



This 3DAdvisors Report Covers:

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

Insider Research Bulletin

January 12, 2004

Contact: Bob Gabele (954) 728-9671 or bgabele@3DAdvisors.com

Insider Research Bulletin is a summary of significant insider trading behavior that 3DA has identified at the following companies. Some of these companies have been covered in prior 3DA Research Reports (see the footnotes below). The others have not been previously covered, and because the insider trading behavior described here has been deemed significant, 3DA has initiated a review of accounting and governance behavior at these companies. These new 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

- ▶ **Affiliated Computer Services (NYSE:ACS)** ¹
- ▶ **InterActiveCorp (NASDAQ:IACI)**
- ▶ **Intuit Inc. (NASDAQ:INTU)**
- ▶ **Pall Corp. (NYSE:PLL)**
- ▶ **Symantec Corp. (NASDAQ:SYMC)** ²
- ▶ **Synopsys, Inc. (NASDAQ:SNPS)**

Discussion of 3DAdvisors Findings

Affiliated Computer Services (NYSE:ACS)

With the award of the Department of Education Student Loan Contract and its much-hyped governance clean up, ACS shares have been working their way higher, albeit not on particularly high volume. The contract with the State of Georgia, however, continues to be a significant concern to investors. We have seen some commentary that settlement of the outstanding contract issues is expected sometime in January.

With this said, we have observed recent insider behavior with great interest. The most interesting movement involves Chairman **Darwin Deason**, who has recently been writing calls on ACS shares. Along with him are sales by CEO **Jeffrey Rich** and COO

¹ Prior 3DA Research Report(s) published 8/16/02, 10/30/02, 7/9/03, 10/24/03

² Prior 3DA Research Report(s) published 9/5/03, 12/12/03

Mark King. Making these actions more interesting to us is that they occurred almost a month prior to the Company's scheduled January 20 earnings release. For those who are not up to speed on the issues surrounding ACS, we have written four individual reports on the Company in the past two years, which can be accessed at our web site.

- **Darwin Deason (63)** - Founder and Chairman. Deason began writing the July 60 calls on some of his ACS shares on December 17, writing a bit more on practically every day through January 8th. As of this writing, he is responsible for the open interest of 4,250 calls covering 425,000 shares. This represents practically the entire open interest of this particular option series. It is extremely rare to spot an insider acting in such a way. Making this matter more interesting is the fact that this sort of data is very hard to spot on the Form 4 filings and has, most likely, evaded discovery. But there's more: Deason also had sold 57,000 shares in the \$53 to \$53 range on December 12th, just prior to his call-writing activity. We will be interested to see if, sensing no one is watching, he continues with this behavior.
- **Jeffrey Rich (43)** - CEO, Director. We have become accustomed to seeing Rich's sales over the years and normally discount his movements as, since July of 2001, he has methodically sold the exact amount of shares (4,000) in each transaction to the tune of about 16,000 almost every month, like clockwork. On December 15th, however, his behavior changed. At about the same time Deason began writing his calls, Rich exercised options for 48,100 shares, which he sold for \$53.24 each in a single transaction. This sale represents a "blip" in his selling behavior, which has been so reliable for the past few years. His only other blip, during the period, was a 100,000-share sale in November of 2001 after which the shares had a rough time the following year. We'd bet that the fact that his current sale coincides with Deason's curious actions is not a simple coincidence.
- **Mark King (46)** - COO, Director. So far this month, King has dropped 38,000 shares, between January 2nd and 6th, at prices between \$55 and \$56. Like Rich, King is a regular seller over time. These recent sales are his first since May of 2003 and his largest since May of 2002 (80,000 shares). We'll be watching to see if he sells more prior to this month's earnings release.

