



Research Notes

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Research Notes are a brief description of the insider trading, accounting, or governance behaviors that we have been investigating for possible inclusion in standard 3DA reports, and may also include other information of general interest to 3DA subscribers.

Companies in this Research Note

- ▶ F5 Networks Inc. (NASDAQ: FFIV)
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3DAdvisors Research Notes

F5 Networks Inc. (NASDAQ: FFIV)

Governance: FFIV makes modest restricted stock grants, as expected

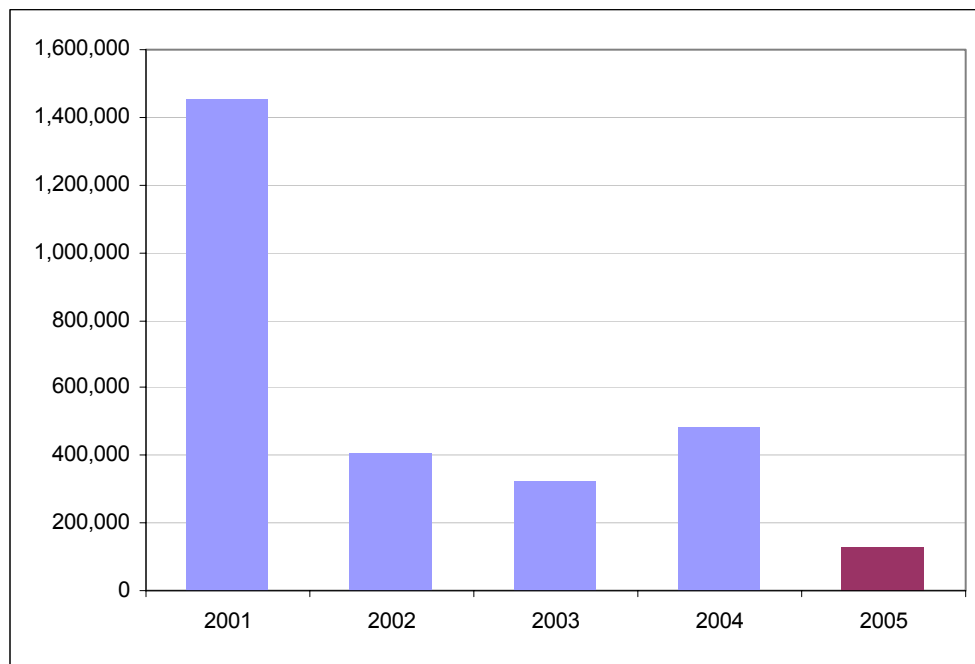
Governance: CFO unexpectedly resigns

Given the recent aggressive holdings reductions by insiders at FFIV (3DA Reports dated 04/13/05 and 05/25/05; *Special Report* 06/17/05), we had become keenly interested to see what any new round of option or restricted stock grants would look like. The Company has been under shareholder criticism for its overly-generous stock option grants over the years, many of which were issued through plans passed by the board without shareholder approval. Shareholders rejected the Company's attempt last year to amend the 1998 Equity Incentive Plan which would have increased the options available for grant by 2 million shares. A watered-down version of the amendment was later ratified, but it was evident that future incentive awards would be closely scrutinized. We had been wondering how future executive behavior would look like with so many of them having significantly reduced their positions and, with current option plans depleted, very few shares are available for future grants. F5 typically awards options each May, but not this year. We spoke with the Company (for our May 25th 3DA report) to see what the 2005 options payout was going to be. The F5 spokesperson declined to comment,

saying that it was a “changing landscape” and that they were “reviewing their options”. Interesting that, just about two weeks later, on June 13th, came the unanticipated resignation announcement of CFO **Steven Coburn**.

After months of delay, senior executives were finally rewarded on August 1st and, little surprise to us, the Company was quite stingy. F5’s five named executives, who had cumulatively been awarded 435,000 stock options in 2004, received only 130,000 restricted shares, in total, for 2005. Whether or not they utilize stock options in the future is yet to be disclosed, but the use of limited numbers of restricted shares clearly shows a shift in compensation strategy, a shift that may not be all that popular within the executive ranks. The counter-balance to the reduced award amounts is an accelerated vesting schedule that will allow access to them in just three months time from the grant date.

Figure 1. Incentive Awards Issued to F5 Networks Named Executives (Restricted Stock, Red Bars; Stock Options, Blue Bars). Source: FFIV SEC Filings.



Large-Cap Banking Stocks

Insider Trading: Early signs of sentiment reversal among large cap banking stocks?

➤ US Bancorp (NYSE: USB)

Shares of Minneapolis based US Bancorp got off to a rocky start this year, dropping from highs of nearly \$32 down to \$27 in April. Insiders sold shares into the softer prices, just as they had done in the first quarter of 2004, both times cashing out just before some of the sharpest declines in the past three years. Shares have rallied off the year-to-date lows following an optimistic second quarter earnings report and insiders sold once again, locking in gains before they reached the earlier highs.

