This 3DAdvisors Report Covers:
✓ **Insider Trading**: Insider Trading Behavior **Accounting**: Quality of Earnings Issues **Governance:** Corporate Governance Issues

Insider Research Bulletin

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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

- AMETEK Inc. (NYSE: AME)
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- Harley-Davidson Inc. (NYSE: HDI)
- Williams-Sonoma Inc. (NYSE: WSM)

Discussion of 3DAdvisors Findings

AMETEK Inc. (NYSE: AME)

A recent round of aggressive selling by AMETEK insiders prompted us to probe further into the Company. The effort was far from wasted as certain lack of disclosure related to governance issues and policy spoke as loud, if not louder, to us as the recent convergence of insider distribution.

Not only has the Company seemed to have violated some of its own policies, but it has misled shareholders as to the material relationship of some of its board members. First off, AMETEK's Corporate Governance Guidelines states that the board should be composed of members from diverse backgrounds. Yet, three of the members are managing directors of the investment firm American Securities, L.P., a firm that holds a stake in Ametek and has had related party dealings with the Company. A fourth director works for a different investment firm while a fifth is a private investor.

The three directors from American Securities, **Charles Klein**, **David Steinmann** and **Elizabeth Varet**, are deemed to have no material relationship to the Company. However, we found that a subsidiary of American Securities has a significant investment in Oreck Corp., a leading manufacturer of household cleaning equipment (vacuums) for which AMETEK, according to our channel checks, supplies the motors that go into each Oreck vacuum. American Securities and Northwest Equity Partners Buyout Fund bought Oreck in the third quarter of 2003. There has been no disclosure of these related party interests in any of Ametek's financials. Though we don't know the exact percentage of AME's revenue generated from its Oreck relationship, we do know that sales to floor care markets accounted for 17% of AME's 2003 revenues.

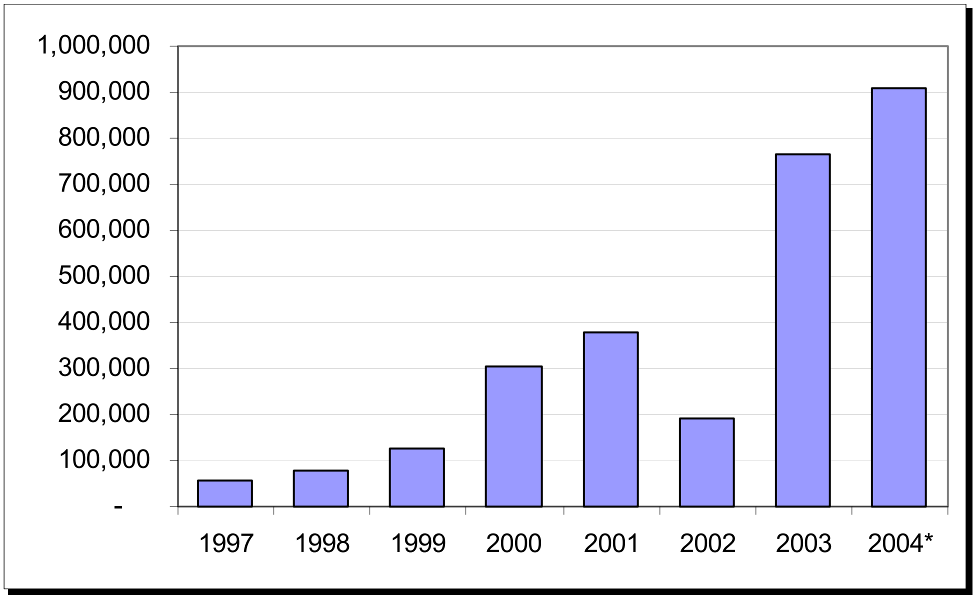
That the Company discloses all seven of its outside directors are independent "within the meaning of our Corporate Governance Guidelines" appears disingenuous. Our strategic partner, Governance Metrics International (GMI) determines that only three of the eight Ametek directors are truly independent. The three American Securities directors are not independent because their firm provided financial advisory, investment management and other services to Ametek in 2002. Even though that relationship ended in 2003, the fact that the Oreck relationship continues undisclosed is highly relevant behavior to us. In addition to these three, Director **Lewis Cole** is a member of the law firm of Stroock & Stroock & Lavan LLP, which rendered legal services during 2003 and continues to render legal services for AMETEK and its subsidiaries, while Director **James Malone** is the founder and managing partner of a consulting firm called Qorval, LLC. AMETEK is listed on Qorval's client list that is displayed on its website

