3D ADVISORS

Research Notes

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

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. The ⬆ symbol indicates that we have observed management behavior that suggests a bullish sentiment.

Companies in this Research Notes

- AECOM Technology Corp. (NYSE: ACM)
- Bunge Limited (NYSE: BG)
- Hudson City Bancorp Inc. (NASDAQ: HCBK)
- People's United Financial Inc. (NASDAQ: PBCT)

3DAdvisors Research Notes

AECOM Technology Corp. (NYSE: ACM)

- Heavy Construction is near the top of the list of best performing industries over the past three months largely due to the Obama administration's economic stimulus package and the expectations it would earmark massive investments for infrastructure projects. Many in the group were forecasted to benefit from the government spending, but as we now know having seen less than $100 billion directed at repairing the nation's public works, the share price run-up of construction and engineering companies may have been largely premature. Industry insiders, we are sure, were as stunned by the news as the rest of the business world including the media and sell-side hype machines that have pumped infrastructure stocks for the past few months. We have been closely watching the behavior of infrastructure managers as their firm's share prices skyrocketed and, judging from the instantaneous profit taking by insiders at a number of key companies, we immediately became skeptics of the now-inflated valuations. Standing out to us in this the group are the insiders at AECOM Technology, whose aggressive trading in the fourth quarter stood in stark contrast to the exceedingly confident guidance they issued for 2009 and beyond.

- ACM performs program and construction management services for a large range of projects, including highways, airports, mass transit systems, bridges, government and commercial buildings, water and wastewater facilities and power transmission and distribution. However, given the unprecedented economic challenges and extreme budget deficits that many local and state governments are facing, one cannot help but wonder what percentage of these projects, which had been touted as growth vehicles, may in fact be suspended, delayed or cancelled all together. For example, the 2008 SEC Form 10-K highlights the New York City Second Avenue subway line as a current project for the PTS segment. However, this project has experienced three ground-breaking ceremonies since 1972 and still has not seen any major construction activity. And while management stated on the fiscal 4Q08 conference call (11/12/08) that thus far there were no major project cancellations or delays, there were not any major new projects announced last quarter as there had been in prior quarters.

- We also wonder what the impact of oil prices will be on AECOM's ability to maintain its current earnings growth rate. It is no secret that infrastructure projects in the Middle East have been slowed by falling oil prices. While ACM does not provide a regional breakdown of its international revenues, foreign sales overall accounted for 40% of total revenues in 2008 and have been the key growth driver. Foreign sales grew 121% from $923 million in 2006 to $2.04 billion in 2008 compared to the 26% increase in domestic sales over the same two-year period. On the last conference call President and CEO **John Dionisio** (60) commented there might be a "softening" in the Middle East market if oil falls below $50.

  Oil remained below $50 for ACM's entire fiscal first quarter (ended 12/31/08) so it will be very interesting to see if there are any material project cancellations or delays to report on the next conference call. Oil prices are also a key dynamic in the Company's expansion plans for its energy and power end markets, which in FY 2Q08, Dionisio stated were "important growth drivers" for ACM. On the FY 3Q08 conference call Dionisio conveyed his plans to grow this segment to 20% of total revenues, up from the 15% goal he issued the prior quarter. On the last call he backpedaled some, claiming now that this was not a key market for ACM but it does need to be watched closely in light of falling oil prices.

- In his closing remarks on the fiscal 4Q08 conference call, Dionisio proclaimed, "we're very confident in our business model which has served us well over the last 18 years, and we're confident in the strength of the infrastructure market on a global basis as we go forward". While 'confident' seemed to be the word of the day on 11/12/08, management behavior after the call sent very different signals to the investment community. Dionisio, who had been selling 10,000 shares per month under a February 2008 sales plan, increased his volume under the same plan on 12/08/08, selling 30,000 shares at $30. The 320,000 shares he sold over the course of the year accounted for 40% of his actionable holdings. Former Chief Operating Officer turned Vice Chairman (more on the title change later) **James Royer** (62) made more of a statement when he executed his first sales outside of a 10b5-1 plan on 12/05/08 and 12/08/08, disposing of 120,000 shares for an average price of $27.78. In the process Royer cleared out all of his vested stock options which were not set to expire for another 8 to 23 months. His 2008 selling erased 70% of his tradable stock and options.