Between May 4th and August 9th eight insiders sold a total of 509,813 shares at an average price of \$29.

Vice Chairman, CFO **David Moffett (53)** led all sellers with his 166,122-share sale on July 27th. The sale covered more shares than he had sold cumulatively since he came over in the Firststar merger back in 2001. Also selling was General Counsel **Lee Mitau (56)** who exercised a mixture of expiring and non-expiring options to sell 78,151 shares on July 21st at \$30.50, marking his largest sale in the past ten years. The expiring options, which are set to expire in October, were barely in the money (strike prices ranged from \$27.08 to \$29.10) and it's interesting that, without the constraints of trading windows, he didn't hold them a little longer to squeeze out any further profits. Unless, that is, he doesn't see any time left for additional appreciation. Due to the sizeable ownership positions of USB insiders, none of the sales had a material impact on their holdings, but the fact of the matter is that the selling is beginning to materialize at higher volumes than we're accustomed to seeing from this group.

➤ Mellon Financial Corp. (NYSE: MEL)

Over the last four quarters, MEL insiders sold fewer than 200,000 shares as the issue traded as high as \$33. Already in the current quarter, however, we've seen six directors dump 323,000 shares at an average price of \$30. With the absence of *executive* selling, we're waiting for any further activity from their camp before upping our alert level. Company execs, however, have only sold a total of 77,000 shares since January 2002. Leading the board member selling was Vice Chairman **Steven Elliott (58)** whose sale of 191,156 shares on July 22nd was four times larger in volume than his last sale in July 2003 at similar prices. Director **Seward Mellon (62)** also sold; his sales on July 25th and July 26th covering 100,000 shares shed nearly 30% of his holdings. This sale, which was only his second in the past ten years, was executed at 30% lower prices than his last sale in October 2000.

➤ Washington Mutual Inc. (NYSE: WM)

Whereas other banking insiders might be showing some wariness due to overall banking trends, Washington Mutual's management may have different motivations prompting their behavior when six insiders sold 297,805 shares between July 25th and August 1st. In June, the Company announced that it would be acquiring credit card company Provident (NYSE: PVN) for \$6.45 billion. But not all involved appear to be on board with the deal. Three of the WaMu's thirteen directors have resigned since April, well ahead of the completion of their board terms. Then, on July 15th the Company's principal accounting officer, Senior V.P., Controller **Robert Miles** resigned to accept what seems to be a much lesser position at an unnamed reinsurer in Charlotte.

Now, it appears as if Putnam Investments, who owns a sizeable chunk of Provident shares, is making a push to force Washington Mutual to increase its bid (Provident accepted a 4.5% premium on its shares whereas MBNA was bought by Bank of America at a 31% premium) or attempt to bring in new suitors. Though their efforts may be a long shot, we find it more-than-interesting that WaMu's general counsel **Fay Chapman (58)** cleared out her Dec. 2009 option series and monetized the 114,105 shares one week before the Putnam news. The transaction covered more

shares than she had sold in aggregate between 1997 and 2004. Also selling was Vice Chairman **William Longbrake (62)** whose 124,916-share sale on July 27th was his first since joining the board in 1996.

It may be too early to call this a solid trend, but we are watching the sector closely. Here are some additional banks where selling has begun to materialize:

Company	Ticker	Dates of Sales
BB&T	BBT	7/18 – 7/21
Golden West Financial	GDW	7/26 – 8/10
Synovus Financial	SNV	7/22 & 7/25

Lone Star Technologies Inc. (NYSE: LSS)

Insider Trading: CFO sells more shares; holdings reduction reaches 91%

Last week we posted an *Insider Research Bulletin* (08/10/05) that focused on anomalous selling by certain key Lone Star Technologies insiders. Lone Star provides a good example of a cyclical stock that management has shown a penchant for getting in and out of at opportune moments. Of all the execs to keep a close eye on, CFO **Charles Keszler** stands out for his trades dating back to 1996.

As you might recall, in our earlier report we pointed out that Keszler has proven to be a prescient timer with regards to his past trades. At the time of that report, Keszler had sold 78,750 shares, equal to 63% of his holdings, since February. His year-to-date sales topped the cumulative amount he had sold between 1996 and 2004, all under the cover of a 10b5-1 trading plan. But his selling was not finished at the time of our last report. On the same day we issued that *Insider Research Bulletin*, Keszler disclosed the exercise of nearly all his remaining vested options, which included two series not set to expire in February 2011 and February 2013, and monetized the 35,000 shares at \$54.75. On the year he has now **sold off 91% of his ownership position**, a truly significant reduction for any chief financial officer, dropping his holdings to their lowest levels since early 1998.

Keszler is now the fourth LSS insider to shed over 90% of his holdings in the current quarter, which probably marks one of the more aggressive holdings erosion we can recall at any company we've covered in recent memory. We should also point out that Chairman, CEO **Rhys Best** also sold 15,000 shares after our report, but his sale only accounted for a small fraction of his holdings.

