on all accounts, as the options in question had actually vested prior to the previous trading window that opened after the 4Q08 release and a few key operating executives, including Restaurant Support Officer **Robert Blessing**, a named executive officer, cleared out all actionable shares at their disposal. Then there is **Montgomery "Monty" Moran**, the Company's co-Chief Executive, who began trading under a 10b5-1 plan one week before the first quarter earnings release on April 22nd. He executed low-volume plan sales nearly every day leading up to earnings and even traded on the release date. After getting prices as high as $91.70 on April 23rd, he would sell the remaining shares reserved by the plan on April 24th in addition to taking profits on extra shares the very same session at prices as low as $80.78. Moran monetized all his vested stock options plus common which amounted to 92% of his Class A position.

Fast forward three months to the 2Q09 earnings release date on July 22nd: The issue trades in the high $80s before the release, comparable prices to those attainted around the time of the 1Q release back in April. Chipotle delivers 45% earnings growth in the quarter and reports a 1.7% increase in comps, driving the shares above $90 for the first time this year. Insiders are once again quick on the trigger, commencing a new round of sales immediately upon the opening of the new trading window. Chairman and Co-Chief Executive **Steve Ells** and CFO **Jack Hartung** open sales plans on July 24th and commence their sales that same day. Ells had just completed a previous plan on July 23rd and would sell all the shares reserved under this new plan in three consecutive sessions. Although their prior sales plans were not disclosed by the Company (the new plans were reported in the second quarter 10-Q), we suspect they were opened back in April. If this is in fact the case, this would mark the first time Chipotle insiders did not follow the recommended 30 to 60 day wait period before commencing their plan sales, indicating a new sense of urgency on the part of insiders to unwind their positions.

| Executive | Position | Class A Holdings Reduction |
|---|---|---|
| Robin Anderson | CAO, Controller | 100% |
| Robert Blessing | Restaurant Support Officer | 100% |
| Mark Crumpacker | Chief Marketing Officer | 100% |
| Rex Jones | Chief Development Officer | 92% [1] |
| Montgomery Moran | Co-CEO, Director | 92% [2] |
| Steve Ells | Chairman, Co-CEO | 85% [3] |
| Jack Hartung | Chief Financial Officer | 50% |

[1] This figure is based on Jones' Class A holdings. If you include Class B, the reduction is 81%
[2] This figure is based on Moran's Class A holdings. If you include Class B, the reduction is 37%.
[3] This figure is based on Ells' Class A holdings. If you include Class B, the reduction is 25%.

Also selling during this period were Chief Accounting Officer and Controller **Robin Anderson** and Chief Marketing Officer **Mark Crumpacker**, who each sold his last remaining holdings. Anderson monetized his last vested stock options after previously selling his only common back in April. Crumpacker, who joined the Company in January and has overseen the disappointing 'My Chipotle' advertising campaign, sold his remaining 5,330 shares of common on July 27th and will not have any stock options become exercisable until February 2011. Lastly, named executive **Rex Jones**, the Company's Chief Development Officer, monetized all of his vested stock options after the first quarter earnings release and then drew down his common in July, selling 5,500 of his actionable 8,000 Class A shares. His sales since April erased 92% of his Class A ownership and 81% of the two classes combined. The table above lists the percentage reductions of Class A holdings for most of the key sellers this year.

The high reductions across the board are certainly enough on their own to hold our attention in the first place but we became even more intrigued after noticing the Company had put ownership guidelines in place back in May 2008. To see this many insiders clear out their common stock when they have stock targets to attain really made their recent behavior even more telling. The three executives named above, who liquidated all their holdings, are required to hold 6,000 shares of common. Although it is not specified, we assume Class B shares count towards satisfaction of the guidelines. Consequently it is likely that Ells and Moran have already met their quota. Since the ownership targets are fixed share counts rather than totals based on a multiple of the executives' salaries, the targets will only become more expensive to meet if the share price increases. On the other hand, by taking the profits now it seems they anticipate more economical opportunities in future periods to acquire shares and attain their holdings targets.

As the table below indicate, Crumpacker has no derivative equity scheduled to vest through the end of 2010, so he would have to turn to the open market to acquire common if he chooses to close in on his requirement next year. Robin Anderson has just enough options that will vest in February, but exercising the options outright to acquire the underlying shares will cost him $100,000. As the data in the table below indicates, there is not one executive who will be able to replenish the holdings diversified this year with stock and options that will vest through the end of 2010.

| Executive | Shares Sold In 2009 | Options/Shares Vesting Through December 2010 |
|---|---:|---:|
| Robin Anderson | 14,000 | 6,000 |
| Robert Blessing | 28,007 | 10,000 |
| Mark Crumpacker | 5,330 | 0 |
| Montgomery Moran | 95,000 | 55,000 |
| Rex Jones | 27,883 | 8,500 |
| Jack Hartung | 49,288 | 35,000 |
| Steve Ells | 145,747 | 107,500 |

Chipotle's current trading profile is at odds with what we are accustomed to seeing from insiders at high-growth companies in their initial years. Although their activity picked up late in 2007 after the issue gained 170% on the year, sales we should add that were undoubtedly well timed, the selling volume was minimal in light of their sizeable ownership positions. Now, with the shares down almost 50% from those late 2007 prices and the Company's earnings growth rate nearly half of what it was two years earlier, we have seen certain insiders cashing in all the equity they can get their hands on while others have drained their positions to new lows. Co-CEO Ells, who aggressively dumped Class A and Class B shares in late 2007 before the shares collapsed, opened a new sales plan two days after the release of second quarter earnings and commenced selling on the very same session, completing the plan in a matter of days. CFO Hartung followed suit, implementing an aggressive 10b5-1 selling plan just days after commenting the Company is likely to halt its share repurchasing and issuing caution for the second half of the year since he “is not seeing positive signs from the consumer confidence side”. With declining customer traffic and comps being boosted by the highest price hikes in the industry (6.5%), Chipotle is not showing the same growth trends that once made its lofty multiple more palatable. The insider behavior is just one additional sign that the shorts might just have this one pegged.