- Also sounding off with high expectations on the conference call was Chief Financial Officer **Michael Burke** (45), who has carried out some of the more unusual and incongruous 10b5-1 activity we have seen at any company recently. Less than one week after the call (11/18/08), Burke initiated his ***third sales plan in five months***, flying in the face of the Rule which was put in place to provide safe harbor for insiders who establish *valid* plans. While Burke has met the requirement of adopting his plans during open trading windows, these short-term durations give him flexibility to time his activity which the Rule does not permit. We suspect the affirmative defense afforded by Rule 10b5-1 may very well not hold up if regulators took a closer look at his behavior. It should also be pointed out Burke opened his June plan when ACM traded at $31, on the date he adopted his September plan the shares were at $25, and then he acted again in November with the issue trading at $19. In December, Burke used the last two plans to clear out all 25,000 shares held in his personal trust and ultimately shed 72% of his actionable holdings in 2008. Executive V.P. of Business Lines (formerly CEO of U.S. Group) **Frederick Werner** (55) also kicked off a new sales plan after the last earnings release and averaged down from $29 to $25 with his two sales, the second of which occurred on 01/20/09.

Figure 1. ACM Daily Closing Price, 01/02/08 through 01/29/09. Red diamonds are the dates where CFO Burke entered into three 1-month 10b5-1 trading plans, each at progressively lower prices. He would sell 72% of his actionable holdings under the plans in 2008. Source: Reuters and ACM SEC Filings.

- Since the expiration of the six-month lock-up period associated with ACM's May 2007 IPO, insiders have traded exclusively with the use of pre-arranged sales plans. Of the 82 sales executed through the third quarter of 2008, only two trades last February were not part of a plan. Judging from the more recent activity, it would seem certain insiders no longer want the trading limitations imposed by the Rule. We mentioned the activity of Royer above; Executive V.P. of Geographies **Nigel Robinson** (55) and Director **S. Malcom Gillis** (68) also traded independent of a plan in the fourth quarter. In addition to clearing out all 54,000 of his non-expiring vested stock options with his first sale on 12/08/08, Robinson also sold 66,000 shares of common stock, wiping out 55% of his position.

- These holdings reductions are large by any measure but have added significance when looking at the downstream vesting of management's derivative equity. For example, CEO Dionisio sold 320,000 shares last year but will have only 32,760 options become actionable this year, all in December. CFO Burke sold 85,000 shares in 2008 and stands to replace that with only 14,000 vested options at year-end. The comparison of shares sold to vesting options looks the same from the top of the executive hierarchy on down.

- There is one additional insider ownership matter that needs to be addressed. Management's beneficial ownership reported in the most recent Proxy Statement filed on 01/23/09 is severely inflated with deferred compensation such as shares held in the Deferred Compensation Plan (DCP) and Retirement & Savings Plan (RSP) that are not actionable until an insider's resignation or retirement. So while the casual observer might consider the recent selling totals as a percentage of the holdings reported in the Proxy, our calculations were run off the stock and options they legitimately had at their disposal. The table below lists the reported and actual actionable holdings of the top five named officers.

Executive	Position	Reported Holdings as of 01/05/09	Actual Actionable Holdings as of 01/05/09
John Dionisio	President, CEO, Director	863,543	481,702
Richard Newman	Executive Chairman	2,228,843	1,339,769
James Royer	Executive Vice Chairman	538,631	174,837
Michael Burke	EVP, CFO	144,159	32,614
Francis Bong	Chairman - Asia	1,389,161	1,137,088