And there's more. With the exception of board Chairman and CEO **Frank Hermance**, the board hasn't appointed a new director in the past ten years. This helps preserve the board's incestuous structure and obstructs governance reforms. In fact, they've even allowed for a breach of the Corporate Governance Guidelines' retirement policy, which states that "no person will be nominated by the Board to serve as a director after he or she has passed his or her 75th birthday." Just last year Director **Helmut Friedlaender** was re-elected at the age of 89 to serve another three-year term.

Over the years these insiders haven't been known for heavy selling. The volume intensified in 2003 as the stock continued to establish new all-time highs. But while the issue has continued to appreciate, so too has the selling. From April 26th through July 27th nine insiders sold 648,486 shares between the prices of $26.50 and $30.89. Insiders have now sold more year-to-date than the record volume set in 2003, when a record number of shares were disposed.

Most interesting of all the activity is that of Director Varet and President-Electromechanical Group **Albert Neupaver**, who has shed 42% of his holdings since last October. Neupaver's division, which manufactures vacuum motors, had historically driven the Company's revenues and profits. Over the past few quarters EMG's growth has slowed and has been overshadowed by the Electronic Instruments division. Varet, who has a material knowledge of EMG's operations, has been selling heavily this year as well, dumping both her personal shares and shares she owns indirectly for American Securities.

Figure 1. Shares Sold by AME Insiders, 1997 through 2004*. Source: Vickers.



* Shares sold through July 2004 only

- **Frank Hermance (55)** – Chairman, CEO. With sales on May 25th and 26th, Hermance surpassed the total shares he's sold since assuming his current position in 1996. After having sold a total of 246,120 shares between 1996 and 2003, he sold 262,000 shares in May at prices just under $27. The sale resulted in a **23% reduction of his actionable position** (exercisable options plus common stock) which now amounts to roughly 900,000 shares. This is the first time his holdings have fallen below 1 million since early 2001.

- **Albert Neupaver (53)** – President, Electromechanical Group. Neupaver's behavior has visibly become more aggressive since late 2003. Between 1997 and September 2003 he had sold a total of 104,710 shares. Including the 130,000 shares he sold on July 26th and July 27th, he has now sold a total of 250,172 shares since last October. The recent July activity **reduced his holdings by 37%**, which is the first time we've seen him sell this large a percentage of his position. In order to acquire the shares to sell he cleared out three series of options, only one of which was set to expire in the upcoming six months (expiration dates: 11/04, 4/05, 5/06). His holdings have now diminished 42% since the 2003 Proxy.

- **Elizabeth Varet (60)** – Director. Varet, a board member since 1987 and managing director of American Securities, L.P. has not been a heavy seller over the years despite having the second largest ownership stake of all executives and directors. Between 1997 and 2003 she had sold a total of 153,600 shares, less than half of the 327,000 shares she's sold in the past six months. On July 26th and July 27th she sold 159,000 shares out of a trust managed by American Securities which she has shared voting and investment power. Since February she has **trimmed her ownership by 27%**.

- **David Zapico (39)** – President, Electronic Instruments. Though he's been with the Company for fourteen years, Zapico only registered as a Section 16 filer last year after his October appointment to his current position. On April 26th he surfaced with his first activity, exercising four series of options set to expire between July 2005 and May 2008, and clearing out three of the series. He then monetized the underlying 25,106 shares between $27 and $27.30, which resulted in a **26% reduction of his holdings**.

