



## Insider Research Bulletin

December 9, 2003

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Insider Research Bulletin is a summary of indicative insider trading behavior that 3DA has identified at the following companies. Because the insider trading behavior has been deemed significant, 3DA has initiated a review of accounting and governance behavior for these companies. These companies may or may not become the subject of full 3DA Research Reports in the future.

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

### Companies in this Bulletin

- ▶ Boston Scientific Corp. (NYSE:BSX)
- ▶ WM Wrigley Jr. Co. (NYSE:WWY)
- ▶ Reebok International Ltd. (NYSE:RBK)
- ▶ Rockwell Automation, Inc. (NYSE:ROK)
- ▶ Adobe Systems Inc. (NASDAQ:ADBE)
- ▶ AutoNation, Inc. (NYSE:AN)

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### Summary of 3DAdvisors Findings

#### Boston Scientific Corp. (NYSE:BSX)

Although it is normal to see insider sales into an increasing stock price, certain Boston Scientific insider selling looks particularly aggressive. At all times, when we speak of holdings reductions, we refer to actionable holdings (stock plus exercisable options). All details have been adjusted for the November 2 for 1 split. These are the most interesting sales...there are a number of others as well:

- **Lawrence Best (52)** – CFO. Best's Form 4 filings indicate that he has filed a 10b5-1 trading program for the purpose of selling the underlying shares from an option series that was expiring in September. The explanation is quite misleading. The September exercises totaled 2,006,256 shares and were for \$2.60 per share. Between September and October, he sold 2,010,656 of them for prices averaging \$32.50. So he only needed \$5.2 million to exercise the options and, depending on his tax rate, approximately another \$22 million for associated taxes. His sales grossed around \$65 million. Also, he had sold more than he had exercised for to

boot. The shares were sold daily in the market for two months, in relatively small, not particularly noticeable blocks. This is a perfect case of a 10b5-1 program lulling you to sleep while the individual involved drops a big chunk of his holdings. In this case, Best cleared out of 36% of his holdings. These are, by far, his largest-ever sales and his first since 2001.

- **Paul Sandman (55)** – General Counsel. Sandman exercised options for, and sold, 220,000 shares in November, dropping his holdings by 20%. His last sale was back in November of 2001. At that time, he retained a good portion of the stock from the options he exercised. Not this time, as he cleared out the entire total.
- **James Taylor (63)** – Sr. V.P. Corporate Operations. Taylor exercised options for, and sold, 93,750 shares in November. These are the first sales he's made since joining the Company in 1999. These sales cleared out all of his exercisable options or, in more significant words, 95% of his holdings.
- **Fred Colen (50)** – Sr. V.P. & Chief Technology Officer. Colen joined the Company in 1999 and sold, for the first time, in the October/November time frame. During the period, he exercised options for, and dropped, 150,000 shares, trimming his holdings by 32% in the process.
- **Stephen Moreci (51)** – Sr. V.P. & Group President, Endosurgery. Moreci has been with the Company since '89 and promoted to his present position in 2000. In October and November, he exercised options for, and sold, 236,370 shares...74% of his position. Up to now, his only sales on record have been small ones in 2002.

This is a particularly aggressive-looking convergence of insiders.

#### WM Wrigley Jr. Co. (NYSE:WWY)

One of the worst companies at disclosure we've seen, making the observation of insider behavior more important. Wrigley does not even post financials in its 10K...you have to go to the Annual Report for the numbers. Back in June a slew of insiders clipped big pieces from their holdings. The action, coming together at the same time, was unprecedented for the Company. The selling began, en masse when, Company CEO William Wrigley entered into a 10b5-1 trading plan (on May 1) to sell \$43.6 million in stock. His selling seemed to open the floodgates for others. The selling profile of each individual revealed a distinct change in behavior...very interesting when you consider that all acted during the same time period. This kind of behavior, in the absence of technical reasons (i.e. options expirations etc.) can be indicative of some type of underlying change forcing the insider activity. In this case, that change could not have been attributed to profit taking as Wrigley shares, which were trading in the \$56 - \$57 range, had been moving relatively sideways at the time. After the sales, WWY shares dropped to \$52 before climbing back to their current \$56 level and additional sellers have surfaced. The sellers (all holdings reductions stated represent actionable holdings...shares plus exercisable options):

- **Ronald Waters (50)** – CEO. Dropped 44% of his holdings for \$57 each (June sales)

- **Reuben Gamoran (42)** – Controller. Clipped his holdings by 85% (June sales) by exercising his entire stake of \$43.78-\$48.10 options (which were not set to expire until 2009 at the earliest) and selling the underlying shares at \$57.
- **Shaun Kim (59)** – V.P. Worldwide Engineering. Dropped 75% of his holdings by exercising options at prices between \$38 and \$48 and selling the underlying 20,000 shares at \$57. None of the options were to expire until 2009.
- **Gary McCullough (44)** - Chief Counsel. Sold 5,000 shares on the same day William Wrigley filed his 10b5-1 plan. His first-ever sale of Wrigley shares.
- **Jon Orving (53)** – Managing Director, North Europe; Managing Director Scandinavia. Orving cleared out his entire position of \$43.78 options and sold the underlying shares on November 13 at \$56. The options were not to expire until 2009. This was his largest-ever sale. It appears that this was the majority of his position.
- **Donagh Herlihy (39)** - Chief Information Officer. Herlihy emptied his entire actionable position of \$45.28 options, which were not to expire until 2010, and sold the underlying 18,000 shares at \$56 in November. These were, by far, his largest-ever sales and represented the majority of his position.