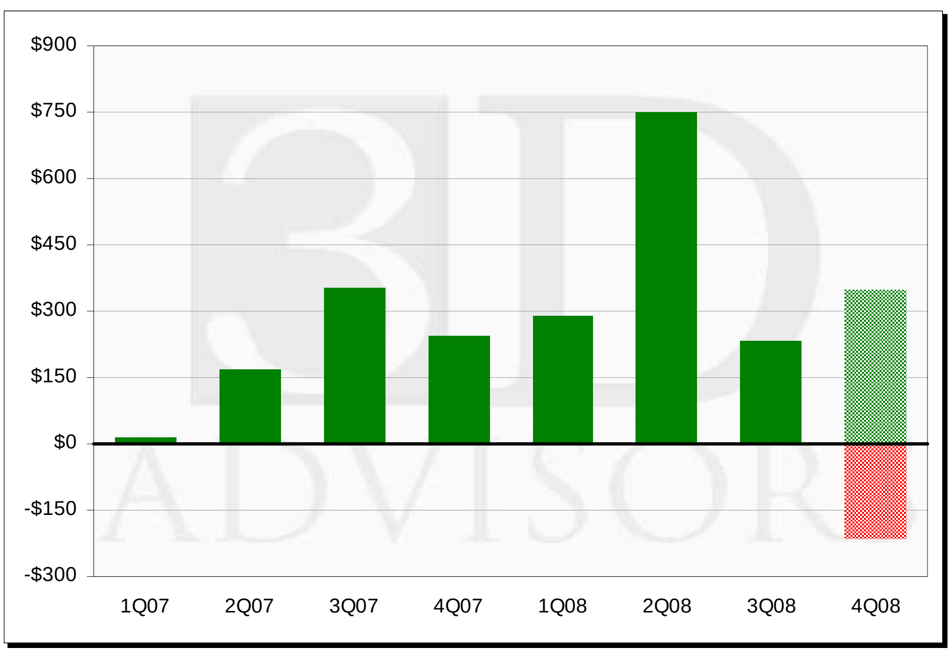
- We briefly mentioned earlier an apparent change in James Royer's role. On his last Form 4 filed on 12/17/08, Royer disclosed his title as Executive V.P. and Chief Operating Officer, the position he held since 2005. The new Proxy, issued one month after the Form 4 was filed, discloses Royer's title is now Vice Chairman, an executive position that does not include a board seat. This was news to us since AECOM has yet to disclose his new role in a Form 8-K or press release. According to SEC rules the reassignment of a principal officer's duties and responsibilities, even if he or she remains an employee, constitutes a 'termination' and triggers a Form 8-K filing requirement. It would seem there were other management changes recently as the titles of six other senior executives were changed in January. None of these changes has been posted on AECOM's corporate website and it remains unclear what the executives' new job functions are. The Company did reclassify some geographic revenue in an amended SEC Form 10-K, but there is no indication they modified reporting segments which might have resulted in executive shuffling.

- And on a final governance note, we are beginning to appreciate that executive perks are customary in this industry. Our clients might recall our reports on Shaw Group, Inc. (NYSE: SGR) which outlined some of the most over-the-top executive perks we have seen. While AECOM is not nearly as openhanded as Shaw (few companies are), we were very interested to see executives receiving extras such as: personal air travel, travel and entertainment expenses for executives' spouses, company-paid charitable contributions, club membership dues, and a $40,000 executive allowance, to name a few.

Bunge Limited (NYSE: BG)

- On 01/13/09, after the market close and nearly two weeks after the end of the fourth quarter, BG surprised analysts by putting out a press release announcing it "was lowering its earnings expectations for the full year ended December 31, 2008." After confirming its prior full-year guidance of $11.75 per fully diluted shares as recently as 10/23/08, the Company was now saying earnings would be nearly 35% lower, coming in at $7.70 per share. There were many things in the release of interest to us, but foremost among them was the fact that the new full-year guidance implied a 4Q08 *loss* of $214 million or $1.56 per share. Since the prior guidance was for net income of $324 million in the quarter, the change in guidance represented a swing of $538 million in expectations for net income in just 55 business days. In the ensuing trading session, the shares traded more than three times average volume and closed down nearly 14% from the prior day's close.

Figure 2. BG Net Income, 1Q07 through 4Q08 (Millions of $). For the 4Q08, the shaded green bar reflects the prior guidance of $324 million in net income; the shaded red bar is the new guidance reflecting a *loss* of $214 million. Source: BG SEC Filings.