Circuit City Stores Inc. (NYSE: CC)

We normally do not highlight activity in issues that trade for low prices, as Circuit City does. The fact that insiders seem quick to sell as the shares continue to struggle to come off their 10-year lows however, causes us to want to highlight the activity for, at the very least, defensive purposes.

But while the stock has rallied of late, it's still trading off its two-year highs and management has cautioned they're not in the position they'd like to be. Though the net loss from continuing operations narrowed from $46.7 million 1Q03 to $8.2 million in 1Q04, the improvements came against the weakest performance of last year. Gross margins are also a point of concern, prompting CFO **Michael Foss** to comment on the conference call that they were "disappointed with the overall gross margins during the quarter."

Adding credence to their concerns, Company insiders have been selling the stock. From April 7th through July 27th seventeen of them sold 742,562 shares between the prices of $11.20 and $13.94. Albeit, roughly one-fourth of the shares sold were related to an option series granted in 1997 with a split-adjusted strike price of $12 that was set to expire in June. The fact that each seller exercising the expiring options chose to sell all of the shares acquired leaves us with the impression that even a $.60 cent profit is better to take now than to wait for any appreciation in the newly-acquired shares that may never come. It should be noted that, even though only 25% of the options being exercised were in danger of expiration, some of the insiders sold more shares than they acquired from just the expiring option.

We're also intrigued that the selling has picked up at a time when the Company has been aggressively repurchasing stock – something we haven't seen at Circuit City in the past. After not having bought back any shares between 2000 and 2002 they approved a $200 million repurchase plan in January 2003. Throughout 2003 they bought back $84.3 million and then spent $71 million in the first quarter of 2004. In June, on the morning of the first quarter conference call they announced that the board authorized a $200 million increase. It would seem that the buyback's implied message to shareholders that the stock is a good value is not consistent with the actions of insiders quick to sell newly-acquired shares.

- **Gary Mierenfeld (52)** – Senior V.P., Store Development, Procurement, Distribution and Service. Since 1995 Mierenfeld had sold a total of 97,489 shares between the prices of $15 and $58. When he exercised expiring options on June 17th at $12 and sold the underlying 8,999 shares at roughly $12.50, we took notice since we would've assumed he'd hold some of the shares. But when he followed up that transaction with a 93,744-share sale on July 27th at roughly $13.90, our interest increased. He acquired those shares by exercising an option series with a strike price of $8.50 which wasn't set to expire until 2009. Oddly enough, the June sale was reported as being part of a pre-arranged trading plan, which doesn't seem to be the case for the second, more aggressive activity. Since Mierenfeld doesn't disclose his options holdings, we are not able to compute a reduction of his actionable position (common stock plus exercisable options). Considering he holds less than 10,000 shares of common stock, it is a fair assumption that this activity had a significant effect on his holdings.

- **Brian Levy (age not disclosed)** – President, CEO, InterTan. Levy's InterTan options were converted to Circuit City options when InterTan was acquired by Circuit City in May. The new options vested immediately and were not set to expire until 2008. Levy wasted little time cashing in on his new shares – on May 13th he entered into a 10b5-1 trading plan and proceeded to sell 275,000 shares from May 25th to July 19th between $11.50 and $12.55. The sale **monetized 51% of his actionable position**.

- **Dennis Bowman (50)** – Senior V.P., Strategic Sourcing and Inventory Planning/Replenishment. Bowman became a CC officer in 1996 and has been an infrequent seller since, only having sold 44,948 shares between 1996 and 2003. When faced with expiring options, Bowman chose to sell all 41,997 shares he acquired for $13, accepting a $1 spread. Just over a month later, after the stock appreciated 5%, Bowman sold an additional 30,000 shares on July 19th at $13.70 each. His second sale provides credence to our assumption that these execs have more reason to sell than just to take advantage of their expiring options.

