



This 3DAdvisors Report Covers:

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

Insider Research Bulletin

March 9, 2005

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Insider Research Bulletin describes significant insider trading behavior that we have identified at the following companies and is a summary of the first step in our research process. The next step is that these same companies will undergo a review of accounting and governance behavior, and if we identify indicative behavior in one or both areas, then a "full 3DA research report" will be published on that company. Note: Inclusion of a company in this report by itself does not necessarily mean a full research report will be published.

Insider Research Bulletin is published periodically and exclusively for 3DA Research subscribers.

Companies in this Bulletin

- ▶ F5 Networks Inc. (NASDAQ: FFIV)
- ▶ Sierra Health Services Inc. (NYSE: SIE)
- ▶ Smith International (NYSE: SII)

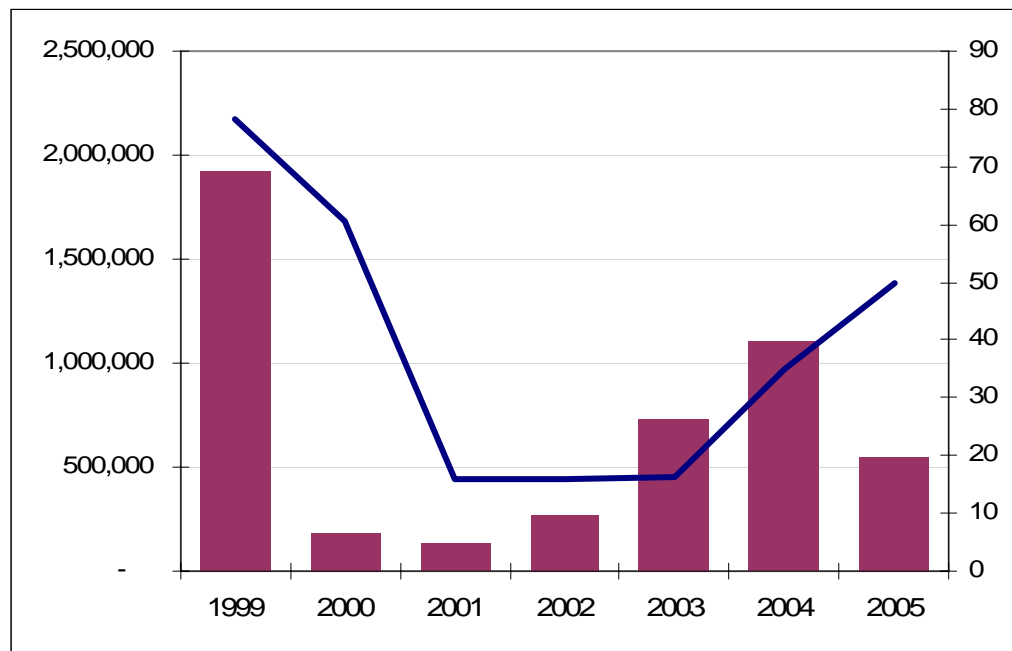
Discussion of 3DAdvisors Findings

After considering the matter for two years, the Financial Accounting Standards Board has finally set June 2005 as the date that all firms will have to begin expensing their options. Firms across industry lines have begun paring back their option grants, in some cases offering restricted stock grants as a substitute and suggesting that insiders exercise their options now so that they don't hit the books later, while others have merely scaled down option awards without providing an alternative long-term incentive. In the latter case, executives have been forced to rethink their options diversification strategy. But rather than decelerate their options exercising and ensuing selling, we have encountered a number of companies whose insiders have actually aggressively intensified their activity, in a few instances, significantly depleting their holdings. Despite their capacity to lock in gains after significant price appreciation, these sellers are well aware that they are foregoing the opportunity to be in a position to take advantage of any future momentum. The three companies covered in this report fall under this theme.

F5 Networks Inc. (NASDAQ: FFIV)

The selling by F5 Networks insiders isn't anything new. In fact, several members of senior management have been distributing shares under 10b5-1 trading plans adopted in early 2003. But as the issue began to rebound off the 2004 lows, it appears as if insiders have altered their trading plans to increase the number of shares available for sale. The Company has never disclosed terms of the 10b5-1 plans, but the modification that has taken place is rather evident. For example, President, CEO **John McAdam** had been consistently selling 50,000 shares per quarter through 2003, but increased his volume to 120,000 or 150,000 shares per quarter in February 2004, while Senior V.P. **Edward Eames** was selling less than 10,000 shares per month, but then sold 140,000 shares over the past three months. It is exactly this type of change in behavior that alerts us to a management team's changing sentiment. You can see from Figure 1 below how selling volume in 2004 increased 50% over 2003, while the majority of sellers were still under pre-arranged trading plans. And with only two months on the books, the selling in 2005 is on pace to top last year's mark. We haven't seen this many shares being sold by insiders since 1999 when the issue traded between \$60 and \$160.

