3D ADVISORS

Research Notes

March 12, 2007

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

Companies in this Research Notes

- American Commercial Lines Inc. (NASDAQ: ACLI)
- Gartner Inc. (NYSE: IT) ⬆
- HealthExtras Inc. (NASDAQ: HLEX)
- International Game Technology (NYSE: IGT)
- Knoll Inc. (NYSE: KNL)
- NeuStar Inc. (NYSE: NSR)

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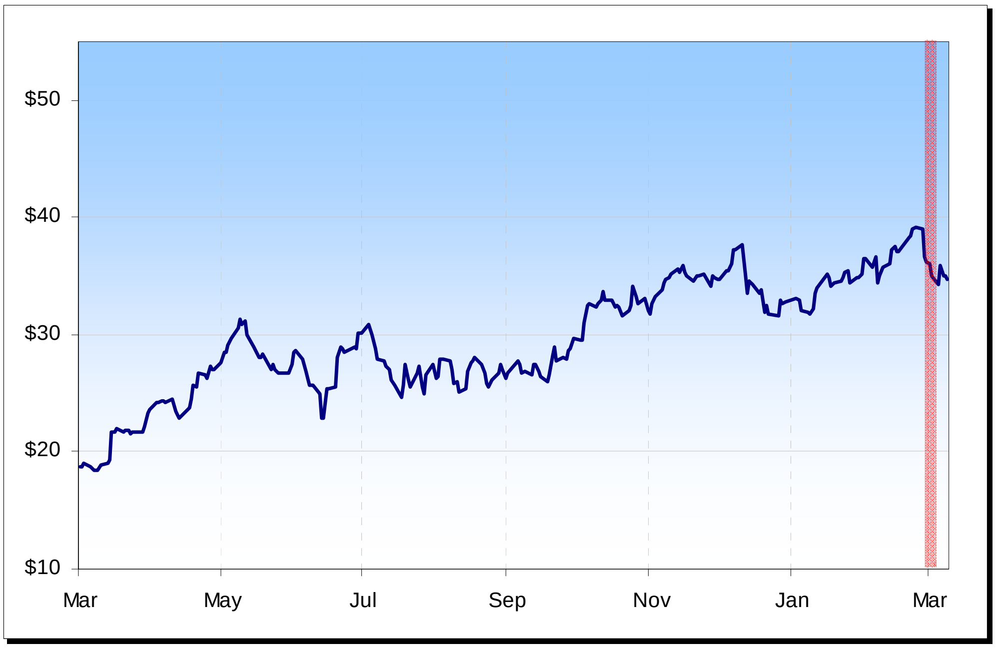
American Commercial Lines Inc. (NASDAQ: ACLI)

- After a two-year Chapter 11 reorganization process, American Commercial Lines, a shipping firm and manufacturer of barges and towboats, has been quite successful since its October 2005 IPO. Impressive revenue and earnings increases are reflected in the issue gaining nearly 120% in 2006. However, investors reacted coolly to the Company's 4Q results, released on February 7th, by trading the shares down 8%. Over the past month, the shares fluctuated between $34 and $39 (adjusted for a 2-for-1 split on 02/20/07) and on the retreat off the highs, Chief Executive and President **Mark Holden** (47) cashed out the majority of his ownership.

- Holden is credited with the Company's turnaround since joining in early 2005 following a twelve year career with trucking manufacturer Wabash National Corp. (NYSE: WNC). But his actions of late are quite contradictory to the very confident guidance he issued for 2007, including a 9.4% earnings increase from previous estimates. Between February 28th and March 2nd **Holden sold 410,000 shares, equal to 98% of his ownership**, at roughly $36 each. The shares disposed included those acquired from options not scheduled to expire until 2015 and 2016, and all common stock, most of which had just become unrestricted in January and

February. The only shares he did not sell were the 10,000 held in his children's name, which he purchased in October 2005. Holden will have no new options or restricted stock become actionable until January 2008.