- **Steve Ells (43)*** – Founder, Chairman, Co-Chief Executive Officer. Although Ells has been an active trader over the years, his Class B shares had been the primary source of his diversification efforts. Between May and November of 2007 Ells liquidated 511,633 shares with a market value of $56 million, 86% of which came from his less liquid Class B holdings. His timing was on-point as he dropped 300,000 Class B shares in November alone at an average price of $115, just weeks before the issue lost momentum and ultimately slipped below $80 by the following March. After refraining from selling in either class during 2008, he resumed his aggressive profit taking in the 2Q09 as the issue staged a strong recovery. He began by monetizing 27,000 options from his January 2013 series on April 24th and April 27th at prices from $82 to $86, but this was just his opening act. We suspect Ells adopted a 10b5-1 sales plan around the time of these sales (adoption date not disclosed) under which he would sell a total of 55,900 shares through June 23rd. The following day he opened a new plan which the Company disclosed in the 2Q 10-Q, and sold another 64,100 shares, including the remainder of his vested options (January 2013 expiration) by July 28th. The 120,000 he sold between April and July netted an $8 million pre-tax profit. These shares **made up 85% of his Class A holdings** and 25% of his total Class A and Class B equity. We would not be surprised to see him begin taking profits on his Class B holdings after a two-year layoff. He will have 80,000 options with a $63 strike price vest in February followed by 27,500 shares in April, but that will be it for the remainder of 2010 (see Appendix A).

- **Rex Jones (52)*** – Chief Development Officer. Jones, a former McDonald’s exec, is responsible for Chipotle’s real estate and construction activities. Prior to this year he had sold only once, disposing of just 2,000 shares in October 2008. The floodgates opened this year, starting after the first quarter earnings release, when he sold 22,333 shares between April 24th and May 5th at prices up to $86. The shares were a mix of stock acquired from exercising all of his vested stock options (expiration dates: July 2010 and January 2013) and his direct common holdings. He would draw down his common holdings once again on July 23rd when he sold another 5,500 shares at prices in the low-to-mid $90s. The two rounds of sales **wiped out 92% of his Class A ownership** or 81% of his Class A and Class B combined. Do not expect to see these shares replaced soon as he has only 8,500 options scheduled to become actionable through the end of 2010 (see Appendix A).

- **Robin Anderson (age not disclosed)** – Chief Accounting Officer, Controller. Anderson has sold more stock since April than he had during the prior three years since CMG shares began trading. Anderson first sold 4,000 shares of common on April 24th, which nearly matched his selling total of the prior two years. He would then resurface on July 24th to monetize his only actionable options; 10,000 not set to expire for another four years. **The two sales liquidated his entire ownership position**. Next February Anderson will vest in 6,000 options, but that is all he stands to gain through the end of 2010 (see Appendix A).

- **Jack Hurtung (51)*** – Chief Financial Officer. Hartung, another former McDonald's executive, has been a relatively infrequent trader but one who made his sales count. He last sold 18,333 shares (25% of holdings) in November 2007 at $135 per share, lowering his exposure just before the issue lost momentum and the Company lowered comp sales expectations. He would not trade again until April 2009, when he sold 34,288 shares on April 24th and April 27th at considerably lower prices ($81 to $86). Included in this total were all 9,000 shares held by his wife. On June 2nd he sold 5,000 shares under a non-reported 10b5-1 sales plan before opening *another* plan on July 24th and selling another 10,000 shares on July 24th and July 28th. He has already **divested 53% of his actionable holdings this year** and still has another 18,000 remaining for sale under his existing plan. The 35,000 options and shares which will vest over the next 52 weeks will not fully replace what he sold in the last four months (see Appendix).

- **Montgomery "Monty" Moran (42)*** – Co-Chief Executive Officer, Director. Moran is near the bottom of this list only because his most recent actions occurred in April. His trades, however, were just as significant as those of the individuals listed above. After selling just 27,000 shares in prior years (last sale was in August 2007), Moran began trading under a poorly disclosed 10b5-1 sales plan on April 15th just days before the release of first quarter earnings. He would sell 14,000 shares through April 23rd at which time the short-term plan appears to have expired. After executing his last plan sale at $91 per share, he would then dump 81,000 shares the following day at prices as low as $80. Not only did he monetize his remaining 66,000 vested options but he also sold down his common holdings as well, including shares that became unrestricted one week earlier. This was an intriguing sale to say the least; it not only covered **more than 92% of his Class A holdings**, but came at prices 12% below those which he received one day earlier. In total, Moran netted $6.1 million in profits from his April sales. He stands to vest in 55,000 options and shares in 2010, which will replace a little more than half of the shares he divested in April alone (see Appendix A).

- **Robert Blessing (65)*** – Restaurant Support Officer. Blessing started his Chipotle career ten years ago as a regional director and now oversees five regional directors and is responsible for providing field support for marketing and purchasing functions. He became a Section 16 filer in May 2008, so his trading history is limited, but he made quite a statement with his first transaction. Blessing **disposed all of his CMG equity on April 24th**, monetizing all 20,000 options in his January 2013 series and also the balance (8,000) of his directly-held common. These shares cover nearly three times the amount of options he is scheduled to vest in through the end of 2010 (see Appendix).

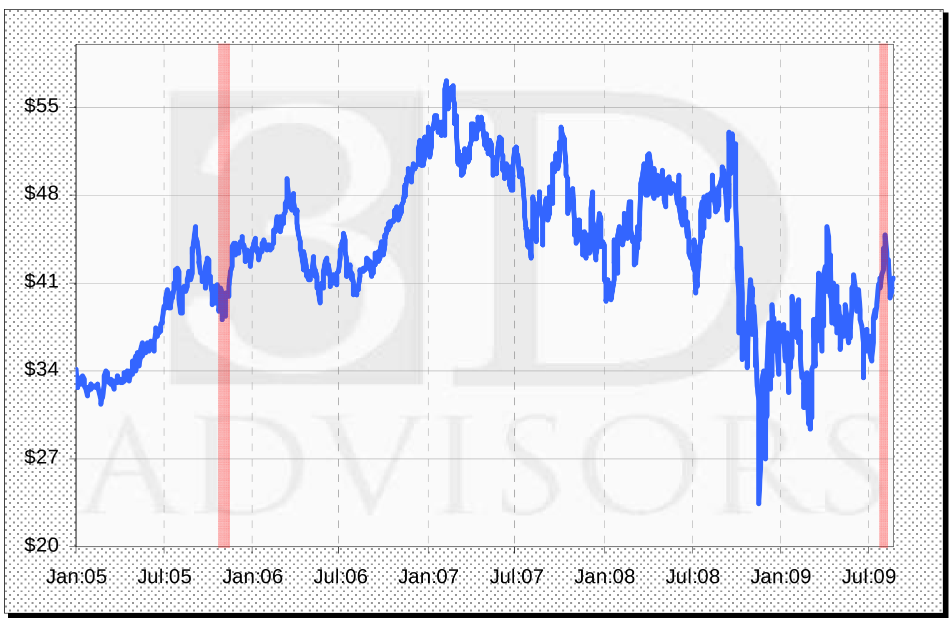
* Indicates that the individual is a Named Executive in the Company's most recent Proxy.