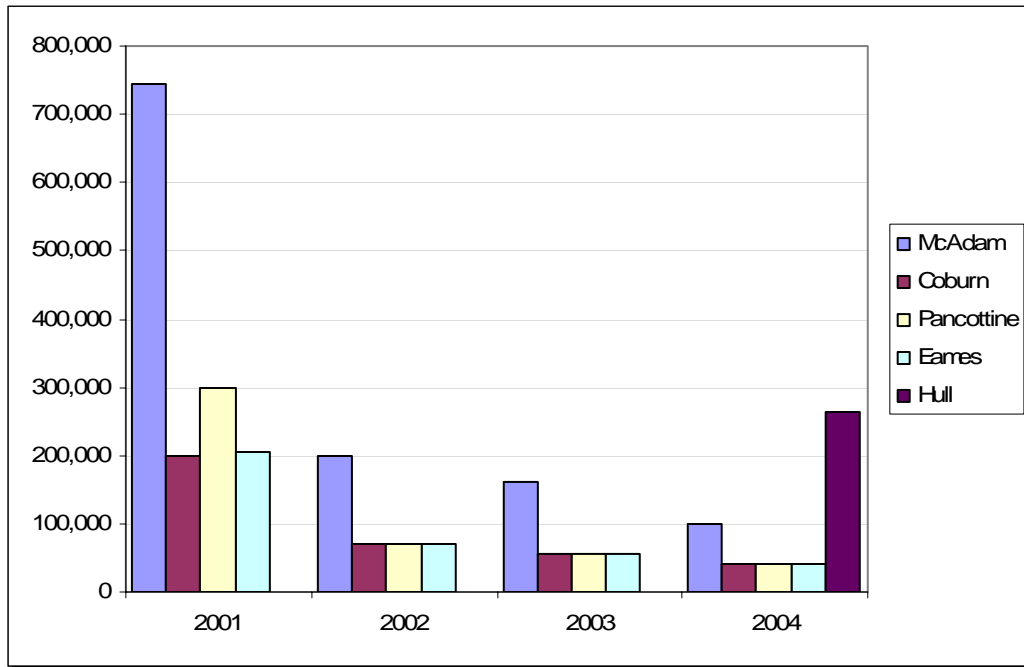
Figure 1. Selling Volume of F5 Networks Insiders (red bars and left scale) and Average Price of Shares Sold (blue line and right scale). Source: FFIV SEC Filings



But as mentioned above, the concern here is that insiders are increasing their selling while their option grants have been on the decline. Figure 2 below illustrates how the named executives have seen their option awards shrink year-over-year. And it might not be a coincidence that options granted prior to 2004 had a two-year vesting schedule, whereas those granted in 2004 vest in full one year from the grant date, allowing insiders quicker access to their shares. In effect, this ultimately inhibits management from focusing on long-term goals. Since the only unvested options they now hold will vest in full by June 2005, their personal interests now lie in the stock's short-term returns.

Maybe we shouldn't be too surprised that they chose to monetize a large number of their options now, rather than save them for a rainy day or what they should hope would be further price appreciation.

Figure 2. Annual Stock Option Grants to F5 Networks Named Executives. Source: FFIV Proxy Filings



The options holdings of these five execs becomes even more critical when you take into account that as a group they only hold a total of 58,003 shares of common stock, 56,582 of which are in the hands of McAdam. The rapid acceleration in selling has led to holdings reductions for the Company's most senior executives between 51% and 99%. This type of group move to diversify away their exposure to the Company's stock shouldn't be taken lightly.

Table 1. Holdings of FFIV Named Executives. Source: FFIV Proxies.

Named Executive	12/17/2001	11/15/2002	2/20/2004	2/20/2005	Reduction since 2004
J. McAdam	357,500	772,776	615,610	294,916	52.09%
S. Coburn	--	102,499	133,957	20,833	84.45%
J. Pancottine	109,377	228,349	187,787	1,401	99.25%
E. Eames	--	171,134	234,649	115,853	50.63%
T. Hull	--	--	--	70,312	N/A

- **John McAdam (53)** – President, CEO, Director. McAdam, who joined the Company in 2000, didn't begin selling until late 2002 when he initiated a pre-arranged trading plan. His sales had been quite predictable, which is to be expected under such plan, as he sold exactly 75,000 shares per quarter through August 2003. But it is the predictable traders who when they break pattern give us some of the best clues. In February 2004, McAdam increased his volume to 150,000 shares quarterly, which we first expected was for him to make up for not selling during the fourth quarter 2004. But when he sold another 150,000 shares in May 2004, we took notice. Including the 120,000 shares he sold on February 1st at \$47.16, McAdam has now dumped 540,000 shares over the past 53 weeks, after selling just 300,000 shares between 2000 and 2003. The selling during this period **trimmed his holdings by 52%**, and leaves his actionable shares at their lowest levels since he first joined the Company. Though he will have 126,666 new options vest by June, McAdam is not scheduled to have any options vest thereafter (see Appendix A).
- **Steve Coburn (51)** – Senior V.P., Finance, CFO. Like McAdam, Coburn has picked up his volume in the past few months. Coburn joined the Company in 2001 and didn't execute his first sale until February 2004, when he distributed 100,000 shares at \$33 and \$35 under a 10b5-1 trading plan. He didn't resurface until November 2004, when he dumped another 100,000 shares at slightly higher prices (\$38). But on February 1st, Coburn exercised two options with plenty of time remaining before expiration (expiration dates: May 2011 and May 2013) and sold the 95,000 shares at \$47. We can't fault Coburn for locking in gains after the stock's appreciation, but it is the degree to which he has done so, and an apparent abuse of his trading plan (he appears to be selling only into momentum) that caught our attention. Not only have his three sales over the past year **shed 84% from his holdings**, but they also leave him with no common stock and just over 20,000 vested options (see Appendix A). It is impossible for Coburn to continue selling at this pace.
- **Jeff Pancottine (44)** - Senior V.P., General Manager, Security Business Unit. Pancottine's activity is by far the most aggressive of the bunch and originally even led us to believe that he was leaving F5 Networks, but that theory was rejected after speaking to the Company. Pancottine has been a Section 16 insider since 2000, but didn't surface with any activity until March 2003. Two months later he adopted a trading plan of his own and sold a total of 181,232 shares between March 2003 and February 2004, and then didn't resurface until December. From December 1st to February 14th Pancottine exercised every last vested option he held, including three series set to expire between October 2010 and May 2013, to acquire 239,833 shares. He monetized all the shares, **equal to 98% of his ownership position**, and now just holds 1,401 shares of common stock (see Appendix A).
- **Edward Eames (46)** - Senior V.P., Business Operations and Global Services. Eames began selling under a 10b5-1 trading plan back in May 2003, but has noticeably increased his selling as of late under the plan. After routinely selling less than 10,000 shares per month, he picked up his volume as the issue gained momentum in late 2004. From December 1st through March 1st he dumped 140,666 shares at an average price of \$48, and has now **trimmed his holdings by 51%** since the February 2004.