Figure 1. ACLI Daily Closing Price, 03/01/06 through 03/09/07. Red shaded area is where CEO Mark Holden sold 410,000 shares. Source: Reuters and ACLI SEC Filings.



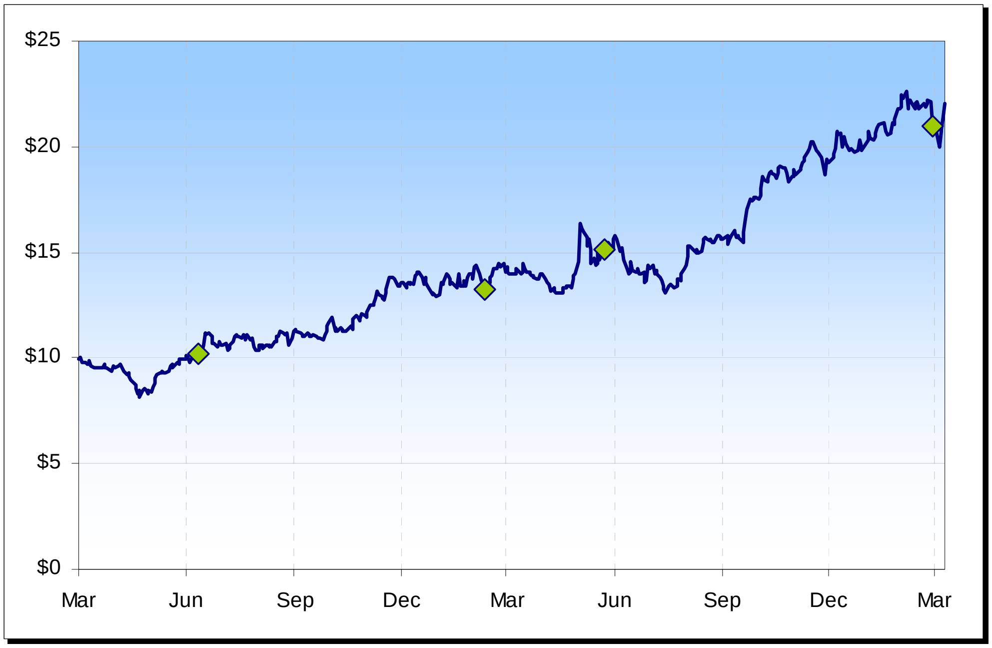
- Unfortunately, there is a limited trading history for Holden during his tenure with Wabash National, but he did purchase shares in September 2001 which he sold less than 3 years later for a 275% profit. He did manage to cash out most of his holdings four months in advance of announcing his resignation, which proved to be opportune as WNC shares immediately traded lower and are yet to recover.

- In addition to Holden, there are a few additional sellers who surfaced in the fourth quarter. ACLI's head of human resources, **Nick Fletcher** (47), cashed out more than 80% of his ownership in March, with two sales totaling 66,000 shares. Senior V.P., Chief Financial Officer **Christopher Black** (44) adopted a 10b5-1 sales plan on February 28th and immediately commenced selling (5,000 shares) the following day, while Senior V.P., Corporate Strategy **Rich Mitchell** (42) began selling under a personal sales plan in November and has since shed a small percentage of his ownership. We will continue to monitor the ACLI insiders to see if more sales by Holden's peers materialize, thus providing a more definitive signal.

<u>Gartner Inc. (NYSE: IT)</u> ⬆

- Within the flood of insider purchases that emerged in the aftermath of the market downturn, we have identified very few instances of suggestive transactions we feel deserve our clients' consideration. Insiders frequently surface during periods of extreme market volatility as a good faith gesture to restore investors' confidence, and in some situations, the weakness provides an opportunity for those with stock ownership requirements to add to their holdings at discounted prices. Although we typically give more approbation to the more subtle bullish actions of corporate insiders, we continue to be interested in the ostentatious buying spree of **James Smith** (66), chairman of information technology research firm Gartner Inc.