Equity LifeStyle Properties Inc. (NYSE: ELS)

One recurring theme we have been following in the post Q2 earnings sales data is the renewed profit taking amongst REIT insiders. The activity has not come from any particular subgroup but has been spread across companies that manage all types of properties from health care to retail. One profile that stands out from the group is Equity LifeStyle Properties Inc., a company that owns and operates resort and retirement-oriented properties including factory built homes and recreational vehicles (RVs). It has been nearly four years since this Company even popped up on our radar; In November 2005, five insiders staged a rare round of dispositions, selling 385,000 shares at what were then all-time high prices in the low $40s. Their behavior proved timely as the Company twice lowered FFO guidance for fiscal 2006 on consecutive earnings releases (1Q06 and 2Q06).

Their more recent activity adds to what we perceive is an already risk-filled profile that involves deteriorating home sales and flat revenue growth (both seasonal and transient) coupled with an inability to raise rental rates, not to mention the suspicious timing of a late June stock offering and a price-to-earnings multiple at the top of the residential REIT group. We see little that could provide any near-term boost to the shares and in fact the issue has underperformed both the S&P (-4%) and the peer group (-18%) in the past month.

**Figure 2.** ELS Daily Closing Price, 01/02/05 through 08/24/09. Red bands are where there were significant convergences of insider selling. Source: Reuters and ELS SEC Filings.




The Company's second quarter earnings and guidance release was quite a mixed bag. On one hand FFO of $0.77 and net income per share of $0.11 exceeded the Company's previous guidance of $0.69 and $0.03 (both mid-ranges), respectively. The increases were an interesting accomplishment considering ELS generated 89% less revenue from its new home sales operation than it had in the same period one year earlier and the division now operates at a loss. Additionally, income growth from its core properties continues to trail the Company's initial guidance of 3.5% for the year and the Privileged Access business, acquired last August, has not been as accretive as initially expected. Despite the challenging environment and management's forecast for slower sequential core property operating revenues in the third quarter, the Company maintained its FFO guidance for the remainder of the year. In his prepared remarks on the 2Q09 conference call, CEO **Thomas Heneghan** concluded by saying he is bullish on the Company's prospects. While he might be bullish on the prospects, he and his peers have definitely not shown they are bullish on ELS shares. Between July 27th and August 11th five executives and one prominent board member sold a total of 151,784 shares, the second most to come out in any single round of sales in the past 15 years.

The timing of these sales was interesting on a number of fronts. For one, the Company had just sold 4.6 million shares in a late June stock offering that caught Wall Street off guard. There were a few lines in the 1Q09 earnings press release issued on April 21st that disclosed ELS intended to file a shelf registration during the quarter ended June 30th. CFO **Michael Berman** addressed the matter on the conference call held that same day [bolding is ours]:

> A final comment on our note in our press release concerning our Shelf filing. ELS is all about financial flexibility, and in this environment that needs to include raising equity capital, particularly if investment opportunities present themselves. We are one of the only REITs not to have a Shelf, and we expect to change that this quarter. **We have no current intention to issue any equity securities, but want to be able to act as quickly as possible should the need arise.**

The shelf registration was filed on May 6th. Less than seven weeks later (June 22nd) the Company filed a prospectus disclosing a public offering covering 4 million shares and an underwriter option for another 600,000 shares. ELS shares, which closed at $37.85 before the prospectus was released, would come under pressure the following session, trading down 11% to $33.74 on the news and the offering would ultimately be priced at $33.35. The timing of the offering and length of the lock-up period (30 days) does not seem to be a coincidence. Although we have seen plenty of 30 day restricted periods used at other companies (a shorter timeframe than the more typical 60 or 90 day period associated with secondary offerings), this particular lock-up overlapped the blackout period already in force by the Company's trading policy. By timing the stock offering's lock-up to expire a few days after a trading window opened after the release of 2Q earnings on July 21st, insiders were able to begin taking profits right after the earnings release (they started selling one day after the lock-up expired). CFO Berman would sell 15,000 shares; more stock than he had sold during his entire career. A number of other top executives, including CEO Heneghan and Executive V.P. of Property Management **Ellen Kelleher** would sell in short order as well. Seemingly not to be outdone, Vice Chairman **Howard Walker**, a former chief executive of the Company, unloaded 72% of his actionable ownership before the end of July.

Even though three of the six recent sellers disposed 35% to 72% of their actionable ownership in the recent round of sales, the holdings reductions are not the main feature in the trading profile since the Company has stock ownership guidelines that inhibit the insiders from draining their ownership. To us the rare convergence of individuals hedging their exposure while in the midst of a very difficult operating environment with uncertain downstream visibility is the key dynamic. As we mentioned earlier, the only precedent for this behavior came in November 2005 when insiders collectively moved an even larger amount of shares immediately before a period of weakening fundamentals. Now, with a host of economic and market variables such as CPI and its effect on rental rates and a distressed RV market working against the Company, the trading behavior perhaps demonstrates their lack of confidence in weathering the storm. Below are the details on some of the more notable sellers.