- The dramatic lowering of full-year "expectations" was not the only noteworthy piece of news the release contained. By disclosing for the first time guidance of $7.25 per share for 2009, which was 28% below analysts' previous consensus estimates for 2009 and nearly 6% lower than the just dramatically reduced number for 2008, CFO

Jacqualyn Fouse was telegraphing a dramatic change in the outlook for the Company's operating results over the next couple of quarters. Despite making such upbeat comments elsewhere in the release such as "Periods of soft demand are typically short lived in our industry, and we expect fundamentals to improve during 2009", she clearly stated that results for 2009 are expected to be weaker than even 2008, expectations for which had apparently experienced a dramatic reversal of fortunes as a result of terrible performance in the last quarter. Which leads to the issue that interests us most: with expectations now changed to a significant loss in 4Q08, combined with expectations for the 2009 full year that are lower than 2008 overall, will the Company report operating losses in 1Q09 and 2Q09? We are of course interested in this issue because of its implications for the Company's short-term cash flow generation, or more correctly, lack thereof.

- As we have covered in detail, most notably in the reports listed in the table below, we believe the principal risk to BG shares is that the Company is facing a potential liquidity event, and the 01/13/09 press release points to several things that suggest this risk is increasing. With an already established inability to consistently generate positive cash flow from operations, relatively low cash balances, and with current credit facilities already fully utilized, the change in expectation for an operating loss in 4Q08, combined with lowered expectations for 2009 increase the pressure considerably, in our view. This is especially true if it turns out that the Company is back-loading its expectations for a recovery into the second half of 2009, which would imply a weak first half.

Date	Report Title
11/13/08	Observations on 3Q08 Results and SEC Form 10-Q
10/10/08	Perfect Storm: Debt Market Mess, Falling Bean Prices
08/15/08	Company Faces Big Challenges in Second Half of '08
04/07/08	Numerous Issues Add to Looming Liquidity Crisis

- The other mention in the press release, related to liquidity, that is of great interest to us is that the Company expects "to record an after tax charge of approximately $160 million related to counterparty risk in its agribusiness segment. Depressed economic conditions and significant declines in agricultural commodity, freight and energy prices have adversely affected certain customers and counterparties". What we suspect this may be is a possible write-off of $160 million of the receivables owed by Brazilian farmers to the Company (which totaled $1.6 billion as of 09/30/08), which the farmers pay in soybeans. We have commented several times in each of the above reports on the questionable quality of these assets, and wonder what the consequences might be if their already poor quality were to worsen. If the quality degrades further, the distinct possibility exists that the rating agencies could downgrade the Company's debt, perhaps making it all but impossible for it to raise any new capital given the continued difficult conditions in the financial markets.

- Finally, despite all of the above, we find it interesting that as of last night's closing price ($45.53), BG is trading above the level it was trading at when it last confirmed

2008 guidance of $11.75 per share on 10/23/08 ($37.81). Now that it has lowered expectations for the 4Q08 and full-year 2009 by around 30% or so, we are especially keen to see the formal release of results on 02/05/09 and the audited financials. We will be looking carefully at the cash position, any changes to receivables (including allowances and write-offs), and inventory valuations and we are especially keen to hear what management has to say about expected operating results for 1Q09. In the end, the most remarkable (though not surprising) thing Jacqualyn Fouse may have said in the 01/13/09 press release was, "We enter 2009 with a comfortable liquidity position, which should help us to take advantage of opportunities that may arise during this volatile economic period."