Members of F5 Networks' executive ranks weren't the only ones to take advantage of the stock's gains. Directors **Gary Ames (60)** and **Karl Guelich (62)** sold

65% and 37% of their holdings, respectively, in 2005. Ames has been a director for less than a year, so we were a little surprised to see him monetizing such a large percentage of his position so early in his tenure. The sale becomes even more notable when you take into account that he is also a board member at Tektronix (NYSE: TEK) and iPass (NASDAQ: IPAS) and not only has been buying up IPAS, but sold only 14% of his stake in TEK back in March 2004; far less than what he sold of his F5 Networks holdings.

Sierra Health Services Inc. (NYSE: SIE)

There are occasions where our identification of significant insider selling is not prompted by a large, uncharacteristic round of selling, but rather small, steady sales over time that result in eventual, material deterioration of insiders' holdings. When the selling takes place under the cover of 10b5-1 trading plans, which weren't created with the intent of allowing executives to distribute a majority of their holdings, we become even more interested. And we're not alone, as the SEC just announced on March 4th that it was investigating the 10b5-1 sales of two ChoicePoint (NYSE:CPS) executives who may have, under the camouflage of the safe harbor provided by the plans, sold with knowledge of coming negative events. We have suspected, for quite some time that 10b5s are all too often being used for just such purposes. Though we don't necessarily believe there are any of the same improprieties taking place at managed healthcare provider Sierra Health Services, the behavior is still quite noteworthy, at least to us. Since December 10th, insiders, eight in all, have only sold a total of 159,535 shares between the prices of \$54.25 and \$61.84. But don't be fooled by the light volume. In addition to consistent selling over the past few years, a combination of other factors have led to hefty position reductions since early 2004 for the five named executives, one of the few groups in this industry we've encountered that have managed to stay together for a number of years.

Though the most aggressive selling in the recent round was executed by Chairman, President, CEO **Anthony Marlon**, we are more interested in the behavior of his top lieutenants. As shown in the table below, the four additional named executives have sold between 49% and 81% of their holdings since early 2004, and even more so since 2003.

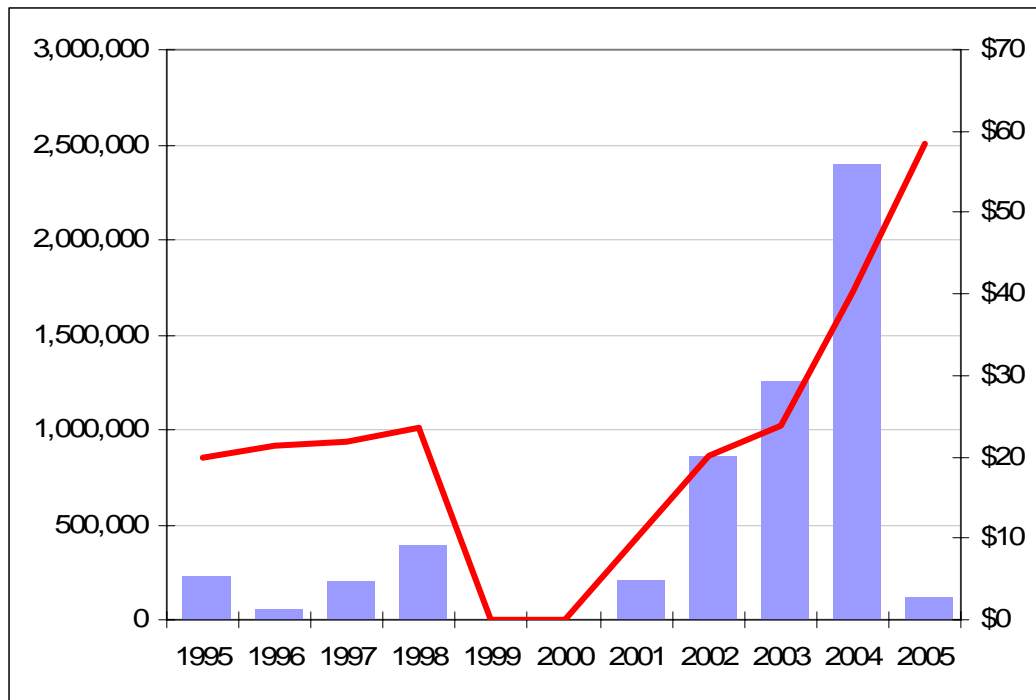
Table 2. Holdings Reductions by SIE Named Executives. Source: SIE Proxies.