- **Howard Walker (69)** – Vice Chairman. Walker was the Company's chief executive for a six-year period up to 2003 and has held a board seat for more than ten years. During this period his most aggressive sales came in November 2005, when he sold 110,000 shares at prices up to $43. After three years of inactivity, he resurfaced earlier this year, selling a total of 16,000 shares in February and March at lower prices ($40). That was just the beginning of his diversification efforts as, between July 27th and 31st, Walker would sell 75,836 shares after the 2Q earnings release at prices comparable to those he received back in the first quarter. All the shares came from his common holdings, including all 1,079 held in his 401(k) account, **resulting in a 72% holdings reduction**. The reduction calculation excludes the 21,000 vested options he holds that are currently under water with an average strike price of $51.62. The 29,000 shares he has remaining are the lowest amount he has ever reported owning. Walker does stand to gain access to another 15,000 shares over the next 12 months but the majority of these are currently out of the money with strike prices between $43 and $55 (see Appendix B).

- **Thomas Heneghan (45)*** – Chief Executive Officer, Director. Heneghan has now sold in three consecutive quarters for the first time in his 14 years with the Company. After selling 10,000 shares on March 19th at $37 he would then sell 20,000 shares in May at similar prices. Then, following the last earnings release he sold another 20,000 shares on August 4th and August 5th at $43. All 50,000 shares sold this year came out of his direct stock holdings (not option related) and **covered 20% of his actionable ownership**. We note that Heneghan's 13 sales in the last six years have been executed at an average price of $41, making it seem as though he sees these price levels as a ceiling. He stands to vest in just 16,000 shares over the next two years so there is no chance the disposed holdings will be replaced for quite some time (see Appendix B).

- **Michael Berman (51)*** – Executive V.P., Chief Financial Officer. Between the time he joined the Company in 2005 and the end of 2008 Berman sold a total of 520 shares (June 2005). This year he has already sold 17,531 shares, **equal to 35% of his ownership**, including 15,000 sold on July 29th at $40. Berman holds no stock options, vested or unvested, so the shares came straight out of his direct common holdings. With regards to his unvested derivative equity, he currently has 8,334 restricted shares that will vest at the end of this year, but outside of that one award he does not have any other equity scheduled to become actionable in 2010 or 2011 (see Appendix B).

- **Ellen Kelleher (48)*** – Executive V.P. of Property Management, Secretary. After serving as the Company's head counsel for 12 years Kelleher was appointed to her current position in February when the Company separated its asset management and property management function. She amassed a significant ownership position during her time with the Company so the 25,000 shares she disposed between July

31st and August 7th accounted for a small percentage of her holdings (12%). More important to us than the reduction, however, her participation in the most recent round of selling following the 2Q09 results marks her first sales in nearly four years. She will have just 8,334 shares becoming freely tradable in December, the only shares that will vest through the end of 2010 (see Appendix B), and so her holdings will not be replenished in the near-term.

* Indicates that the individual is a Named Executive in the Company's most recent Proxy.

At this point we have begun a more in-depth analysis of the Company's fundamental and earnings quality profiles. In the meantime, there are a few interesting governance behaviors that we want to share with our clients along with the trading profile.

- **Joe McAdams** was an Equity LifeStyle board member between January 2004 and October 2005 before he resigned to form RV and vacation membership business Privileged Access, which would later become the largest leaser of ELS properties. ELS made McAdams its President in January 2008, at the time admitting there "may be a conflict of interest", before later acquiring his company outright in August 2008. McAdams was provided with an employment agreement (the only executive to have one) which provides him with a starting base salary of $300,000 and a higher incentive bonus target (300%) than CEO Heneghan (200%).

- The annual non-equity incentive (cash bonus) payouts are performance based, with 50% tied to certain performance metrics including: core revenues, core net operating income and occupancy. The other 50% is *discretionary*. This entails the Compensation Committee, in consultation with CEO Heneghan and President McAdams, developing criteria upon which each executive officer is to be evaluated and *the executives completing a self-evaluation* against the criteria. McAdams, whose own discretionary bonus is tied to the effectiveness of his oversight of the executive officers, then holds responsibility for assessing the effectiveness of his subordinates. It is in McAdams' best interest to report his lieutenants have performed at the highest level which in turn would result in a high discretionary bonus payout for everyone. CEO Heneghan's discretionary bonus is based on his own personal assessment of the fiscal year's performance in addition to the effectiveness of the executive officers. If that sounds a little circular, that's because it is.

- Equity LifeStyle uses restricted stock as the primary form of long-term compensation for the executives. A footnote buried in the Proxy reveals the Company buys back the shares from the execs upon vesting so that they can receive the vested stock net of applicable taxes. This is no different than any other situation involving a company buying stock directly from the executives and it remains to be seen if ELS does so at favorable prices.

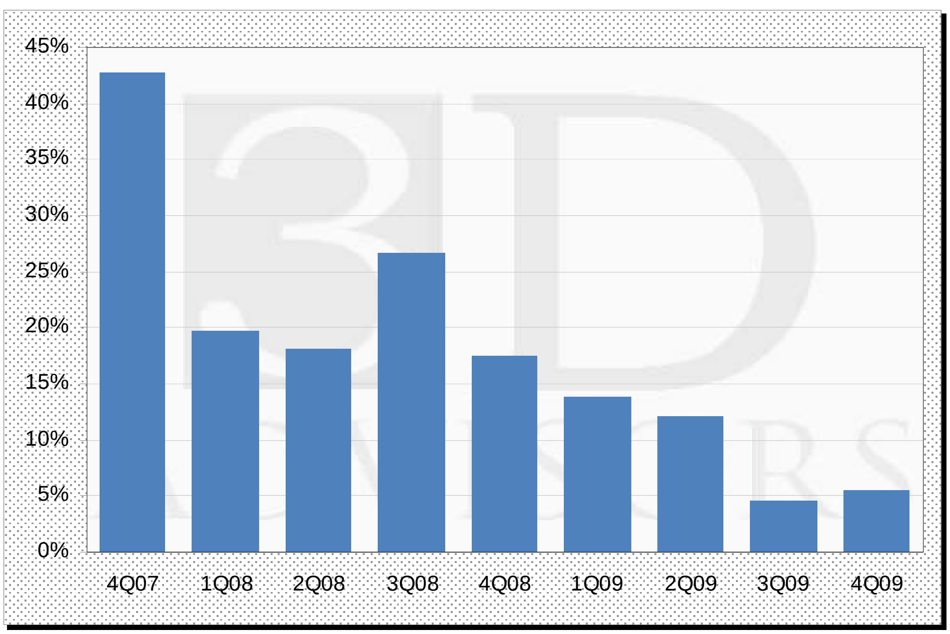
- **Samuel Zell** is the Chairman of Equity LifeStyle and is the largest shareholder with a 12.5% stake (3.8 million shares). Zell holds significant positions in a number of publicly-traded companies and has pledged the shares of nearly each company as security for loans, in some cases collateralizing up to 99% of a position.