- **John Froman (50)** – Executive V.P., COO. With the exception of the CEO, Froman has the longest tenure of any CC executive. During this time he's built up a significant ownership position in excess of 784,000 shares and vested options, yet he's always been a restrained seller. Since 1995 his largest sale was 15,162 shares in July 1998 at $25 and we haven't even seen him sell since March 2000, when he disposed of 10,000 shares at $52, just four months before the stock began its descent to $21. More recently he exercised the $12 expiring option on June 17th to acquire 14,999 shares and sold those shares and 5,366 more at prices short of $13. This is just another example of an exec taking more off the table than just those shares acquired from the expiring option.

- **Ronald Baime (42)** – Senior V.P., General Merchandise Manager. Since Baime only recently joined the Company in 2002, he's one of the few execs that didn't receive the $12 option. But rather than sit back and watch his peers cash in, he exercised two series of his non-expiring options (expiration dates: 10/10, 4/11) with strike prices of $5.61 and $10.34 and sold the underlying 20,000 shares at roughly $12.90, marking his first-ever sale. While we recognize that by exercising an option at just over $10 and selling for $12 and change Baime recognizes a 25% increase, but once additional costs and taxes are taken out, his profit will be much less attractive. With the exception of forward-looking concerns, there aren't many reasons we can come up with for monetizing this option now.

In addition to the above-mentioned sellers, Chief Merchandising Officer **Kim Maguire** exercised all of his vested options on April 26th and sold the underlying 149,990 shares shortly after announcing he'd be leaving the Company (he ended up in the same position at QVC). This was his first sale since joining the Company in 2001.

Harley-Davidson Inc. (NYSE: HDI)

Since 2001 Harley insiders have been off our radar, having sold on average 253,000 shares annually – we'd grown accustomed to heavier selling in prior years (7 million shares were sold between 1997 and 2000). The issue has continued to impress in 2004, climbing to all-time highs and insiders are once again locking in profits. Only this time, their selling pace has hit record levels as a number of them have trimmed their holdings significantly.

Most recently, eight insiders sold 1,343,672 shares from April 14th through July 20th at prices ranging from $57.80 and $63.35. The activity was led by the Company's popular chairman and chief executive **Jeffrey Bleustein**, who has historically been an infrequent seller (only three prior sales in the past ten years). Bluestein's sales reduced his holdings by 41%, while three additional executives, including two division presidents, sold between 29% and 59% of their actionable positions (common stock and exercisable options). We also found that three of the sellers (including Bleustein) exercised multiple options series which amounted to roughly two-thirds of each executive's vested options holdings.

A few points of interest: Harley-Davidson implemented stock ownership guidelines in 2002 for its executives and directors. Both groups have until January 2007 to acquire the appropriate number of shares, which is 5,000 shares for directors and between 5,000 and 30,000 shares for execs, depending on their position. For the most part, they have done a respectable job of reaching these targets. However, in addition to two directors that are yet to own 5,000 shares, two of the current selling execs are below their targets and, possibly, feeling little pressure to comply with those guidelines at this time.

We also noticed a significant increase in the Company's repurchases. Since 2000 Harley had been pretty consistent buying back shares, never spending above $126 million in a year. Without providing any explanation, this year's spending has spiked to over $473 million through the first two quarters, this while the shares are trading at all-time highs. What's more, 78% of cash generated from operations was put towards repurchases, which is by far the largest percentage dating back to 2000.

Table 1. Annual Stock Repurchases (Millions of $) and Percentage That Repurchase Amount is of Cash Flow from Operations. Source: HDI SEC Filings

	2000	**2001**	**2002**	**2003**	**2004***
Repurchases	$126.0	$111.5	$56.8	$103.9	$473.5
% of cash flow from operations	22%	15%	7%	11%	78%

*Repurchases through July 2004 only

- **Jeffrey Bluestein (64)** – Chairman, CEO. Since 1995, Bleustein, who has been the driving force behind Harley, had only executed three prior sales totaling 1.05 million shares. His last transaction was a 240,888-share sale in October 2001 at $48. We immediately took notice when he began selling on April 15th and winded up monetizing 848,000 shares through July 20th, grossing $51.7 million. In addition to the activity being historically large, Bluestein exercised four series of non-expiring options (expiration dates: 2/05, 2/06, 2/07, 2/08) equal to two-thirds of his vested options to acquire the shares. Bleustein's sales **reduced his holdings by an unprecedented 41%**.