Named Executive	4/5/2002	4/4/2003	4/1/2004	3/5/2005	% Chg since '03	%Chg Since '04
A. Marlon	2,812,154	2,781,796	2,691,287	2,080,154	-25.22%	-22.71%
F. Collins	174,548	209,800	208,108	105,123	-49.89%	-49.49%
J. Bunker	168,413	155,841	144,980	39,794	-74.46%	-72.55%
P. Palmer	158,283	149,409	87,749	16,730	-88.80%	-80.93%
L. Howard	181,525	154,482	74,896	25,278	-83.64%	-66.25%

To say that there is a direct correlation between the stock price and pickup in selling volume isn't necessarily true. Shares of SIE were trading in the \$20s between

1996 and 1998, just prior to the stock's steady descent beginning in 1999. During that three-year period, insiders sold less in total than they sold in 2003 when the issue was trading at similar prices. We attribute the pickup in selling to the use of pre-arranged trading plans, which most of the top executives entered into in 2003. As you can see from Table 2 above, it was during this time that the holdings of Sierra's top execs began to decline, and the selling has led to holdings being dropped to levels not seen since the 1990's.

Figure 3. Selling Volume by SIE Insiders (Blue bars and left scale) and Average Price of Shares Sold (Red line and right scale). SIE SEC Filings.



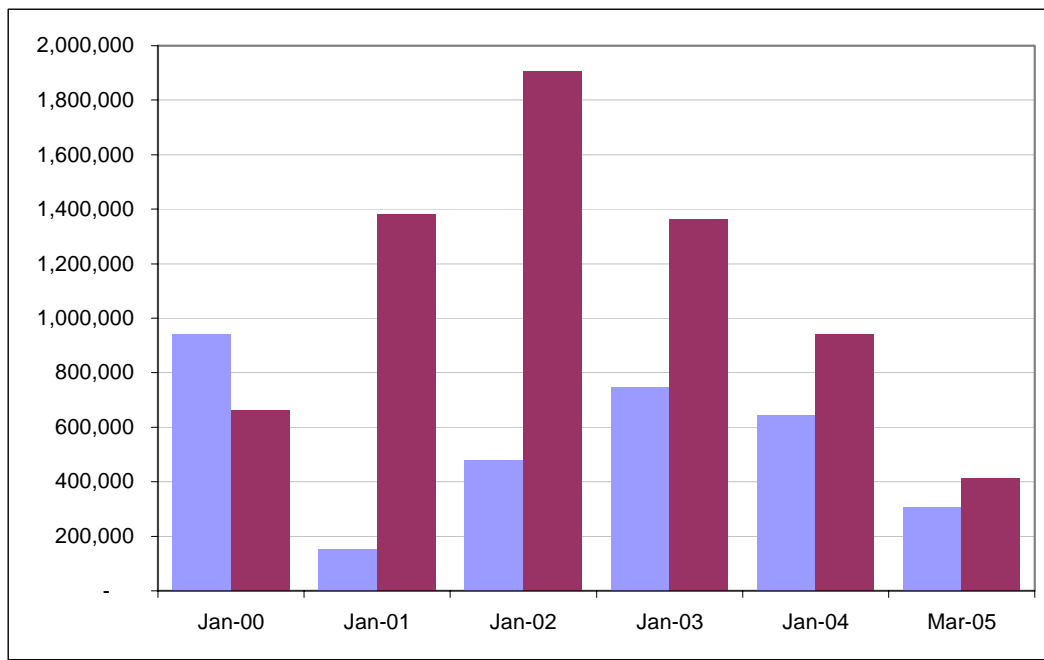
But as we mentioned before, there are additional reasons for the shrinking holdings. Annual option grants have been on the decline since 2000. Since some of their largest grants came in 2000 and 2001, and most of those options have already vested (and have been exercised), there are fewer options that will vest in the upcoming year. In fact, the Company didn't grant options to most executives in 2004, which puts additional strain on their options holdings.

Figure 4 below illustrates the options holdings of Sierra Health's top five execs, which are in obvious decline. Both exercisable and un-exercisable options are well below levels seen in 2000, which will make it very difficult for their actionable positions (common stock and exercisable options) to be replenished. It is quite apparent that this management team feels the issue might have reached its pinnacle, or else they would have held some of their shares to take advantage of any further price appreciation.

A few points of interest: we find it very curious that Sierra Health has managed to severely under-perform its peer group in cumulative total returns each year since 1998,

yet SIE execs have annually received base salary and incentive bonus increases. In fact, bonuses have increased on average 148% between 2001 and 2003, and we expect to see this pattern continue when 2004 figures are released in next month's Proxy. We also took notice that the Company not only purchased \$16 million in stock from chief executive Anthony Marlon in February 2004, but also employs his son and daughter at \$75,000 and \$135,000 per year, respectively. These aren't the first examples of Marlon receiving special treatment, as he was provided interest-bearing personal loans in excess of \$5 million back in 2002.

Figure 4. Option Holdings of SEI Insiders. Red bars are unexercisable options, blue bars are exercisable options. Source: SEI SEC Filings.



- **Paul Palmer (43)** – Senior V.P., CFO, Treasurer. Including the 27,500 shares he sold between December 10th and March 1st under his preexisting 10b5-1 plan, Palmer has now sold 167,300 shares since February 2004, nearly as many shares as he sold between 1995 and 2003 combined. The selling has **wiped out 81% of his holdings**, leaving him with just 4,022 shares of common stock and 12,708 vested options. Though Palmer will have 55,208 options vest in 2005, he will only gain access to 11,875 new options in 2006 (see Appendix B).
- **Thomas Hartley (70)** – Director. Hartley, a board member since 1992, has displayed a propensity for timing his trades over the past eight years. He sold 3,000 shares in June 1998 just before the stock's steady two-year slide from \$25 to \$3, and then picked up 50,000 shares between May 1999 and August 2000 between \$3 and \$13. His selling resumed in July 2003 as the issue climbed off its lows and has been pretty consistent since. His selling culminated on February 2nd when he exercised all of his vested options comprised of five different series with expiration dates ranging between January 2010 and January 2014, and sold the underlying 8,000 shares at \$58. The disposition **dropped his holdings by 73%** and leaves him with just 3,000

shares of common stock and no further options vesting until January 2006. Hartley is also on the board at Southwest Gas (NYSE: SWX), but hasn't sold any shares in the past two years.