WMS Industries Inc. (NYSE: WMS)

It has become increasingly more apparent, as we near the end of the current earnings season that investors are willing to bid up stocks for even the most marginal bottom line improvement, in some cases irrespective of any top line considerations.  In fact, revenue seems to be an irrelevant metric these days as earnings expectations are often achieved through cost cutting.  Take slot machine developer WMS Industries for example.  The Company grew its sales by an average of 31% between fiscal 2004 and fiscal 2008 (period ended June 30) while operating income increases averaged 50% over the last three years.  As can be expected considering the state of the gaming industry, fiscal 2009 was a very different story.  Quarterly sales growth (year-over-year) slipped from 14% in the first quarter to 5.5% in the fourth.  Operating income, which grew at an average rate of 46% each quarter in 2007 and 2008 slipped from 45% in 1Q09 to 29% by 4Q09.  Despite the decelerating growth, WMS shares set an all-time high of $43 per share shortly after the fiscal 4Q release, spurring a second consecutive round of post-earnings profit taking by management.

**Figure 3.**  WMS Quarterly Revenue Growth Rates, Year-Over-Year.  Source: WMS SEC Filings.

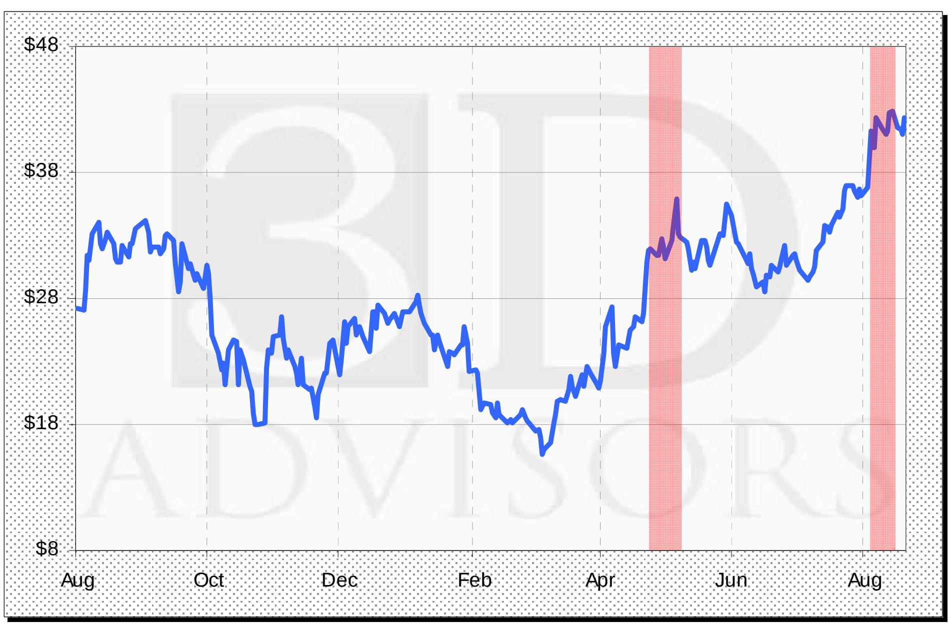



We initially began watching the activity when seven insiders took profits in the two weeks after the Company released fiscal third quarter earnings on April 21st.  That particular round of sales, covering 202,000 shares and primarily driven by board members, resulted in few material holding reductions.  At the time we chose not to report on the activity but instead decided to just keep an eye on the name since insiders had been fairly quiet for more than a year and this seemed like reasonable profit taking as the issue rallied from the March low of $15 up to $32.  But we were also mindful of the fact that the selling behavior of this group emerged immediately after the Company began to exhibit a deceleration in its growth.

The next phase of profit taking came after the issuance of fourth quarter (period ended 06/30/09) results on August 3rd. Investors responded to the news of a 31% jump in earnings, a weakening sales forecast for fiscal 2010 and an increase in the share repurchase program by trading the shares up 12% on the session to a new 52-week high of $41. This was the second largest percentage gain for the shares this year, trailing only the 15% jump on the release of the third quarter report. In contrast to the last round of insider sales in April, the sales this quarter were led by the senior executives (five) who, along with four board members, dumped 746,000 shares between August 5th and August 24th at prices from $40 to $43.

The most significant trades in our opinion came from Chairman and Chief Executive Officer **Brian Gamache** and President **Orrin Edidin**. Gamache traded for the first time in nearly two years, disposing 504,000 shares over two consecutive sessions. This was his largest sale on record, based on both volume and percentage of ownership (66%), and the actions decreased his holdings to their lowest level since the end of his first full year with the Company back in 2001. The Edidin trading profile is similar to that of Gamache. Both executives exercised an abnormally high number of their options series to execute their sales. The 139,000 shares sold by Edidin were the most he had ever disposed of in one round going back more than ten years and we have never seen him even approach the 90% reduction level associated with his August trades. The large sales by the Company's top two executives came after CFO Scott **Schweinfurth** executed his largest trade in nearly five years, selling 50,000 shares back in May.

**Figure 4.** WMS Daily Closing Price, 08/01/08 through 08/20/09. First red bar is where seven insiders sold 202,821 shares; Second red bar is where eight insiders sold 712,329 shares. Source: Reuters and WMS SEC Filings.