InterActiveCorp (formerly USA Interactive) (NASDAQ:IACI)

We have been watching insider distribution at IACI since the shares peaked last July. What is interesting to us is that their recent selling has occurred as the shares have drifted from their \$42 peak to their current \$30 to \$35 range. Since the July highs, three operating executives have sold over 258,000 shares between November and into early January as the shares have worked their way lower. We are watching the three with interest. Although they have all sold in the past, in similar amounts, they tend to do so en-masse during similar time windows, usually into strength as the shares head towards highs. This is the first time we've seen this group selling on the downward slope from annual high ground. In addition, all three filed 10b5-1 programs on the same day, November 20th of last year. The filing of the programs has a "cover yourselves" feel as the three had all been sellers earlier in 2003, back in May, as the shares were on their way up to their July peak, not to mention many times in the past five years:

- **Dara Khosrowshahi (33)** - CFO. Promoted to CFO in 2002, Khosrowshahi has been with the Company since 1998. Between November and December, he exercised options for 65,000 shares and sold them in the \$30 to \$33 range. He had sold 50,000, back in May, for \$37 each.
- **Julius Genachowski (40)** - General Counsel. Genachowski exercised options for 72,500 shares, between December and early January, and sold them at prices between \$32 and \$34 each. He had previously sold during the same time as Khosrowshahi, in May, dropping 154,166 shares at the time between \$34 and \$38.
- **Victor Kaufman (59)** - Vice Chairman. Kaufman, former Company CFO, receives executive-like compensation. Given this fact, it's hard to argue that he is distant from the day-to-day goings on. His 2002 package included \$650,000 in salary and \$2.5 million in bonus plus another \$4.3 million in restricted stock awards. He has been a regular seller over the years. His sales, however, typically occur during the same time windows as Genachowski and Khosrowshahi. This time is no exception: Between late November and early January, Kaufman exercised options for, and sold, 163,602 shares at prices between \$32 and \$34. In May, he sold 469,000 shares at prices around \$34.

The prescient nature of past sales by this group bring our attention to the current sales, much more than recent IACI sales by director Richard Barton (former Expedia founder) who has been selling since his company's acquisition by InterActiveCorp.

Intuit Inc. (NASDAQ:INTU)

The cat is out of the bag with regard to Intuit's January 5th announcement of the sudden departure of **Tom Allanson** (Sr. V.P. of Consumer Tax) and **Tom Weigman** (Chief Marketing Officer), the latter having only been with the Company since September. The Company's explanation that Allanson's departure was "at the appropriate time" since the "preparation for the current tax season (is) complete" fell short of calming jitters as Intuit shares have dropped off since the news. Allanson had been selling prior to the news. His trades had caught our attention because he had been unloading almost all of his exercisable options and selling the underlying shares at quite small premiums during December. The majority of the options exercised were done so at prices between \$46.25 and \$43.98, with the underlying shares sold in the \$52 range. The whole lot was not set for expiration until between 2009 and 2012.

If Allanson's sales were the only ones, we might have been inclined to buy the Company's inferences that nothing internal is going on that would have prompted the moves. The actions of two other insiders, during the same time frame, however, cause us to want to keep a very close eye on Intuit insiders in the coming weeks:

- **Daniel Manack (45)** - Sr. V.P., Professional Accounting Solutions. Manack has been with the Company since 2002. Starting in November, and into early January, he exercised options for, and sold 58,679 shares at prices between \$50 and \$53. A number of Manack's exercised options were at relatively high strike prices that, like Allanson's, were not in danger of expiration (not set to expire until between 2009 and

2012). His highest exercised price was \$44.32 each. These were Manack's first sales since joining the Company.

- **Scott Cook (51)** – Co-founder and Chairman of the Board's Executive Committee. In mid December, Cook gifted 300,000 shares from a family trust (The Scott D. Cook and Helen Signe Ostby Family Trust). He had not had a history of gifting, and certainly none as large as this. In fact, the only other time he has ever gifted a share was in September of 2002 (22,575 shares). His gift occurred at the same time that Allanson began unloading. If gifts were made to family members living outside of his household, their trades would not have to be revealed on his Form 4.