Figure 2. IT Daily Closing Price, 03/01/05 through 03/09/07. Green diamonds are where Chairman James Smith purchased shares. Source: Reuters and IT SEC Filings.



- A board member since October 2002, it was not until nearly a year after taking over the chairman role in August 2004 that Smith, who spent most of his career in the healthcare sector, would begin acquiring IT shares at a swift pace. In June 2005, with the shares trading at $10, he made his first open market purchase of 200,000 shares, followed by a 60,000 share buy in February 2006 at $13. He would go on to buy another 200,000 in May 2006 at $14, which we covered in a Research Notes report on June 13, 2006, and at this point, has accumulated the largest ownership position of all executive officers and board members. It has become apparent that with the issue now trading at a three-year high, Smith still believes the issue has room to appreciate. **Between February 21st and February 27th, Smith spent $3 million to acquire 137,800 shares, paying 50% higher prices, and laying out more cash than he had nine months earlier.**

- Obviously, Smith's trades stand out on a number of fronts, none more significant than the fact he has persistently averaged up to amass a sizeable ownership position. Equally notable to us is the fact that his bullishness, contrary to many insider buying situations we analyze, coincides with the Company's continued success in returning to profitability. His most recent trades followed another quarter of impressive earnings gains, as fourth quarter profit increased 52% from the same quarter in 2006 and forecasts outline an earnings increase of 21% to 28% for 2007.

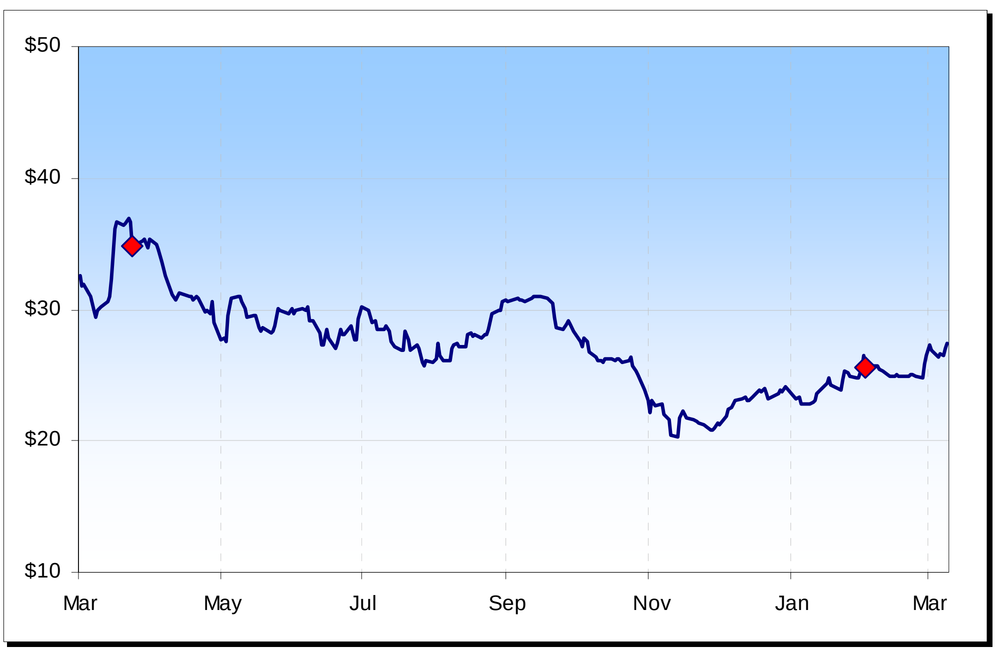
Gartner simultaneously announced a $200 million share repurchase program after already having bought back $200 million in stock from its largest shareholder, Silver Lake Partners, L.P., in December.