Another notable seller was Lead Director **Edward Rabin**, who was a frequent buyer of WMS (24 separate transactions) between December 2005 and December 2007. After paying $31 to acquire the shares nearly two years earlier he began selling at the same prices following the fiscal third quarter release. By August 14th he had distributed a total of 46,970 shares, more stock than he acquired during his two year buying spree, and erased 50% of his position. What makes his behavior even more compelling is that he has been using the proceeds from his WMS sales to purchase stock in Sally Beauty Holdings Inc. (NYSE: SBH) where he also holds a board seat. At the time of his SBH purchases both issues had appreciated by at least 100% since the S&P bottomed last November.

And finally, Chairman of the Audit Committee **Harold Bach** liquidated his entire position with sales in May and August covering 19,000 shares. The only named executive officer who has not yet sold is Executive V.P. of Continuous Improvement **Patricia Barten**, who announced her resignation in June and has already transitioned her responsibilities but will not officially depart until December. It should not be long before she begins divesting her ownership. Also worth a quick mention are the sales of **Sumner Redstone**, who liquidated his entire 3.7 million share position (held through National Amusements) in the second quarter. These sales close the chapter on what has been a fascinating relationship with former WMS Chairman and CEO **Louis Nicastro**. Redstone's sales also terminate the voting proxy agreement that gave CEO Gamache voting control over 8% of the outstanding shares. While we suspect his actions were more likely attributed to his personal debt issues than valuation, it should not be overlooked his sales started at the same time insiders began taking profits after the release of fiscal third quarter earnings.

- **Brian Gamache (49)*** – Chairman, Chief Executive Officer. The fact Gamache sold a large amount of shares after the fiscal fourth quarter earnings release is not significant in itself as his past sales have typically involved large share amounts. His recent sales, however, are on a different level from anything we have seen from him. For one, the 504,000 shares he sold on August 4th and August 5th were the most shares he has ever sold in any particular round; more shares than his two prior largest rounds of sales: December 2007 (288,000) and November 2006 (318,000 shares). Gamache had also never monetized options from more than two series in any particular round, whereas he tapped into six different series with expiration dates ranging from May 2011 to December 2014 to execute his latest dispositions. And finally, his August sales **covered 66% of his actionable ownership**, topping his former largest percentage reduction of 35%. This was also his first sale that covered more shares than he has scheduled to vest downstream, as he will have just 35,000 options and 33,000 shares become actionable over the next 12 months (in some cases, only if performance targets are attained; see Appendix C).

- **Orrin Edidin (47)*** – President. Edidin sold 138,871 shares between August 5th and August 7th, marking his largest sale since joining WMS in 1997. He too cleared out an abnormally high number of options series (5); you have to go back to 2003 for the last time he exercised options from more than one series. Most importantly, his **holdings declined 90% from his August sales**, the largest percentage reduction associated with any of his former sales by a significant margin. In addition to selling shares acquired from the exercise of options (expiration dates: May 2014 to August 2016), Edidin also sold 8,000 shares from his direct common holdings. The shares sold covered three times amount he will gain access to over the next 12 months (47,000) from the vesting of his derivative equity grants (see Appendix C).

- **Larry Pacey (45)** – Executive V.P. of Global Products, Chief Innovation Officer. Pacey began his WMS career back in 2001 when he joined subsidiary WMS Gaming

Inc. but only became a Section 16 filer in July 2008 upon receiving a promotion to his current position. His first material sales came on April 23rd and April 30th when he dropped a total of 31,487 shares, 25,000 of which came from the exercise of his May 2011 options. He would then immediately sell 3,174 shares that vested on June 16th and then again, upon the August 7th vesting of a performance stock award, sell all the underlying stock (5,392 shares). **The four sales since April covered all of his common stock and roughly one-third of his actionable ownership**. He will have 30,000 options and shares become actionable next month (September) followed by another 4,500 in June 2010 (see Appendix C).

- **Edward Rabin (61)** – Lead Director. Rabin, the former President of Hyatt Hotels, has been on the WMS board since 2005 and serves as the Chairman of the Compensation Committee and a member of the Audit Committee. Between December 2005 and December 2007 Rabin bought stock on 24 different occasions, purchasing shares for a number of different accounts including his wife's. After last paying up to $31 for the shares, Rabin reversed course on April 23rd, selling 9,000 shares, also at $31**.** Between April 23rd and August 1st he would execute ten sale transactions at an average price of $37 covering a total of 46,970 shares, more stock than he acquired during his two year buying spree. **The sales depleted his beneficial ownership by nearly 50%** and will not be easily replaced since he is scheduled to vest in only 7,500 shares over the next 52 weeks (see Appendix C). We find it very interesting that Rabin used proceeds from the sale of WMS shares to purchase stock in Sally Beauty Holdings Inc. (NYSE: SBH), where he also holds a board seat. SBH was up 150% from its November low when he bought the stock.

- **Harold Bach (76)** – Director. Bach is one of four current board members who at one point served in an executive role or on the board of former WMS subsidiary Midway Games. All four individuals have now taken profits since the first quarter earnings release. Bach's trading behavior should not be overlooked as he holds the distinction of chairing the Audit Committee and has served in the role since joining the board in 2003. Bach first disposed 11,236 shares on April 23rd and May 1st taking prices of roughly $32. He would then act again after the shares traded higher on the latest earnings release, monetizing his last remaining 11,325 options on August 24th that would not have expired for another six years. The two rounds of sales **liquidated 100% of his actionable holdings** and although he will pick up 7,500 shares next month (September) when restricted stock awards vest (see appendix), the impairment to his ownership is irreversible in the foreseeable future.

- **Ira Sheinfeld (70)** – Director. After selling just 30,000 shares in the prior five years, Sheinfeld, who is the Chairman of international law firm Hogan & Hartson's tax group, monetized 64,000 options between April 29th and May 6th, netting $1.01 million after exercise costs. The round of sales, his largest since November 2003, **shed nearly 65% of his position**, which does not consist of any actionable common stock. He will have only 15,000 shares become actionable through the end of 2011 (see Appendix C), so it would seem he was not overly concerned with the effect this sale would have on his long-term ownership.

* Indicates that the individual is a Named Executive in the Company's most recent Proxy.