Pall Corp. (NASDAQ:PALL)

A surge of executive sales at Pall Corp. caught our eye last June. The shares had just spiked up from their \$20 trading range and we had noted that a number of the sellers had unloaded their highest-ever amounts and that a number of them had been skimming for small profits, that is exercising options and selling the underlying shares for small profits when the options were not close to being in danger of expiration. Further intriguing us at the time was the fact that the sales were by rank-and-file insiders, not the CEO, COO, etc.

As Pall shares rallied to new highs in December, the same insiders surfaced again, this time selling far more than they did last June. Though the numbers do not look large on the surface, further inspection reveals that they are very large for the insiders involved. The same option-skimming that was evident in June, appeared again in December:

- **Neil MacDonald (53)** - Group V.P. Exercised options for 18,750 shares at \$22.72, selling the shares for \$25.50 each. The options were not expiring until May of 2005. He cleared out of his entire holdings of these long-vested options. The sale was his largest-ever.
- **Lisa Kobarg (age not disclosed)** - Controller. Exercised options for 7,425 shares in December and sold them for \$25.61. Of the total, 5,500 of the options were exercised between \$22.09 and \$23.51. Only 2,500 of the options were set to expire in December of 2004 with the rest doing so between 2011 and 2012. These were her largest-ever sales.
- **Riichi Inoue (55)** - Senior V.P. Exercised options for 27,125 shares and sold the underlying shares for \$26 each. Of the total, 12,500 of them were exercised at \$23.78 and were not expiring until 2011; 5,000 were exercised at \$22.09 (expiring 2011) and the remainder exercised at \$16.13 (expiring 2012). These were his largest-ever sales.
- **Reed Sarver (44)** - Senior V.P. Exercised options for 12,500 shares, selling them for \$26.41 each. These options were priced between \$22.09 and \$21.86 and were not expiring until 2011. Interesting is the fact that, in the past, we have noted that Sarver has waited for expiration before cashing out. These were his largest-ever sales.

- **John Adamovich (50)** - Treasurer and CFO. Adamovich exercised options for 12,375 shares and sold 16,375 for prices around \$26. Though he was not skimming like the others (his options were exercised at \$16.13), his options were not set to expire until 2012. The sale amounted to 37% of his actionable holdings.

The list goes on with Senior V.P. **Charles Grimm** (age 63 - 20,000 shares), COO **Donald Stevens** (age 58 - 35,000 shares), and Senior V.P. **Gregory Scheessle** (age 43 - 11,125 shares), each of who sold their largest-ever amount during December.

Over the years, we have been accustomed to insider accumulation at Pall, not distribution. The Company maintains employee stock ownership guidelines and, before the Sarbanes-Oxley era, was regularly loaning, interest-free, to insiders for their stock purchases. In fact, as of October 2003, loans were still outstanding, to five insiders, totaling \$730,000 (this disclosure only itemized loans greater than \$60,000 outstanding, so we must assume more exist). It would seem that insider sales go against the culture here.

The Company is somewhat tight with certain disclosures. For instance, it does not disclose biographies of officers, choosing instead just to list them, along with their ages and a generic "Senior (or Group) Vice President" title. Although this makes things more difficult for us to analyze, the collective actions of these Executive Officers speak louder than the actions of just one. As an old friend, Perry Wysong (the Grandfather of Insider Trading analysis) used to say, "It's one thing when one selling insider is doing so because they are building a house, it's another thing entirely when a bunch of them are all building houses at the same time."

Symantec Corp. (NASDAQ:SYMC)

Our recent reports on Symantec (9/5/03 and 12/12/03) cover a number of indicative behaviors we have observed, not the least of which is the high level of insider selling. We note that on December 15th, after a series of aggressive insider sales, the Company announced that three insiders, **John Schwarz** - COO, **Dieter Giesbrecht** - Sr. V.P. Worldwide Sales, Marketing & Services, and **Don Frischmann** - Sr. V.P. Communications, have all filed 10b5-1 sales programs. To us, this development was very interesting, not only because it came in the wake of a surge of insider selling but also because two of these three had already been active sellers before their adoptions. It seems that we should expect to see more from them.