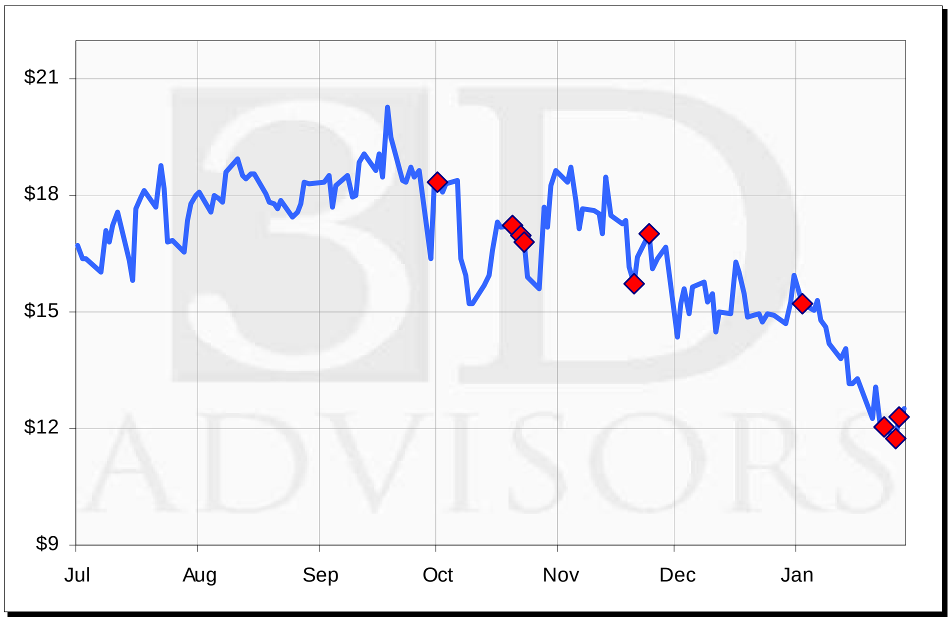
<u>Hudson City Bancorp Inc. (NASDAQ: HCBK)</u>

- A recurring theme in our recent coverage of certain regional banking names has been the apparent contradiction between insiders' trading behavior and the bullish outlook articulated to the investment community. Topping the list of companies that fit this profile is People's United Financial Inc. (PBCT), which we covered in a full report issued on 01/16/09 (commentary on 4Q08 results is included later in this report). Another bank would be Paramus, New Jersey based Hudson City Bancorp Inc. (HCBK), which we have spent less ink on in recent months (see *Research Notes* dated 12/09/08) but nonetheless has captured our attention for the uncharacteristic and rather bizarrely-justified selling of Chairman and Chief Executive **Ronald Hermance** (61). Hudson City's insider trading profile just became even more appealing when four insiders took profits this week while Wall Street was still digesting the Company's fourth quarter results.

- On 01/21/09 Hudson City reported 4Q08 net income of $124.3 million, or $0.25 per share, representing a 60% increase from the same period in 2007 and a new record for the bank. Although the bottom line missed analysts' expectations by two cents, the shares managed to close the day marginally higher. The investor reaction was harsher the following session, as the shares would close down 8% to a new 52-week low on 01/22/09, despite one analyst upgrading the issue to 'outperform' based on "strong visibility on the firm's credit costs relative to other regional banks and attractive valuations". In similar fashion to the positive-speak we hear also from People's United management in the face of deteriorating banking conditions, particularly in the Northeast region, CEO Hermance threw out lines such as, "we continue to stand apart from our competitors as we never engaged in risky lending practices" and "2009 will present many opportunities for us" on the earnings press release (they do not hold a conference call). This same bravado was not evident two months earlier when Hermance unloaded 2.6 million shares.

- As a brief refresher, Hermance was an acquirer of HCBK shares from 2007 to 2008 and, going back even further, had cleverly executed some subtle GRAT maneuvers in 2004 and 2005 (read: contributed to GRATs ahead of price gains) that resulted in hefty returns for his beneficiaries. His steadfast bullishness, however, abruptly reversed course when he sold 2.6 million shares on 11/20/08 and 11/24/08 *after* the issue traded down to $16 from a November high of $19. While the volume alone is enough to garner attention, it was the footnote accompanying his trades on the Form 4s that compelled us to dig deeper. To summarize, Hermance reported having sold the shares, which amounted to 45% of his actionable holdings, to take advantage of the existing capital gains tax laws before the new administration took office. We questioned his reasoning then and still are not buying it today, and despite the shares losing 25% of their value since Hermance traded, his lieutenants have followed his lead.

Figure 3. HCBK Daily Closing Price, 07/01/08 through 01/28/09. Red diamonds are where HCBK insiders sold shares. Source: Reuters and HCBK SEC Filings.