#### Reebok International, Ltd. (NYSE:RBK)

In October and November, Reebok insiders sold at levels not seen in prior years. The most important component of the activity is the across-the-board holdings reductions of the insiders involved coupled with the unprecedented convergence of the selling individuals during a relatively short time frame. A second, equally important, development concern involves the substantial forward sale agreements entered into by Company founders, Paul and Phyllis Fireman:

- **Paul and Phyllis Fireman** – Back in April, the Fireman's entered into forward sale contract for 1 million shares for consideration of \$27.3 million. This contract will not settle until April of 2006. In September, they entered into another one, this time for an additional 1.5 million shares. Consideration for this deal was \$43 million. The contract will settle in January of 2007. An additional interesting component of these contracts is that the Fireman's executed them pursuant to a 10b5-1 trading plan. Highly unusual. These plans tend to go unnoticed as they typically get coded with a transaction type that indicates an "other than open market sale" tag. Most observers miss it.
- **Kenneth Watchmaker (60)** – CFO. Watchmaker monetized 54% of his position in October/November by exercising options and selling the underlying 230,000 shares for between \$37 and \$39.75 each. These were his first sales since 2001 and his largest-ever as well
- **Jay Margolis (54)** – President and COO. Margolis liquidated 36% of his position by exercising options for, and selling, 100,000 shares in late October for prices in the \$37 to \$39 range. These were his first sales since 2001 when he sold 24,700.

- **James Jones (58)** – Chief Human Resources Officer. Although Jones had been selling small pieces during 2002, selling accelerated noticeably in November of 2003 when he cleared out of 114,000 shares at \$40, trimming his position by 88%. Prior to this, between 1999 and 2002, he had sold a total of just 46,000 shares in small transactions.
- **Richard Lesser (68)** – Director. Prior to his October sales, of 62,804 shares, we had not seen Lesser sell a Reebok share. In October, he cleared out of 33,402 shares for prices in the \$47 range. More importantly, the trades trimmed his holdings by 49%.

#### Rockwell Automation, Inc. (NYSE:ROK)

We have been monitoring Rockwell since a July/August burst of insider selling that was off the charts for insiders at the company. The initial group included 10 insiders dropping a total of just over 622,000 shares. The shares have risen with the market and so have insider sales with six selling another 122,441 shares during the month.

One of the early sellers was CFO **Michael Bless (37)** who unexpectedly announced his resignation at the end of August...right after the big bulge in insider selling. Bless' July and August selling, at 84,897 shares, or just 13.8% of the total, was not the majority of the activity at the time. It seemed to us that possibly something shifted in the sands to cause Bless to want to move on, and others to sell aggressively.

When, during the late-July Q3 earnings conference call, a question was raised concerning the amount of insider selling (which had stood at only 311,000 shares at the time), **CEO Don Davis (62)** would only comment on his selling, which had totaled 184,930 shares. He used the excuse that he had "some options that a large...group of options that expire in December." He then went on to say that others, from the selling group, had exercised their options as well, seemingly implying that theirs were expiring in December also. Though it was true that half of his exercised options were expiring in December, the rest of them had eighteen months left on them before expiration. What's more, upon checking all others exercising options in that group, only one had exercised some from the expiring group, and that for only a very small amount of his exercised total. Clearly, the threat of expirations was not the driving force for insiders to exercise options for, and subsequently sell, over 622,000 shares.

Some of the selling insiders have trimmed significant portions of their holdings. **Joseph Swann (62)** Sr. V.P. and President of Rockwell Automation Power Systems, trimmed off 49% of his holdings by exercising options from five separate options series and selling underlying shares totaling 231,000. A number of the sellers were doing so for their first time on record: **Kent Coppins (49)** – V.P. and General Tax Counsel (10,711 shares); **William Calise (64)** – General Counsel (10,074 shares); **John Cohn (49)** – Sr. V.P. – Strategic Development and Communications (25,352 shares).

#### Adobe Systems Inc. (NASDAQ:ADBE)

You have to go back to 2000 to see the kind of selling we've been monitoring in Adobe this year, and the totals keep rising. The problem is that the shares were much

higher back in 2000. The other problem is that insiders have been unloading increasingly more Adobe shares this year, as the stock recovers from the lows, than they did back in 2000 when they cleared out of about 2.4 million near the peak. In this past 12 months, they have sold just below 3 million shares.

This is atypical activity as it is much more common to see reduced insider selling when a stock is coming off lows. Since the bottom of 2002 however, insiders have become aggressive as if the shares were at, or near, the old highs.

#### AutoNation, Inc. (NYSE: AN)

Over the years, it has been our experience that it is very rare to find evidence of **Wayne Huizenga** selling positions in any company he's involved with. He began doing so earlier this year, however, in AutoNation when he dropped just over 4 million shares, in February, at prices in the \$13.50 range. Now that the shares are up to the \$17.50 area, he's doing it again, this time clearing out 2.22 million shares at prices around \$17.50. So far this year, he has reduced his position by 33%. Huizenga is former chairman of the company and still remains on the board. In the past year, there have been three directors choosing to not stand for re-election.

In addition, a large sale by **Peter Smith – Sr. V.P. Human Resources** caught our eye. Smith exercised every available option on November 3rd just as the shares rallied to an 18-month high on earnings news. In doing so he cleared out his options in five different series, for 190,628 shares, and sold them for prices around \$18.50 each. This represented 99% of his holdings.

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