The most aggressive Symantec seller to date has been **Gail Hamilton (53)** - EVP, Product Delivery and Response. As of our last report, we had indicated her sales, through December 9th, of 527,700 shares represented about 87% of her actionable holdings (common stock plus exercisable options). She added to her total by selling another 16,300 shares on December 11th. The tone of her selling suggests she may be thinking about leaving the Company as she not only is clearing out most of her actionable holdings but also continues to hold less than the 20,000 shares required of her by the Company's executive ownership guidelines.

Hamilton is a key insider at the Company. Prior to joining Symantec, she was general manager of the Communications Platform Division for Compaq Computers,

where she was responsible for the UNIX and NT server businesses targeting communications companies. Prior to that, she was the general manager of the Telecom Platform Division at Hewlett-Packard Company, where she was responsible for the adjunct computers, wide-area networking and broadband Internet businesses. She came to Symantec in 2000 and was awarded a one-time signing bonus (amount not disclosed) along with "furnished executive dwellings during the term of her employment". In addition, she received options for 600,000 shares (split-adjusted) at the time. She has cleared out the exercisable portion of these options.

Synopsys, Inc. (NASDAQ:SNPS)

We have been monitoring Synopsys insider sales since a burst of selling last May-June when the shares first broke out of the \$20 to \$25 area to move into a new trading range. December marked the second round of aggressive selling from Company executives. This makes the insider sales, since the late-May breakout, the highest-ever for Company insiders (whenever we make this kind of statement, rest-assured we've accounted for stock splits) and far more than the amount of shares sold by insiders during the previous peak period in 1999.

Synopsys has a very complex options picture. The Company typically grants multiple option series (with separate strike prices and expiration dates) to insiders each year. Making the matter more confusing, the Proxy does not break out the amount, from each series, granted to individuals, choosing instead to report one total granted to each named executive. Consequently, the only options information lies buried in the Form 3 and Form 4 filings.

Each option series uses the same vesting schedule with 3/48 vesting on the first anniversary of the grant and 1/48 vesting each additional month until fully vested. Options are such a significant portion of the compensation picture that the Company discloses that should expensing be required, they would take about \$2 per share off the EPS number which is one of the biggest such effects we've seen. After wading through the extensive option detail, we have been able to put the pieces together and have identified key officers who have reduced their holdings in a material manner since the May breakout:

- **Vicki Andrews (47)** - Sr. V.P. Worldwide Sales. Andrews is one of the four named executives in the Proxy. She has been with the Company since 1993 and has rarely sold shares. More importantly, with the exception of 430 shares, she has always held her equity position in the form of options, making it all the more important to dig into her options holdings to understand the magnitude of her sales, which have been very active in the past two quarters. The Proxy is not helpful either since options vest monthly and she held them in seventeen separate series as of early December. Because of the monthly vesting schedules, her portion of exercisable options moves up each month, making the older Proxy data unreliable. Working off the option data, we have been able to determine that, since May, she has cleared out of 86% of her actionable holdings (stock plus exercisable options). She did this by exercising options for, and selling 204,905 shares since May at prices between \$26.50 and \$33. Her December sales accounted for 88,785 (prices in the \$31 to \$33 range) of the total. Making matters more interesting, her options had a very long time left until

expiration (her entire options position, including already-exercised ones, does not expire until between 2009 and 2013). These were her largest-ever sales.

As of 12/31/03, Andrews was down to exercisable options for just 34,381 shares. Recent grant sizes are dropping at Synopsys with the two most recent rounds being significantly smaller than in prior years. As old options become exercised and/or become fully vested, monthly vesting increases are going down. Andrews, for instance, was seeing new options vest (read: become actionable) at about 14,000 per month prior to these sales. The monthly total is now down to 7,960. Make no mistake; her recent round of selling is truly significant.