- **Michael Luce (53)** – Director. Though Luce joined SIE's board in 2000, it wasn't until February 2004 that we saw his first selling. After selling 13,500 shares last year, he cleared out all of his vested options (expiration dates: 1/12, 1/13, 1/14) on February 18th en route to selling 5,000 shares at \$59. The sale **lowered his actionable position by 83%**, leaving him with just 1,000 shares of common stock. This is the most depleted we've seen Luce's holdings since he first joined the board.
- **Frank Collins (50)** – Senior V.P., Legal and Administration. Collins has been one of the most consistent sellers of the executive team, distributing 140,000 shares between 1995 and 2002. There has been a noticeable pickup in his activity since 2003, when he first began trading under a pre-arranged 10b5-1 plan. Since January 2004 Collins has sold 174,209 shares, including a 10,000-share sale in December 2004 at \$55. The sales have **dropped Collins' holdings by 50%** over that period, which is significant for the Company's third largest shareholder. Following the selling, he holds 65,000 shares of common stock and 26,120 vested options, down from the 105,414 vested options he held in January 2003.
- **Larry Howard (48)** – Senior V.P., Program Office. After selling 105,000 shares between 1995 and 2002, Howard has since sold 220,000 shares, many of which were sold under the cover of a 10b5-1 trading plan. Most recently he sold 9,167 shares from December 13th to February 13th at an average price of \$59, **driving his 52-week reduction to 66%**. In order to sell, Howard cleared out roughly 75% of his vested options comprised of two series not set to expire until December 2011 and December 2012, leaving him with just 5,625 vested and 43,541 unvested options, far less than the 95,000 vested and 217,500 unvested options he held in January 2002 (see Appendix B).

Smith International (NYSE: SII)

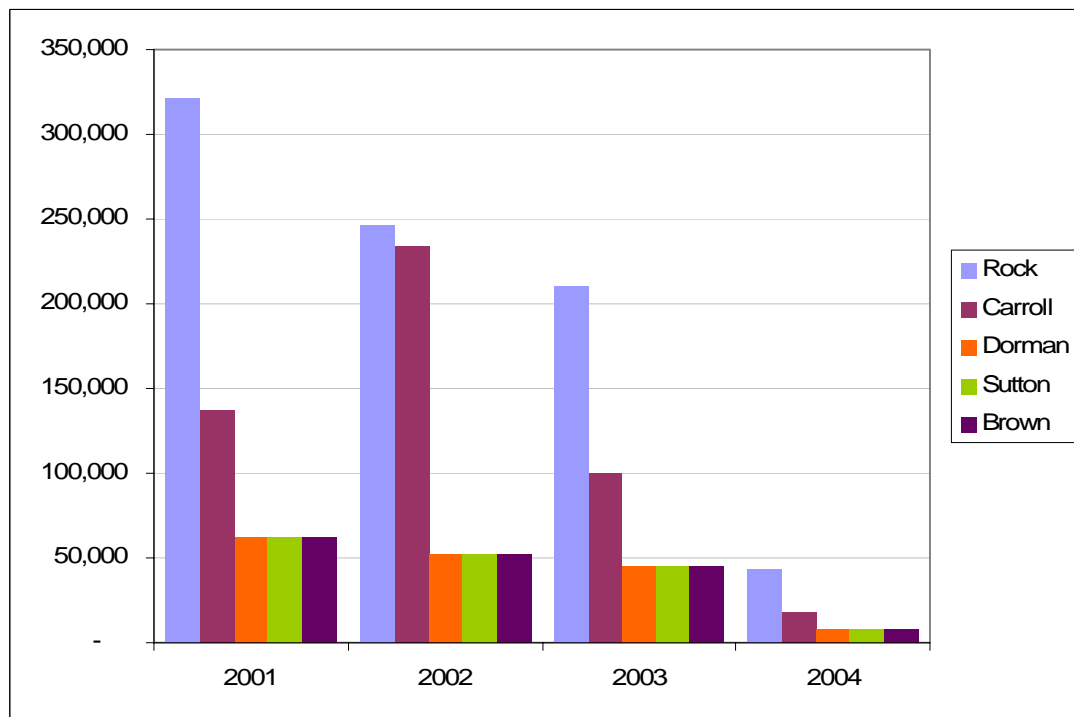
We first took notice of the Smith International activity in early February after just two insiders had sold. The selling by those two alone nearly compelled us to issue a report, but then the floodgates opened. In total, seven insiders sold a combined 876,976 shares between December 16th and March 1st as the issue climbed from \$56 to an all-time high of \$65. Though this isn't the heaviest selling in Company history, it surely has had the most damaging effect on the holdings of the SII's top management. Insiders had sold just over 2 million shares in 2000, when oil prices were skyrocketing off the 1999 lows, but despite the heavy selling we actually saw a net increase in their holdings, due to the fact that new options vesting at the time exceeded the selling. Just the opposite has transpired over the past year, as insiders have sold 2.03 million shares in the last 52 weeks. As shown in Table 3 below, the selling has dropped the holdings of key execs to levels not seen in the past five years. Two of the five named execs, Senior V.P., Administration, General Counsel **Neal Sutton** and President, CEO, Wilson Division **John Kennedy**, both of which have been with the Company since 1991, don't hold any common stock and cleared out all of their vested options to leave themselves without any actionable shares.