- **James McCaslin (55)** – President, COO, Harley-Davidson Motor Company. Like Bluestein, McCaslin aggressively exercised roughly two-thirds of his vested options (four different series set to expire between February 2006 and February 2009) and sold the underlying 176,934 shares at just over $58. The sale, which was his largest since registering as a Section 16 filer, **reduced his actionable position by 41%**. In the past five years McCaslin's only two prior dispositions were a 5,000-share sale in January 1999 and a 136,980-share sale in January 2000 at $35. It is rumored that McCaslin is the heir apparent to the Harley CEO position when Bluestein retires.

- **Donna Zarcone (46)** – President, COO, Harley-Davidson Financial Services. On July 15th Zarcone executed her first sale since filing in 1998, exercising a substantial portion of her vested options to acquire the shares. The 82,108-share sale which grossed over $5 million **decreased her holdings by 59%**. In August 2002, shortly after the Company implemented ownership guidelines, Zarcone purchased 4,400 shares at $43. The recent sale leaves her with just 10,000 shares of common stock, well short of the amount she is required to hold by 2007.

- **Ronald Hutchinson (56)** – V.P., Parts, Accessories, Customer Service. Hutchinson is another seasoned Company exec that recently sold, yet is far from meeting his ownership requirements. On April 15th he sold 42,234 shares between $58.27 and $58.54, which drained his common stock holdings to a mere 364 shares. Not only did it lessen his common holdings, but also **trimmed his actionable position by nearly 30%.** This sale was Hutchinson's largest in the past ten years – he last sold 10,000 shares in August 2003 at $50.

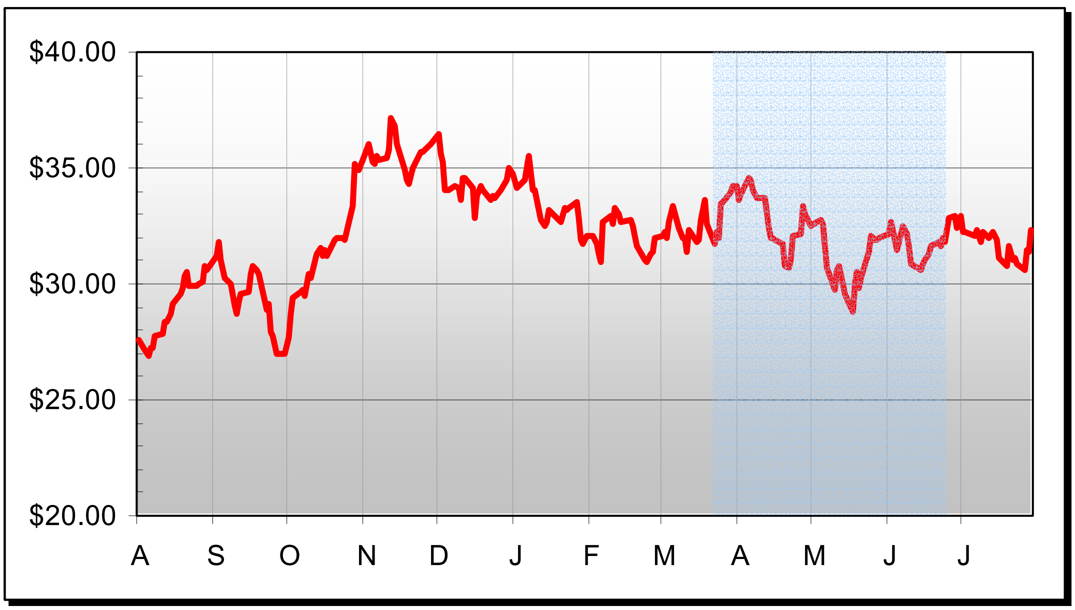
Also selling was CFO **James Ziemer** and General Counsel **Gail Lione**, who sold 93,972 and 24,696 shares, respectively. With the exception of a 4,400-share sale in August 2003, this was Ziemer's first notable sale in the past eight years. Lione last sold 50,000 shares in July 2001, which preceded a two-month, 35% slide.