- We are aware that other Garner insiders took profits in the first quarter, but continue to view Smith's buys as the more germane sentiment indicator. In fact, holdings of the Company's top five executive officers (named executives) have actually *increased* by 85% from 2006 to 2007. This, mainly from the vesting of derivatives which have not been exercised. This last fact is quite noteworthy considering IT shares currently trade at a 65% premium to January 2006 levels, suggesting that management believes more favorable profit-taking opportunities lie ahead.

<u>HealthExtras Inc. (NASDAQ: HLEX)</u>

- One company that has managed to get overlooked in the pharmacy benefits managers (PBMs) merger excitement is HealthExtras, which handles drug plans for small and mid-cap companies. Although its shares are up 18% since CVS made its first bid for Caremark Rx (NYSE: CMX) on November 2nd, they have lagged the 30% gains of larger counterparts CMX and Medco Health Services (NYSE: MHS) over the same period. Going further back, HLEX has severely underperformed its peer group as the shares currently trade 30% below the 52-week high of $37.58 reached last March. Despite the recent weakness, HealthExtra's founder and current board member **Thomas Blair** (62) seemed quite decisive, cashing out a sizeable block of shares.

Figure 3. HLEX Daily Closing Price, 03/01/06 through 03/09/07. Red diamonds are where Director Thomas Blair sold 1.5 million shares (03/23/06) and 1.23 million shares (02/01/07). Source: Reuters and HLEX SEC Filings.



- More often than not, Blair's sale of 1.25 million shares on February 1st, which accounted for roughly 25% of his holdings, would not find itself a candidate for inclusion in a Research Notes report. But a closer look at his transaction reveals a very significant detail: **1 million of the shares came out of a trust for the benefit of Blair's young grandchildren.** Most of our clients are probably aware that we place great emphasis on purchases and sales of shares in the name of children or grandchildren, and even more so when the benefactors are very young (the investment decision might not be in the hands of the insider when older children/grandchildren are involved). And there's more.

- This is actually the second time Blair has sold out of the grandchildren's trust in the past year. In March 2006 he sold a total of 1.5 million shares, including 500,000 from the trust, at 35% higher prices. Not only has he recently distributed twice as many shares, he has done so at a significant discount to prices accepted eleven months earlier. The combined sales shed 45% of his total ownership, but more importantly, **it would seem that he has found alternative investments for more than half the shares he initially believed were a good investment for his grandchildren**. On a final note, Holden's sale was executed on the same day the Company was added to S&P Small Cap 600 Index, prompting money managers to buy HLEX for their related index funds. Even though the issue did not trade higher on the news, Holden's large sale was masked when more than 4 million shares traded that day, roughly 10 times the average daily volume.

- Also in the first quarter, Chief Executive **David Blair** (son of Thomas Blair), Chief Financial Officer **Michael Donovan**, and General Counsel **Thomas Farah**, and Audit Committee member **William Brock** each continued his monthly 10b5-1 sales. None of the these sales plans has given rise to disorderly trades or ownership reductions greater than 15% in the past year, so we are not attaching much importance. The key point here is that we do not suspect HealthExtras is presently an acquisition target, or at least not one at any premium from current prices. If this were not the case, we suspect founder Thomas Blair would have held his grandchildren's shares for higher returns.

<u>International Game Technology (NYSE: IGT)</u>

- We do not very often report on trading activities that primarily involve institutional shareholders. A closer look at the recent sales of International Game Technology by New York based investment firm Alson Capital Partners, however, has revealed fascinating minutiae that are quite relevant to the IGT's insider profile. Alson Capital was founded (and is managed) by **Neil Barsky** (50), who happens to be an IGT director of four years and a member of the Audit Committee. Barsky spent part of the 1990s as a research analyst with Morgan Stanley specializing in gaming and lodging, so it would seem he would influence Alson Capital's investment decisions concerning IGT.