Table 3. Holdings Reductions by SII Named Executives. Source: SII Proxies

Insider	3/1/2002	3/1/2003	2/27/2004	2/25/2005	% Chg Since '03	%Chg Since '04
D. Rock	521,040	706,600	922,050	264,250	-62.60%	-71.34%
L. Carroll	319,500	433,250	385,450	196,500	-54.65%	-49.02%
N. Sutton	99,500	130,100	142,200	0	-100.00%	-100.00%
M. Dorman	--	87,530	57,089	54,890	-37.29%	-3.85%
R. Werner	--	174,821	195,921	472	-99.73%	-99.76%
J. Kennedy	146,200	201,800	193,400	0	-100.00%	-100.00%

So, why is the recent selling causing this unprecedented holdings deterioration? The Compensation Committee hasn't been nearly as generous with the long-term option incentive awards as they had been between 1995 and 2001. Figure 5 below shows the annual number of stock options granted, and clearly illustrates the declining awards. Chairman, CEO **Doug Rock** has seen his awards slashed the most, as his 2004 award was 87% lighter than it had been in 2001. It is no coincidence that his heavy sales in 2004 have dropped his actionable position by 71%, the lowest we've seen since early 1997.

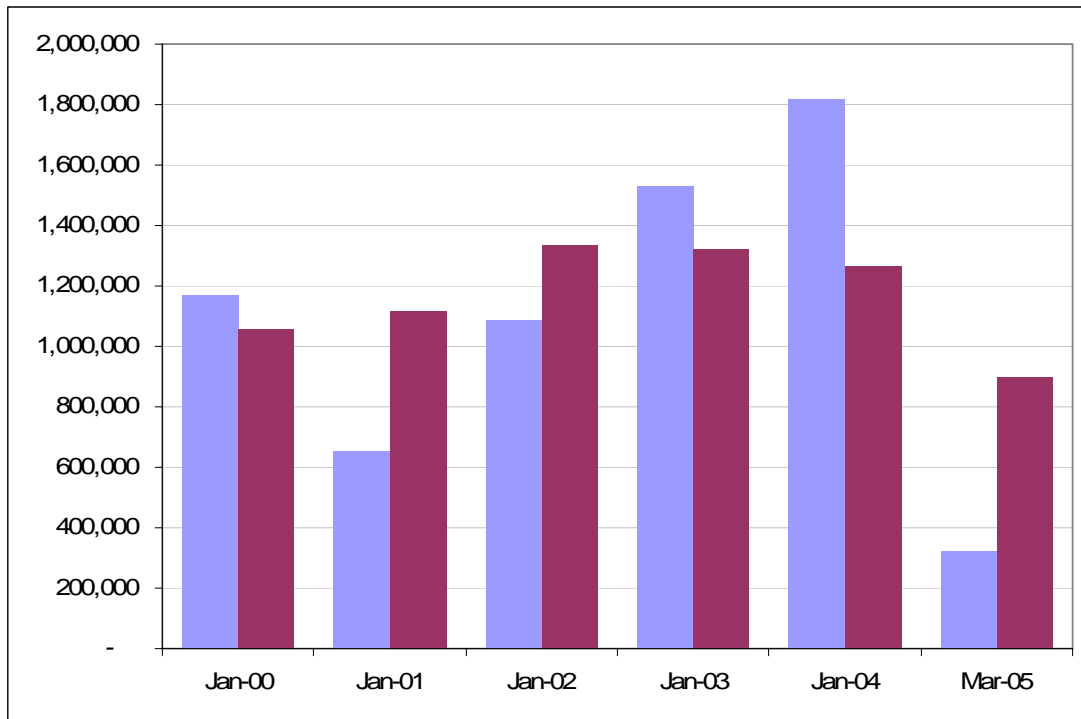
Figure 5. Annual Stock Option Grants to Named Executives. SII Proxies.



But now that we've highlighted the effect of the selling on their holdings and declining option grants, Figure 6 below, which illustrates the exercisable and un-exercisable options holdings of the five named SII executives, shows how these two tie

in together. As you can see, the aggressive option exercising and related selling over the past fourteen months have nearly wiped out the vested options holdings of this management team. We haven't seen levels this low in nearly ten years, which is a clear indication that they would rather hold cash than have their net worth tied up in Smith International stock. You can also see that there's a downtrend in their unexercisable options, which will continue at this pace for as long as the Compensation Committee continues to cut back their awards.

Figure 6. Options Holdings of SII Named Executives. Blue bars are exercisable options; Red bars are unexercisable options. Source: SII SEC Filings.



- Douglas Rock (57)** – Chairman, CEO. On December 16th and December 17th Chairman, CEO **Douglas Rock** exercised three options series with expiration dates ranging between December 2007 and December 2011, acquiring 301,441 shares. He immediately sold all the shares at \$56. But three things stood out about these transactions. First, this was his second sizeable round of selling in 2004, as he sold 383,000 shares in February and March. Combined, Rock's 2004 sales **trimmed his holdings by 71%**, marking his heaviest annual selling in the past ten years. Secondly, SII grants options to employees in December, so Rock had 243,250 options vest in December 2004. It is interesting to see that he monetized more options than recently had become exercisable. And finally, this is the first time we've ever seen Rock sell in December, which means he exercised his newly-vested options immediately upon vesting, and did not wait until the following year before selling, choosing instead, to take last-minute gains. This demonstrates a possible sense of urgency to cash out. Rock will have 205,500 new options vest in December 2005 (see Appendix C).