Williams-Sonoma Inc. (NYSE: WSM)

While competitors such as Pier 1 and Restoration Hardware have had their share of problems, Williams-Sonoma has won over the Street and investors with steady earnings growth. But the retailer's shares haven't responded to the first quarter earnings report which included management's raising second quarter estimates. Though the issue is still trading just off its all-time highs, the shares have drifted lower since January, trending down from $35 to $30. During this period, between March 23rd and June 28th, three insiders sold 854,470 shares at an average price of $32.45. This is reasonably high selling for WSM insiders who had sold, on average, 400,000 shares ***annually*** since 1999.

We were intrigued by the selling of two group presidents that oversee the Company's key revenue producing divisions. **Laura Alber** and **Pat Cowell**, presidents of the Pottery Barn and Williams-Sonoma brands sold 26% and 99% of their holdings with their first-or-second-ever sales. Joining them was Chairman **Howard Lester** who had proven to be a timely seller in the past. It has been our experience that large position reductions by key insiders are usually not immediately followed by negative news as insiders more typically sell a few quarters ahead of time to avoid the possibility of having their trading appear based on insider information. It is interesting though, that Alber and Cowell's sales came during a period when industry-wide sales were slowing.

Figure 2. WSM Daily Closing Price, August 1, 2003 through July 29, 2004. Blue shaded area is the period where three insiders sold 854,470 shares. Sources: Reuters and Vickers.



- **Howard Lester (68)** – Chairman. There is nothing anomalous about Lester's volume over the past ten years. Since 1995 he's sold over 3.6 million shares, but we haven't seen any activity from him since mid-2002. Though his selling had been frequent, two of his last three sales were noteworthy. In May 2001, with the issue trading at $16.75 he sold 60,000 shares. The volume wasn't as sizeable as some of his other transactions, but the issue slid 25% over the next two months. Then in May and June 2002 he unloaded 1.19 million shares into weakness as the issue slid from $32 to $29, and then closed at $20 just a month later. He resurfaced in March selling 610,470 between the 23rd and 25th, grossing $19.7 million and marking his most significant selling since 1998. Lester hasn't received any option grants since 2001.

- **Laura Alber (35)** – President, Pottery Barn Brands. Between May 28th and June 28th Alber executed her largest sales since becoming a Section 16 filing insider in 2002. In all, she sold 75,000 shares between $32 and $33.11, **resulting in a 26% reduction of her holdings**. Her only prior transaction was a 30,000-share sale last August at $30. To acquire the shares to sell she exercised four series (she cleared out three series) of options which weren't set to expire until March 2008 at the earliest. Alber was granted a stock option for 400,000 shares when she was hired in 2001, seventy-five percent of which have already vested. This is considerably more than what she will receive annually as part of her compensation – in 2003 she was granted an option to acquire 30,000 shares.

- **Pat Cowell (55)** – President, Williams-Sonoma Brand. Like Alber, Cowell became a registered insider in 2002. Between June 8th and June 28th he made his first-ever sales, disposing of 169,000 shares from $32.10 to $33.06. The transaction **wiped out nearly his entire actionable position** (common stock and exercisable options). As part of an option grant provided when he was hired, Cowell will have access to over 200,000 options which will vest in the next two years. However, in 2003 he was granted only 45,000 shares which will vest over the next four years.

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