The bull case being made by the financial media and sell-side firms for WMS and peers such as International Game Technology (NYSE:IGT) and Bally Technologies

(NYES:BYI) is twofold: 1) The economic crisis has pushed states toward adopting or expanding legalized gambling operations in order to increase revenues and even keep residents from crossing state lines; and 2) The game makers' customer base is diversified enough to withstand the current recession. There is no denying the first part of the equation, as states like Ohio, Pennsylvania and Illinois have major initiatives to launch or expand gaming operations. But conditions at the Vegas and Atlantic City casino operators continue to weaken and even the regional casinos, such as Penn National Gaming (NASDAQ: PENN) and Boyd Gaming (NYSE: BYD), which analysts had high hopes for in the last quarter, reported subpar sales and earnings.

Add to this the declining capital being employed by casinos across the board this year. We ran the numbers for a cross section of casino operators, eight companies in all, and found the average CapEx spend for the first half of 2009 decreased 60% from 2008. All indications point to continued budget constraints through the first half of 2010 with slot expenditures unlikely to pick up as companies continue to 'refresh' their floors rather than replace machines. This was reiterated by President Edidin on the 4Q09 conference call: "…we are going to continue to grow market share and realize higher average selling prices, partially offset by fewer new casino and casino expansion opportunities and a domestic replacement cycle expected to remain in a cyclical trough through the first half of our fiscal 2010." Later on the same call, CEO Gamache reiterated the point when he commented, "We see the first six months of this year continuing on the trends of fiscal 2009, with the second half of the year picking up slightly into calendar 2010".

Aside from the two semi-cautious comments above, Gamache and the other executives on the conference call could not have sounded any more confident about the Company's near-and-long term prospects. In fact, there were few other allusions to the difficult casino industry environment and plenty of reminders about the Company's operational successes and competitive advantages. The Company's outlook was considerably more upbeat than the forecasts provided by managers at Bally and IGT on their latest conference calls and yet, only WMS insiders hedged their exposure to their Company's stock en masse this quarter. Bally's Chief Executive, **Richard Haddrill**, did sell 100,000 shares ahead of the Company's August 13th 2Q earnings report, but they were executed under a 10b5-1 plan opened in May and covered less than 10% of his ownership. Those of our clients interested in the gaming machine makers might want to direct their focus to the company where the trading behavior is most disconnected from management's bullish statements and guidance.

# Appendix A

Common Stock and Option Holdings for Selected Chipotle Mexican Grill, Inc. (CMG) Insiders

| Name | Actionable Position as of 08/26/09: | | | Derivative Equity Expected to Vest in Next 12 Months | | | |
|---|---|---|---|---|---|---|---|
| | Common [1] | Options [2] | Total [3] | Grant Date | Strike Price | Vesting Dates | # Vesting |
| **Robin Anderson** | 0 | 0 | **0** | 02/20/07 | $63.89 | 02/20/10 | 6,000 |
| Chief Accounting Officer, Controller | | | | | | | |
| | | | | | | | **6,000** |
| **Robert Blessing** | 0 | 0 | **0** | 02/20/07 | $63.89 | 02/20/10 | 10,000 |
| Restaurant Support Officer | | | | | | | |
| | | | | | | | **10,000** |
| **Mark Crumpacker** | 0 | 0 | **0** | none | | | 0 |
| Chief Marketing Officer | | | | | | | |
| | | | | | | | **0** |
| **Steve Ells** | 430,850 | 0 | **430,850** | 02/20/07 | $63.89 | 02/20/10 | 80,000 |
| Chairman, Co-CEO | | | | 05/21/08 | N/A | 04/15/10 | 27,500 |
| | | | | | | | **107,500** |
| **Jack Hartung** | 25,941 | 18,000 | **43,941** | 02/20/07 | $63.89 | 02/20/10 | 25,000 |
| CFO | | | | 05/21/08 | N/A | 04/15/10 | 10,000 |
| | | | | | | | **35,000** |
| **Rex Jones** | 6,480 | 0 | **6,480** | 02/20/07 | $63.89 | 02/20/10 | 8,500 |
| Chief Development Officer | | | | | | | |
| | | | | | | | **8,500** |
| **Montgomery Moran** | 161,136 | 0 | **161,136** | 02/20/07 | $63.89 | 02/20/10 | 40,000 |
| Co-CEO, Director | | | | 05/21/08 | N/A | 04/15/10 | 15,000 |
| | | | | | | | **55,000** |

[1] Includes Class A and Class B shares.

[2] Total number of vested, in-the-money options.

[3] Total actionable position includes common stock plus vested in-the-money options.

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

3D ADVISORS

# Appendix B

Common Stock and Option Holdings for Selected Equity LifeStyle Properties Inc. (ELS) Insiders

| | Actionable Position as of 08/26/09: | | | Derivative Equity Expected to Vest in Next 12 Months | | | |
|---|---|---|---|---|---|---|---|
| Name | Common | Options [1] | Total [2] | Grant Date | Strike Price [3] | Vesting Dates [4] | # Vesting |
| **Michael Berman**<br>CFO | 34,715 | 0 | **34,715** | 12/28/06 | N/A | 12/28/09 | 8,334 |
| | | | | | | | **8,334** |
| **Thomas Heneghan**<br>CEO, Director | 152,071 | 10,000 | **162,071** | 05/12/09 | N/A | 11/12/09 | 667 |
| | | | | 12/28/06 | N/A | 12/28/09 | 13,334 |
| | | | | 05/08/08 | N/A | 05/08/10 | 1,334 |
| | | | | | | | **15,335** |
| **Ellen Kelleher**<br>EVP of Property Management | 175,231 | 0 | **175,231** | 12/28/06 | N/A | 12/28/09 | 8,334 |
| | | | | | | | **8,334** |
| **Roger Maynard**<br>EVP of Asset Management | 33,255 | 0 | **33,255** | 12/28/06 | N/A | 12/28/09 | 10,000 |
| | | | | | | | **10,000** |
| **Marguerite Nader**<br>EVP of Sales and Marketing | 10,443 | 0 | **10,443** | 12/28/06 | N/A | 12/28/09 | 6,667 |
| | | | | | | | **6,667** |
| **Howard Walker**<br>Vice Chairman | 29,145 | 0 | **29,145** | 01/31/07 | $55.23 | 12/31/09 | 5,000 |
| | | | | 01/31/08 | $43.67 | 12/31/09 | 5,000 |
| | | | | 05/08/08 | $48.33 | 05/08/10 | 3,334 |
| | | | | 01/31/09 | N/A | 12/31/09 | 1,000 |
| | | | | 05/12/09 | N/A | 11/12/09 | 667 |
| | | | | | | | **15,001** |

[1] Total number of vested, in-the-money options.