- **Neal Sutton (58)** – Senior V.P., Administration, General Counsel, Secretary. After selling a total of 281,800 shares between 1995 and 2003, Sutton unloaded 192,950 shares on February 10th at \$61.50. The transaction stemmed from his most aggressive option exercising during the course of his tenure, as he cleared out all of his vested options comprised of six series with plenty of time remaining before expiration (expiration dates: 12/07, 12/09, 12/10, 12/11, 12/12, 12/13). Since Sutton doesn't hold any common shares, the transaction **drained his entire actionable position** (exercisable options plus common stock), leaving him out of any shares to sell until December, 2005 when he will have access to 41,750 newly-vested options (see Appendix C).
- **John Kennedy (51)** – President, CEO, Wilson Division. Kennedy, an SII exec since 1991, cleared out all of his vested options on February 2nd, including four series not set to expire until December 2010 at the earliest, and sold the underlying 127,750 shares at \$60. Not only did he liquidate his vested options holdings, but actually **wiped out all of his holdings** since he doesn't hold any common stock. Kennedy will have 41,750 options vest in December 2005, his smallest yearly amount in quite some time (see Appendix C).
- **Loren Carroll (60)** – Executive V.P., Director. Including the 150,000 shares Carroll sold on February 18th and February 28th, he has now sold nearly as many shares in the past year (428,000 shares) as he had over the past nine years (435,200 shares). Though the shares have been trading at a premium to earlier years, we have never seen him shed so much of his position. After holding over 385,000 shares just a year ago, his **position is now 50% lighter** and will not be replenished by the 122,000 options that will vest by yearend (see Appendix C). The shares Carroll sold in February were acquired from the exercise of three options series with expiration dates between December 2007 and December 2011.
- **Richard Werner (62)** – President, Smith Services. Following the lead of his peers, Werner cleared out all of his vested options on February 18th, exercising five different series with expiration dates ranging from December 2007 through December 2013. He then sold the newly-acquired 97,150 shares at \$63.50, leaving himself with only 472 actionable shares of common stock. The sale not only **trimmed his holdings by 99%**, but leaves him without the option to sell shares until December, when 36,000 new options will vest (see Appendix C). This was by far Werner's largest sale in the past ten years.

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Appendix A

Option Vesting Schedules for Selected F5 Networks Inc. Insiders

Grant Date	Options	Price	Date Exercisable	Expiration Date	Remaining Options in Series	Unvested Options in Series	Vesting Dates of Remaining Options
John McAdam, President, CEO, Director. Common stock holdings: 56,582 shares							
05/06/02	200,000	\$11.12	06/06/02	05/06/12	105,000	0	Fully vested
05/08/03	160,000	\$14.64	06/08/03	05/08/13	160,000	26,666	6,666 vest per month
04/30/04	100,000	\$25.49	04/30/05	04/30/14	100,000	100,000	Vests in full on 4/30/05
Steve Coburn, Senior VP, Finance, CFO. Common stock holdings: 0 shares							
05/29/01	200,000	\$12.72	05/29/02	05/29/11	20,000	0	Fully vested
05/08/03	55,000	\$14.64	06/08/03	05/08/13	10,000	9,167	2,291 vests per month
04/30/04	40,000	\$25.49	04/30/05	04/30/14	40,000	40,000	Vests in full on 4/30/05
Jeff Pancottine, Senior VP, General Manager, Security Business Unit. Common stock holdings: 1,401 shares							
05/08/03	55,000	\$14.64	06/08/03	05/08/13	9,167	9,167	2,291 vest per month
04/30/04	40,000	\$25.49	04/30/05	04/30/14	40,000	40,000	Vests in full on 4/30/05
Edward Eames, Senior VP, Business Operations and Global Services. Common stock holdings: 20 shares							
05/06/02	70,000	\$11.12	06/06/02	05/06/12	70,000	0	Fully vested
05/08/03	55,000	\$14.64	06/08/03	05/08/13	55,000	9,167	2,291 vest per month
04/30/04	40,000	\$25.49	04/30/05	04/30/14	40,000	40,000	Vests in full on 4/30/05



Appendix B

Option Vesting Schedules for Selected Sierra Health Services Inc. Insiders

Grant Date	Options	Price	Date Exercisable	Expiration Date	Remaining Options in Series	Unvested Options in Series	Vesting Dates of Remaining Options
Anthony Marlon, Chairman, President, CEO. Common stock holdings; 1,843,382 shares							
02/10/99	50,000	\$14.94	02/10/00	02/09/05	50,000	0	Fully vested
05/17/00	365,000	\$3.75	05/17/01	05/17/10	194,772	73,000	05/17/05
12/10/02	75,000	\$11.65	12/10/03	12/09/12	37,500	0	Fully vested
04/14/03	82,500	\$12.61	04/14/04	04/14/13	82,500	55,000	04/14/05, 04/14/06
Frank Collins, Senior VP, Legal and Administrative. Common stock holdings: 65,670 shares							
05/17/00	175,000	\$3.75	05/17/01	05/17/10	35,000	35,000	05/17/05
05/21/01	83,120	\$5.73	01/21/02	05/20/11	13,120	0	Fully vested
12/10/01	45,000	\$8.93	12/10/02	12/09/11	13,000	0	Fully vested
12/10/02	40,000	\$11.65	12/10/03	12/09/12	13,333	13,333	12/10/05
04/14/03	47,500	\$12.61	04/14/03	04/14/13	35,625	35,625	04/14/05, 04/14/06, 04/14/07
Jonathon Bunker, Senior VP, President, Managed Healthcare Division. Common stock holdings: 13,128 shares							
05/17/00	150,000	\$3.75	05/17/01	05/17/10	30,000	30,000	05/17/05
12/10/01	40,000	\$8.93	12/10/02	12/09/11	13,333	0	Fully vested
12/10/02	40,000	\$11.65	12/10/03	12/09/12	26,666	13,333	12/10/05
04/14/03	47,500	\$12.61	04/14/03	04/14/13	35,625	35,625	04/14/05, 04/14/06, 04/14/07
Paul Palmer, Senior VP, CFO, Treasurer. Common stock holdings: 4,022 shares							
05/17/00	150,000	\$3.75	05/17/01	05/17/10	30,000	30,000	05/17/05
12/10/02	40,000	\$11.65	12/10/03	12/09/12	14,166	13,333	12/10/05
04/14/03	47,500	\$12.61	04/14/03	04/14/13	47,500	35,625	04/14/05, 04/14/06, 04/14/07