- Alson Capital first began buying IGT shares in September 2005 at $27, in the aftermath of the Company's disappointing 2Q05 earnings release. Shortly thereafter, the Company reported two consecutive quarters of blowout earnings, which rallied the issue more than 30% to $36 by January. Suddenly the IGT investment was looking like other infamous Barsky calls, such as selling Toll Brothers (NYSE: TOL) near the 2005 highs before the issue collapsed. Alson Capital would again surface in June 2006, only this time paying $35 for another 300,000 IGT shares while Barsky also spent $1.2 million of his own cash to exercise his director options, acquiring 64,000 shares outright. At this point, IGT was the fifth largest holding in Alson Capital's portfolio and by year-end, with IGT trading higher to $46, its $76 million investment was valued at $124 million. But 2007 has proven to be a more difficult year for the gaming equipment manufacturer.

Figure 4. IGT Daily Closing Price, 03/01/05 through 03/09/07. Green diamonds are where Alson Capital Partners bought shares (09/15/05 and 06/08/06); Red diamond is where they sold 2.7 million shares (03/05/07). Source: Reuters and IGT SEC Filings.

- After a streak of successful quarters, IGT reported a slight 3% earnings gain for its fiscal first quarter (period ending December 31st), but more importantly, revenues missed Wall Street expectations by nearly 4%. The issue lost only 2% on the January 18th report date, but the shares have since traded down 18% from highs of $48 to $39. It is into this downturn that Barsky cleared out Alson Capital's entire position, all 2.7 million shares, on March 5th and March 6th at prices just shy of $40. After spending $35.89 for shares as recently as June, this abrupt sentiment reversal is very informative considering his role in the Company.

- It is not lost on us that another director, **Robert Miller** (61),a board member at IGT customer Wynn Resorts (NASDAQ: WYNN), shed 30% of his ownership on February 26th, while Executive V.P. Operations **Anthony Ciorciari** (59), a twelve-year veteran of the Company, sold more than 30% of his holdings at the lower prices February 16th. We should also add that following the first quarter earnings report, Chief Financial Officer, Treasurer **Maureen Mullarkey** announced her retirement at the age of 47.

- One final note we find quite interesting is that despite Barsky's gaming background, at the end of February, the only gaming-related companies which Alson held long positions in were IGT and Boyd Gaming (NYSE: BYD). The firm had sold all BYD shares in the second quarter of 2006 before the issue retreated from $50 to $34, but according to Alson Capital's most recent SEC Form 13F, bought back the shares in the fourth quarter. And now, it has liquidated its ITG position. Barsky has made very few ill-timed calls on gaming stocks over the years.

Knoll Inc. (NYSE: KNL)

- Last month we introduced an acceleration of insider selling at office furniture manufacturer Knoll, Inc. (see Insider Research Notes report dated 02/27/07). As our analysis of the Company's insider profile progressed, we became increasingly more intrigued with management's ability to circumvent two lock-up periods that would typically prevent insiders in similar situations from taking profits. Our interest was piqued by the actions of Chief Executive Officer **Andrew Cogan** (44) who, in addition to selling under a 10b5-1 personal sales plan in the first quarter, put himself at jeopardy of investor and regulatory scrutiny by monetizing a large number of shares with a forward sale contract outside his plan. Immediately after posting the report, new activity materialized which our clients should be alerted to:

- On the same day Knoll issued a press release[1] disclosing the adoption of its 10b5-1 trading plan for the repurchase of $50 million in stock, the Company snuck in another corporate disclosure[2], filed as an exhibit to the same SEC Form 8-K, announcing Senior V.P., Chief Financial Officer **Barry McCabe** (60) adopted a sales plan of his own. Fresh off the culmination of a prior sales plan under which he had sold 80,000 shares between September 2006 and January 2007, McCabe will now reportedly sell an additional 125,000 shares. It is not clear when the sales will commence, but we do not expect him to wait long as many of his peers have already shed upwards of 95% of their ownership in the past year.