- Between 01/23/09 and 01/27/09 four insiders sold 248,000 shares at prices more than 40% below the 52-week high of $20.97 set back in September. First to sell was Senior V.P. **Michael Lee** (59), who has been with Hudson City Savings for 20 years and currently oversees all retail banking operations. Lee sold 100,000 shares out of his common stock holdings on 01/23/09 for $11.87 per share, the lowest prices he has accepted for his stock since November 2004. This solitary large volume disposition is a contrast from his last activity in 2006, when he executed four smaller sales throughout the course of the year at increasingly higher prices. The shares sold in January accounted for 30% of his actionable holdings. Next in line was lead independent director **Donald Quest** (69), the Company's longest-tenured board member. Quest has been on a fairly rigid selling schedule for the last two years, distributing only 12,000 shares on the first trading day of each new quarter. That was until this past post-earnings release period, when he unloaded 30,000 shares on 01/26/09 on top of his routine 12,000 share sale on 01/02/09. While these sales have clipped only a small percentage of his 600,000 plus share ownership position, it is just as significant to us that his last three sales in just a three month span have come at successively lower prices from $18 down to $12.

- Veteran banking exec Senior V.P. **Ronald Butkovich** (59) entered the mix on 01/26/09, accepting $1 million for 83,000 shares with his first sale since joining the Company in 2004. Most striking about his behavior is that it was just six months earlier that Butkovich was buying HCBK shares, paying $17.23 for 2,000 shares on the open market. He sold the shares at a 28% loss and took much more off the table whilst the shares traded to a new low. The sale covered only 14% of his holdings, but nearly 65% of his remaining actionable equity is comprised of vested options that are in the money by less than 20%. Butkovich is now the third insider to reverse a 2008 acquisition in recent months. Rounding out the group was Senior V.P. **James Klarer** (56), a 30-year HCBK employee who is responsible for real estate development and branch expansion. According to a 144 Filing on 01/28/09 (Form 4 has yet to come through at time of this report), Klarer distributed 35,000 shares on 01/27/09, which is his largest sale to date. The trade put only a small dent in his holdings, but more importantly, Klarer is yet another key officer willing to accept these depressed prices.

- Although Hudson City does not sport the same rich forward price-to-earnings multiple as People's United (PBCT=29, HCBK=10), the bank's current fundamentals and insider trading profile lead us to believe the shares still have yet to find a bottom. CEO Hermance delicately hinted in the 4Q earnings release that the Company might not be able to maintain the same growth pace in 2009 that shareholders have been accustomed to due to economic conditions. Judging by a number of key banking metrics, it is becoming plainly evident Hudson City is not as immune to the economy as Hermance and his sell-side cheerleaders currently tout (seven analysts rate the shares as 'outperform' or 'buy'). The numbers in the following table speak for themselves. While some of these figures remain well below industry averages, the significant year-over-year and even latest sequential increases point towards cracks that even the most cautious lenders such as Hudson City will likely face in coming quarters.

Basic Bank Metrics ($ in thousands)	4Q07	3Q08	4Q08
Provision for loan losses	$2,000	$5,000	$9,000
Net charge-offs	$109	$1,449	$1,833
Non-performing loans to total loans	0.33%	0.50%	0.74%
Allowance for loan losses to total loans	0.14%	0.15%	0.17%
Non-performing assets to total assets	0.19%	0.29%	0.43%

People's United Financial Inc. (NASDAQ: PBCT)

- Our initial report covering PBCT on 01/16/09 was predictably greeted with tepid response from clients at best; hardly a surprise to us given the Company's strong balance sheet and limited exposure to high-risk loans the likes of which have felled the giants of the finance industry. However, the conservative nature of PBCT's capital management, solid balance sheet overall and relatively strong metrics stand in stark contrast to the aggressive sales by insiders, causing it stand out as much as any bank in the country right now (much like HCBK, above). As such, we feel we have no choice but to continue to monitor the name closely, and what follows is some brief commentary on the just reported 4Q08 results.

- The 4Q08 release after the close on 01/22/09 disclosed a not-surprising 23% fall in profit which, nonetheless, was a shade below Wall Street expectations as net interest margin declined sequentially (by 16 basis points, to 3.55%) and the provision for loan losses doubled to a still-low $8.7 million (total loan portfolio: $14.4 billion). Though loan charge-offs remained low at $5.7 million for the period, they were up sequentially from $4 million. Non-performing loans moved to $93.7 million from $91.4 million the prior quarter, hardly bad results in these tumultuous times. On the flip side, however, PBCT's low net interest margin suggests that its management is willing to earn less than could be garnered if excess capital were deployed more aggressively; such safety comes at a cost. The shares rallied briefly after the release, but have since given back the modest gains.