- **Sanjiv Kaul** - Sr. VP. CAM. Kaul manages the New Ventures group, responsible for strategic areas including analog/mixed-signal design and verification, and design for manufacturing. Although his age is not disclosed, recent pictures on the Company's web site suggest that he is far from retirement. He has been with the Company since 1994. In a fashion similar to Andrews (above), Kaul began exercising options and selling Synopsys shares in an unprecedented fashion after the May/June breakout. In May/June, he exercised options for 274,824 shares across eight separate series, selling them immediately at prices between \$29 and \$32. He followed these up in December, with option exercises (this time across seven separate series) totaling 68,653 shares, which he then sold at \$32.60. So, between the May/June sales and those of December, Kaul has dropped 342,277 shares from his actionable holdings, or 55%.
- **Chi-Foon Chan (52)** - President and COO. Prior to recent sales Chan had not sold a Synopsys share since back in 1999, the last time share were at current levels. His recent sales are more aggressive than back then. In June, he exercised options for, and sold, 184,000 shares at prices in the \$30 range. He followed these up with December sales totaling 200,000 shares at prices around \$33. Though his holdings remain significant, these are the largest sales we've seen by him.
- **Aart J. de Geus (48)** - Chairman and CEO. Company co-founder de Geus has not sold a share since 1999. In December, he sold the largest amount of shares in the past five years: 162,000 shares at \$33.43 each. This sale eclipses the 30,000 he sold back at the 1999 peak. His holdings remain significant.

Furthermore, a group of Synopsys executives joined the Section 16 filing ranks this past August. This group, mostly GM's of various divisions, had not been filers prior to August of 2003. Consequently, we have no record of previous transaction activity. Nevertheless, we consider their convergence, occurring at the same time as the others, to be important, especially given the fact that some of them seem to be clearing out big chunks of their long-held options positions as well.

- **Manoj Gandhi** - GM. Gandhi's group is responsible for Synopsys' synthesis and physical design solutions, test automation, signal integrity, power analysis and timing. He has been with Synopsys since 1997. He has no common shares, choosing instead, to hold his entire position in the form of options. In December he exercised options across no less than 12 of the 16 options series that he held positions in, exercising for, and selling, 33,500 shares. He exercised some of the highest-priced options of the entire insider group, converting his \$28.09's, his

\$28.06's, his \$27.19's and his \$27.16's (along with lower-priced options) and selling the shares in the \$33 range. Although we cannot decipher his vesting schedule (due to his new filing status), we are confident that his activity is representative of a situation where an insider is clearing out almost every available option, then selling. He has, most likely, dropped the majority of his actionable position.

- **John Chilton** - GM, Solutions Group. He joined the Company in 1995. His December sales totaled 42,371 shares at prices in the \$33.50 range.
- **Antun Domic** - GM, Implementation Group. He has been with the Company since 1997. His December sales totaled 32,133 shares in the \$33.50 range.
- **Raul Camposano** - Sr. V.P., Chief Technology Officer. Camposano started selling in December, exercising options for, and selling, 70,000 shares.

There are some other, smaller sellers as well. In all, nine of the eleven top officers listed on the Synopsys website as "Executive Management" have been recent sellers. Although we acknowledge that Synopsys shares are up, the fact stands that they have rallied in the past, with no such convergence of insider sales the likes of which we see now, signaling truly different insider selling behavior at the Company.

Copyright © 2004 by 3DAdvisors, LLC. **ALL RIGHTS RESERVED.** Your possession and use of this report is subject to the terms and conditions of the 3DA Product License Agreement, and any unauthorized use or access constitutes theft and 3DA will prosecute violators to the full extent of applicable State and Federal Law. This research report may not be reproduced, stored in a retrieval system, or transmitted, in whole or in part, in any form or by any means, without the prior written consent of 3DAdvisors, LLC. The information in this report was based on sources believed to be reliable and accurate, but no warranty regarding its accuracy or suitability for any purpose is expressed or implied. Nothing contained in this report is or should be construed to be a recommendation to sell, hold or purchase any security.