- As mentioned, Knoll insiders have managed to keep themselves relatively free to sell over the past year even though the Company had advertised the presence of lock-up restrictions associated with two secondary offerings. The second offering in August named only three executives, including CFO McCabe, who were prohibited from selling for a 90-day period, however, a loophole allowed for sales under preexisting 10b5-1 plans. Having adopted a sales plan just months before the secondary was announced, McCabe was able to sell right through the restricted window. **By the time he distributes all shares registered under his newly-adopted plan, McCabe's holdings will be down 65% since the fourth quarter, and this with no new stock-based equity vesting until 2008.**

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[1] "Knoll Announces 10b5-1 Plan", via BusinessWire-First Call, February 28, 2007. The press release can also be found in an SEC 8-K filed on the same date.

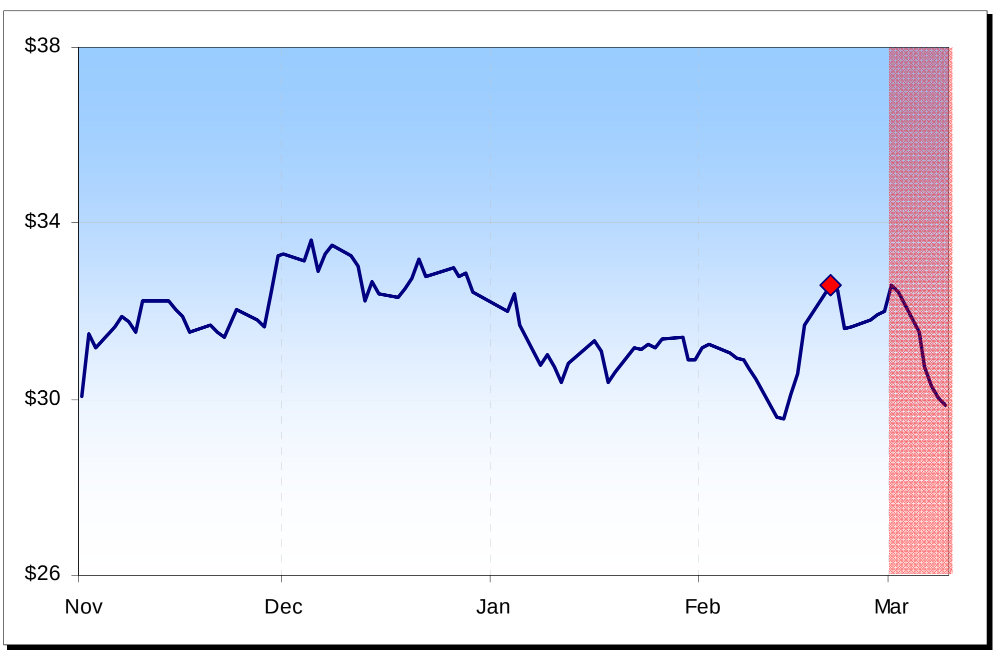
[2] "Knoll Executive Announces 10b5-1 Plan", via BusinessWire-First Call, February 28, 2007. The press release can also be found in an SEC 8-K filed on the same date.

- New sales also surfaced from **David Schutte**, the Company's chief marketing officer, and President, CEO of Knoll North America **Kathleen Bradley**. Schutte's sale was the first since he registered as a Section 16 insider in January. Although the 5,000 shares he disposed of look nominal compared to the sales of his peers, they accounted for one third of his actionable ownership. Bradley, who we covered in our earlier report, having sold 57,100 shares in February, sold an additional 25,000 shares on March 1st under her ongoing personal sales plan. She has now sold nearly 45% of her ownership over the past two years but still retains the largest position of all inside shareholders. We will continue to provide updates on any new material trading that occurs.

NeuStar Inc. (NYSE: NSR)

- Despite continued revenue and earnings growth, telecom clearinghouse service provider NeuStar underperformed the Dow Jones by 10% in 2006 and already trails the index by 4% year-to-date. Along the way, management's trading activity (see Insider Research Bulletins on 04/18/06 and 07/24/06) has done little to convince investors that a breakout is forthcoming and recent events verify our skepticism. On February 20th, the same day the Company reported a 35% earnings increase in the fourth quarter, a NeuStar press released disclosed that its top four executives, along with additional unnamed senior officers, adopted 10b5-1 sales plans to extend their course of ownership diversification.