[2] Total actionable position includes common stock plus vested in-the-money options.

[3] Strike Price N/A indicates the series is restricted stock, not options.

[4] A range of dates indicates the options vest equally on a monthly basis. The total provided is the cumultive amount of equity scheduled to vest during the date range.

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

3D ADVISORS

# Appendix C

Common Stock and Option Holdings for Selected WMS Industries, Inc. (WMS) Insiders

| | Actionable Position as of 08/26/09: | | | Derivative Equity Expected to Vest in Next 12 Months | | | |
|---|---|---|---|---|---|---|---|
| **Name** | **Common** | **Options [1]** | **Total [2]** | **Grant Date** | **Strike Price [3]** | **Vesting Dates** | **# Vesting** |
| **Harold Bach** | 0 | 0 | **0** | 09/18/07 | N/A | 09/18/09 | 3,668 |
| Director | | | | 09/18/08 | N/A | 09/18/09 | 3,833 |
| | | | | | | | **7,501** |
| **Orrin Edidin** | 8,065 | 7,575 | **15,640** | 09/18/08 | $29.35 | 09/18/09 | 27,799 |
| President | | | | 09/18/08 | N/A | 09/18/09 | 3,750 |
| | | | | 09/18/08 | N/A | 09/18/09 | 2,981 |
| | | | | 09/19/07 | $30.55 | 09/19/09 | 7,576 |
| | | | | 09/19/07 | N/A | 09/19/09 | 2,029 |
| | | | | 06/07/07 | N/A | 06/07/10 | 3,444 |
| | | | | | | | **47,579** |
| **Brian Gamache** | 59,825 | 196,171 | **255,996** | 09/18/08 | $29.35 | 09/18/09 | 19,045 |
| Chairman, CEO | | | | 09/18/08 | N/A | 09/18/09 | 17,036 |
| | | | | 09/18/08 | N/A | 09/18/09 | 5,100 |
| | | | | 09/19/07 | $30.55 | 09/19/09 | 16,478 |
| | | | | 09/19/07 | N/A | 09/19/09 | 4,414 |
| | | | | 06/07/07 | N/A | 06/07/10 | 7,236 |
| | | | | | | | **69,309** |
| **Kenneth Lochiatto** | 0 | 63,177 | **63,177** | 09/18/08 | $29.35 | 09/18/09 | 14,098 |
| COO | | | | 09/18/08 | N/A | 09/18/09 | 1,875 |
| | | | | 09/18/08 | N/A | 09/18/09 | 1,544 |
| | | | | 09/19/07 | $30.55 | 09/19/09 | 3,243 |
| | | | | 09/19/07 | N/A | 09/19/09 | 869 |
| | | | | 06/30/06 | $18.26 | 06/30/10 | 18,750 |
| | | | | | | | **40,378** |
| **Kathleen McJohn** | 612 | 34,746 | **35,358** | 09/18/08 | $29.35 | 09/18/09 | 4,376 |
| General Counsel | | | | 09/18/08 | N/A | 09/18/09 | 1,172 |
| | | | | 09/19/07 | $30.55 | 09/19/09 | 3,641 |
| | | | | 09/19/07 | N/A | 09/19/09 | 975 |
| | | | | | | | **10,165** |
| **John McNicholas** | 1,666 | 28,453 | **30,119** | 09/18/08 | $29.35 | 09/18/09 | 1,625 |
| Chief Accounting Officer | | | | 09/18/08 | N/A | 09/18/09 | 435 |
| | | | | 09/19/07 | $30.55 | 09/19/09 | 1,407 |
| | | | | 09/19/07 | N/A | 09/19/09 | 377 |
| | | | | 12/14/05 | $16.87 | 12/14/09 | 7,500 |
| | | | | | | | **11,344** |
| **Neil Nicastro** | 3,989 | 33,960 | **37,949** | 09/18/07 | N/A | 09/18/09 | 3,668 |
| Director | | | | 09/18/08 | N/A | 09/18/09 | 3,833 |
| | | | | | | | **7,501** |
| **Larry Pacey** | 0 | 80,864 | **80,864** | 09/18/08 | $29.35 | 09/18/09 | 16,020 |
| EVP of Global Products, | | | | 09/18/08 | N/A | 09/18/09 | 1,250 |
| Chief Innovation Officer | | | | 09/18/08 | N/A | 09/18/09 | 2,059 |
| | | | | 09/19/07 | $30.55 | 09/19/09 | 4,750 |
| | | | | 09/19/07 | N/A | 09/19/09 | 1,272 |

# Appendix C

Common Stock and Option Holdings for Selected WMS Industries, Inc. (WMS) Insiders

| Name | Actionable Position as of 08/26/09: Common | Options [1] | Total [2] | Derivative Equity Expected to Vest in Next 12 Months: Grant Date | Strike Price [3] | Vesting Dates | # Vesting |
|---|---|---|---|---|---|---|---|
| | | | | 09/20/07 | N/A | 09/20/09 | 5,000 |
| | | | | 06/15/05 | N/A | 06/15/10 | 4,500 |
| | | | | | | | **34,851** |
| **Edward Rabin**<br>Director | 35,908 | 15,000 | **50,908** | 09/18/07 | N/A | 09/18/09 | 3,668 |
| | | | | 09/18/08 | N/A | 09/18/09 | 3,833 |
| | | | | | | | **7,501** |
| **Ira Sheinfeld**<br>Director | 0 | 37,500 | **37,500** | 09/18/07 | N/A | 09/18/09 | 3,668 |
| | | | | 09/18/08 | N/A | 09/18/09 | 3,833 |
| | | | | | | | **7,501** |

[1] Total number of vested, in-the-money options.

[2] Total actionable position includes common stock plus vested in-the-money options.

[3] Strike Price N/A indicates the series is restricted stock, not options.

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