Figure 4. PBCT Daily Closing Price, 01/02/08 through 01/29/09. Yellow diamond is that date that 4Q08 results were released. Source: Reuters and PBCT SEC Filings.

- PBCT shares represent an interesting hiding place for investors in financials as the stock, which is over 70% institutionally held and sporting a lofty valuation, could be particularly vulnerable to any deterioration in its performance metrics going forward. Granted, the well-touted conservative management practices have supported PBCT's share price thus far into the crisis. At this time, however, managements' reluctance to deploy its excess capital, combined with the aggressive nature of insider stock liquidations, suggests the possibility of internal concern about what effect the financial markets' crisis will ultimately have on PBCT's balance sheet and operating results. To this, we note that in spite of earlier implications (in the Company's 3Q07 conference call) that PBCT would begin share repurchases after the Chittenden acquisition, such purchases have yet to materialize one full year following the deal. Insider sales, on the other hand, have droned on. Both facts suggest management's possible expectations for lower share prices ahead.

- In the 4Q08 conference call, CEO **Philip Sherringham** provides a valuable clue as to where they are looking for growth in the commercial loan area:

> **Analyst:** Just to follow up on the commercial loan growth, looking out into '09 you guys are looking for around 6% to 10% growth. Where are you -- in what categories are you seeing the opportunities in? Also, geography speaking, what areas are you seeing that?
>
> **Philip Sherringham, CEO and President:** Well, I mean, in terms of percentage growth the largest part is expected to be in the equipment financing subsidiary, PCLC. Of course, we are monitoring this very carefully given the concerns potentially on the asset quality front. But in terms of our planning, if you will, that is where a lot of growth is supposed to happen.

So, now we know where management is expecting the juice. Part 2 of the PBCT conundrum, however, reveals a disconnect between what most of us know about the commercial equipment leasing business today and what PBCT says about its exposure to associated collateral risks:

> **Analyst:** But could you just talk about the potential for deterioration in your leasing business? Your PCLC? I know it's holding up pretty well, but it seems that is probably one of the most directly correlated businesses to overall economic environment. We are -- the economy is deteriorating pretty rapidly.
>
> **Philip Sherringham:** Yes, it is and on the surface you're right; that could be an area of concern. However, obviously, our performance to date doesn't give rise to any concern in this area. We are still pretty satisfied with the way things are evolving. I would also like to point out that one of our strengths is our ability, if we have problems, to basically turn them around quickly. The type of equipment that we lend on is basically plain-vanilla equipment that has a very good value in the market in general, if you will. It's the type of equipment -- printing presses, heavy-duty trucks, stuff like that -- that you can actually turn around and sell pretty quickly. And we have been very good at doing this. So I think, overall, I can't really say we are concerned there. I am still watching it.

- Contrary to Sherringham's seeming lack of concern, we would suggest that the following simple, rather self-evident reasoning be taken into account: If the equipment loans go into default, it is probably because the borrowers have no work for the equipment and can't generate revenue to make the loan payments. That is the same market into which the PBCT would have to try to sell the equipment. If the borrowers defaulted because they had no work for the equipment, vanilla or not, who is going to want to buy the equipment? Contractors and others buy equipment because they have work for it not just because it happens to be for sale. PBCT currently has $1.2 billion of such loans outstanding and currently states that just $5.8 million of them are non-performing; hardly a statistic that we would want to bet will hold going forward.

- The trading window for PBCT insiders to sell following reported quarterly results opened this past Tuesday, January 27th. Yesterday was the first day that any new trades, if executed on the first day of the open window, would have been filed on the required Form 4s, and as of this writing, no new trades have been observed. Given the recent trading history, however, we expect to see more selling to begin at any time. We are much more certain of this occurring than we believe management's assertion that little risk exists in its $1.2 billion equipment loan portfolio, that charge-offs in its commercial and residential loan portfolios will remain extraordinarily low, or that the gradual run-off in its $644 million Shared National Credit Portfolio will proceed smoothly without any hiccups.