Figure 5. NSR Daily Closing Price, 10/01/06 through 03/09/07. Red diamond is where NSR executives entered into 10b5-1 trading plans; Red shaded area is where they began, and have continued selling. Source: Reuters and NSR SEC Filings.



- Although the Company released the number of shares the top four execs planned to sell, important details were absent from the disclosure: It is unclear, for instance, when the selling is to commence or even the duration of each plan. Also, the holdings retention figures provided by the Company represent total ownership, including all unvested derivative equity, and fall short of disclosing their more meaningful "actionable" ownership totals. From already-filed trades we know that Chairman, CEO **Jeffrey Ganek** (54) and CFO **Jeffrey Babka** (53) have the green light to sell, as they both have already commenced plan trading, with Ganek already distributing 98,397 shares, 25% of the shares allocated under his 10b5-1, on March 1st at $31.54. It would appear Ganek's profit taking decisions are influenced by the issue's current trading range as his average exit price in 2006 was only marginally lower ($30.41). Below are the share counts each executive registered to sell under their respective 10b5-1 plans, along with their holdings reductions through February and finally, the projected reductions at the conclusion of their 10b5-1 sales.

Executive	Position	Shares Registered Under 10b5-1	% Change Jan-06 – Feb-07	% Change Jan-06 – Dec-07[1]
J. Ganek	CB, CEO	393,588	35%	45%
J. Babka	CFO	66,112	35%	10%
M. Foster	CTO	346,412	35%	55%
M. Lowen	Gen Counsel	[2]	75%	[2]
J. Malone	SVP	[2]	75%	[2]
J. Spirtos	SVP	[2]	75%	[2]

[1] These are the holdings reductions once all 10b5-1 shares are sold, taking into account all restricted stock and options scheduled to vest in 2007

[2] Trading plan details for Lowen, Malone and Spirtos were not disclosed in the press release

- The percentage reductions listed above are striking and show the general overtone of bearish insider sentiment as the levels, especially those of General Counsel **Martin Lowen**, Senior Vice Presidents **John Malone** and **John Spirtos**, now stand at just a fraction of where they stood in January 2006. What makes this more interesting is that each executive's personal sales plan (with the exception of CFO Babka) has called for the sale of more shares than they each will have vest during the year. For example, CEO Ganek will sell nearly 400,000 shares but will have roughly only 100,000 become newly actionable this year due to vesting. After seeing their 2007 awards, which for the first time are laden with performance shares which vest only if certain targets are reached, it is quite possible that, barring any further sales, their holdings will not revert back to 2006 levels for many years.

- Noticeably absent from the table above is President, Chief Operating Officer **Michael Lach** (45), who joined NeuStar in 2002. In the 10b5-1 press release, it was reported that Lach would be selling 148,228 shares this year. Less than two weeks later, the

Company issued a subsequent press release[3] announcing that Lach's employment was terminated effective immediately and he was being replaced by **Lawrence Bouman**, an advisor to the Company since 1999. Very little is known at this time about Lach's departure, but whatever the reasoning, it appears that it will have been a costly decision as he has walked away with only remuneration of $25K for attorney fees related to his termination and more importantly, according to our interpretation of the 1999 Equity Incentive Plan, he stands to forfeit 181,000 unvested options and 350,000 restricted shares, which as of the closing market price on March 6th, had a pre-tax value of $13.9 million, which takes into account his option exercise costs.

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[3] "Telecom Industry Veteran Bouman Joins NeuStar as Chief Operating Officer", Press Release via BusinessWire-First Call, March 5, 2007. The press release can also be found in an SEC 8-K filed on the same date.