Insider	Position	2/29/2004	2/28/2005	8/5/2005	YTD Reduction
R. Best	CB, CEO	590,545	514,573	431,773	20%

J. Alvarado ¹	P, COO	--	25,000	25,000	N/A
W. Dunn	Div. Pres	199,378	134,464	-	100%
C. Keszler	CFO	130,250	95,045	10,844	91%
R. Spears	GC	119,500	51,795	2,299	98%
J. Ryan	Director	65,625	9,375	-	100%

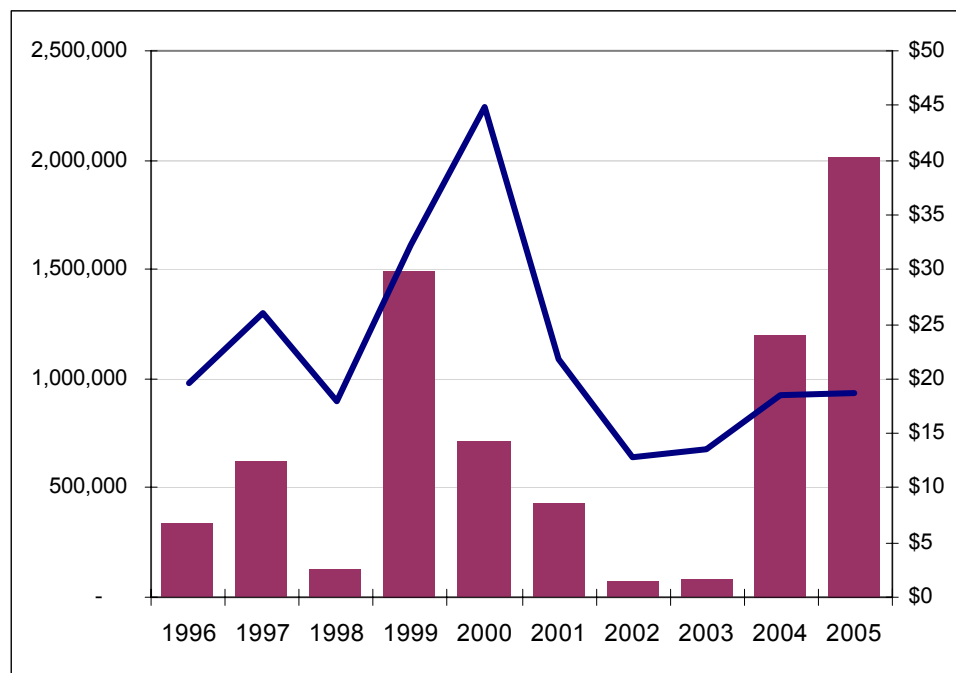
¹ Joseph Alvarado joined the Company in June 2004

Motorola Inc. (NYSE: MOT)

Insider Trading: MOT insiders once again converge to sell significant holdings

We continue to see evidence that Motorola insiders are wary that there may not be much upside in their shares above \$20, and given the timing of their recent record-breaking sell-off, we're inclined to listen. We covered an uncharacteristically large round of selling here, last year, in a May 21, 2004 *Insider Research Bulletin*, as insiders sold nearly 500,000 shares at roughly \$20. The round of sales, which preceded the Company's spin-off of Freescale Semiconductor, was the heaviest we've seen since late 1999 when the issue was trading at 75% higher prices. Just weeks after that selling, MOT shares softened below \$15 and have since rebounded on few quarters of solid earnings. But as soon as the issue rebounded back to \$20, insiders are again-selling, and with increased vigor.

Figure 2. Annual Selling Volume (Red Bars and Left Scale) of MOT Insiders and Average Price of Sales (Blue Line and Right Scale). Source: MOT SEC Filings.



Between July 22nd and August 9th eleven of them sold 1.44 million shares, more than they had sold in any 52-week period over the past ten years with the exception of 1999 when insiders distributed a total of 1.49 million shares, at a weighted average price of \$32.23. Leading the selling was CFO **David Devonshire**, who has cashed out of more shares since 2004 than he's acquired from vesting options. His sales in May and July have shed 60% of his holdings. There were a number of insiders with record sales, including General Counsel **A. Peter Lawson** and divisional presidents **Ronald Garriques** (Mobile Devices), who tapped into five non-expiring options series en route to liquidating 70% of his holdings, and **Adrian Nemcek** (Networks) who sold seven times as many shares this year as he had between 2001 and 2004 (40% reduction).

Counter balancing these large position reductions, however, are the relatively large number of stock options and restricted shares that will vest in the upcoming six months. Consequently, we are waiting to see insider behavior when these to-be-newly vested positions manifest themselves before upping our alert level here. Given the current aggressiveness of their selling, coupled with their timing history, we're far from inclined to discount the significance of these sales.

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