Appendix B

Option Vesting Schedules for Selected Sierra Health Services Inc. Insiders

Grant Date	Options	Price	Date Exercisable	Expiration Date	Remaining Options in Series	Unvested Options in Series	Vesting Dates of Remaining Options
Larry Howard, Senior VP, Program Office. Common stock holdings; 19.653 shares							
05/17/00	150,000	\$3.75	05/17/01	05/17/10	30,000	30,000	05/17/05
12/10/02	12,500	\$11.65	12/10/03	12/09/12	4,166	4,166	12/10/05
04/14/03	12,500	\$12.61	04/14/03	04/14/13	12,500	9,375	04/14/05, 04/14/06, 04/14/07
05/20/04	2,500	\$40.71	12/31/04	05/19/14	2,500	0	Fully vested



Appendix C

Option Vesting Schedules for Selected Smith International Inc. Insiders

Grant Date	Options	Price	Date Exercisable	Expiration Date	Remaining Options in Series	Unvested Options in Series	Vesting Dates of Remaining Options
Doug Rock, Chairman, CEO. Common stock holdings: 150,000 shares							
12/04/01	322,000	\$23.50	12/04/02	12/04/11	80,500	80,500	12/04/05
12/03/02	247,000	\$34.73	12/03/03	12/03/12	185,250	123,500	12/03/05, 12/03/06
12/02/03	210,000	\$38.82	12/02/04	12/02/13	210,000	157,500	12/02/05, 12/02/06, 12/02/07
12/07/04	43,000	\$56.26	12/07/05	12/07/14	43,000	43,000	12/07/05, 12/07/06, 12/07/07, 12/07/08
Loren Carroll, Executive VP. Common stock holdings: 41,500 shares							
12/03/97	56,000	\$34.53	12/03/98	12/02/07	13,000	0	Fully vested
12/04/01	138,000	\$23.50	12/04/02	12/04/11	34,500	34,500	12/04/05
12/03/02	234,000	\$34.73	12/03/03	12/03/12	234,000	117,000	12/03/05, 12/03/06
12/02/03	100,000	\$38.82	12/02/04	12/02/13	100,000	75,000	12/02/05, 12/02/06, 12/02/07
12/07/04	18,000	\$56.26	12/07/05	12/07/14	18,000	18,000	12/07/05, 12/07/06, 12/07/07, 12/07/08
Margaret Dorman, Senior VP, CFO, Treasurer. Common stock holdings: 2,140 shares							
12/04/01	62,000	\$23.50	12/04/02	12/04/11	31,000	15,500	12/04/05
12/03/02	52,000	\$34.73	12/03/03	12/03/12	52,000	26,000	12/03/05, 12/03/06
12/02/03	45,000	\$38.82	12/02/04	12/02/13	45,000	33,750	12/02/05, 12/02/06, 12/02/07
12/07/04	8,000	\$56.26	12/07/05	12/07/14	8,000	8,000	12/07/05, 12/07/06, 12/07/07, 12/07/08
John Kennedy, President, CEO, Wilson Division. Common stock holdings: 0 shares							
12/04/01	62,000	\$23.50	12/04/02	12/04/11	15,500	15,500	12/04/05
12/03/02	52,000	\$34.73	12/03/03	12/03/12	26,000	26,000	12/03/05, 12/03/06
12/02/03	45,000	\$38.82	12/02/04	12/02/13	33,750	33,750	12/02/05, 12/02/06, 12/02/07
12/07/04	8,000	\$56.26	12/07/05	12/07/14	8,000	8,000	12/07/05, 12/07/06, 12/07/07, 12/07/08



Appendix C

Option Vesting Schedules for Selected Smith International Inc. Insiders

Grant Date	Options	Price	Date Exercisable	Expiration Date	Remaining Options in Series	Unvested Options in Series	Vesting Dates of Remaining Options
Neal Sutton, Senior VP, Administration, General Counsel, Secretary. Common stock holdings: 0 shares							
12/04/01	62,000	\$23.50	12/04/02	12/04/11	15,500	15,500	12/04/05
12/03/02	52,000	\$34.73	12/03/03	12/03/12	26,000	26,000	12/03/05, 12/03/06
12/02/03	45,000	\$38.82	12/02/04	12/02/13	33,750	33,750	12/02/05, 12/02/06, 12/02/07
12/07/04	8,000	\$56.26	12/07/05	12/07/14	8,000	8,000	12/07/05, 12/07/06, 12/07/07, 12/07/08
Richard Werner, President, Smith Services. Common stock holdings: 472 shares							
12/04/01	34,000	\$23.50	12/04/02	12/04/11	8,500	8,500	12/04/05
12/03/02	52,000	\$34.73	12/03/03	12/03/12	26,000	26,000	12/03/05, 12/03/06
12/02/03	45,000	\$38.82	12/02/04	12/02/13	33,750	33,750	12/02/05, 12/02/06, 12/02/07
12/07/04	8,000	\$56.26	12/07/05	12/07/14	8,000	8,000	12/07/05, 12/07/06, 12/07/07, 12/07/08