



This 3DAdvisors Report Covers:

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

Insider Research Bulletin

June 30, 2005

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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.

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Companies in this Bulletin

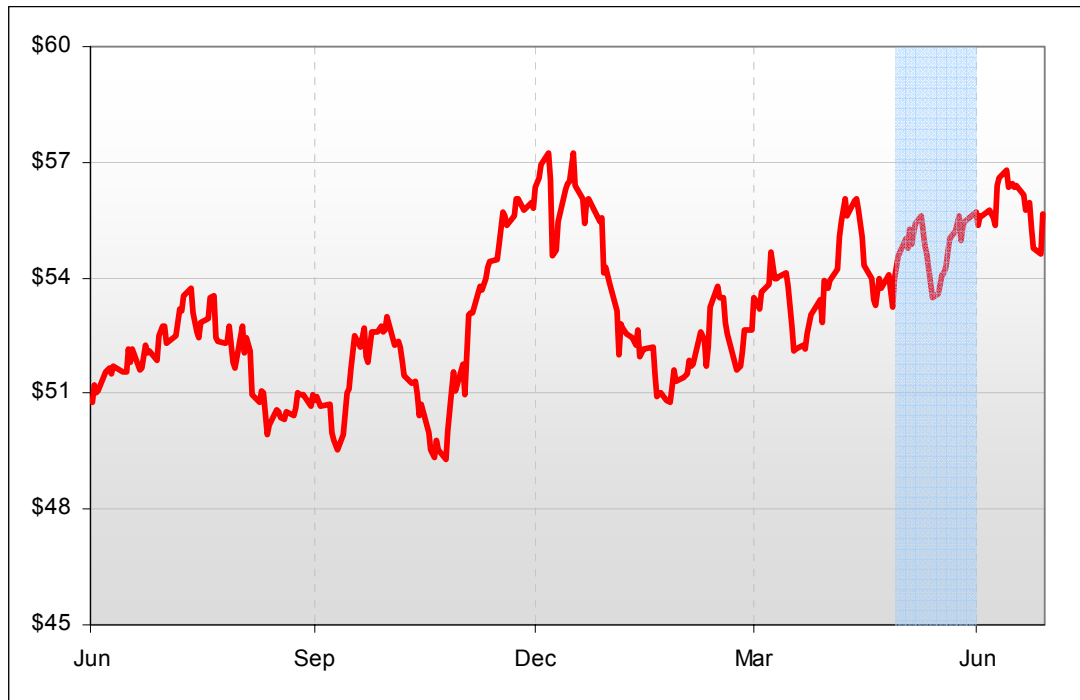
- ▶ Northrop Grumman Corp. (NYSE:NOC)
- ▶ Tessera Technologies Inc. (NASDAQ:TSRA)
- ▶ Transocean Inc. (NYSE:RIG)

Discussion of 3DAdvisors Findings

Northrop Grumman Corp. (NYSE: NOC)

Nothing interests us quite like a situation when insiders exercise options, with a long period remaining before expiration, and sell the shares for a very slim profit. When this occurs, we suspect that those involved fear that the options involved are in real danger of sliding under water in the near-to-intermediate future. Skimming (as we call it) such as this is a rare event, and one we are currently observing at Northrop Grumman. Adding to this story, however, is the fact that it has been quite a while since we've seen any type of material selling at Northrop Grumman. In fact, we haven't seen this many Company divisional presidents converge to sell an equivalent number of shares in the past ten years, and this with the shares still trading off their 52-week highs of late last year. In total, seven insiders sold 148,626 shares between April 29th and May 31st at an average price of \$55.07.

Figure 1. NOC Daily Closing Price, June 1, 2004 through June 28, 2005. Blue shaded area is where seven insiders sold 148,626 shares. Source: Reuters and NOC SEC Filings.



We are particularly intrigued by the option skimming, which we typically define as pretax profits, upon an option exercise and subsequent sale of the shares, of below 15%. It is very rare to see insiders accepting profits below 10%, but that's what we've uncovered here. The most extraordinary behavior was exhibited by **James O'Neill**, president of the Information Technology Division, who exercised two options series far from expiration with strike prices of \$47.11 and \$54.38. He then sold the shares at \$55.19, leaving himself with less than a 2% pretax profit on the \$54 options. In addition to the option selling, he also cleared out his common stock en route to monetizing **68% of his actionable position** (common stock plus vested options).

Also selling was Chief Human Resource and Administrative Officer **Michael Hateley** who accepted an 8% profit on his shares after never having accepted a spread less than 27% in his past option-related selling, and **Donald Winter**, president of the Mission Systems Division. Winter dumped 60% of his holdings with his transactions while clearing out a long-held option series at an 11% profit – far from the 36% and 50% spreads he accepted in his last two sales.

Although the Company has downplayed the events, we note the possible correlation between the selling and the recent upheaval within the Company's finance department. Back in March, CFO **Charles Noski** abruptly resigned from both his executive and board positions after serving the Company for just two years. Noski, who was reported to be in line for Northrop Grumman's chief executive position, is a widely heralded financial expert and currently sits on Microsoft's board and shortly after his resignation, was invited to join the board at Air Products (NYSE:APD). Almost

immediately after his successor **Wes Bush** took office, the Company completely overhauled the corporate business management organization to enhance the performance of the Company's finance operations, including financial reporting, planning and analysis.

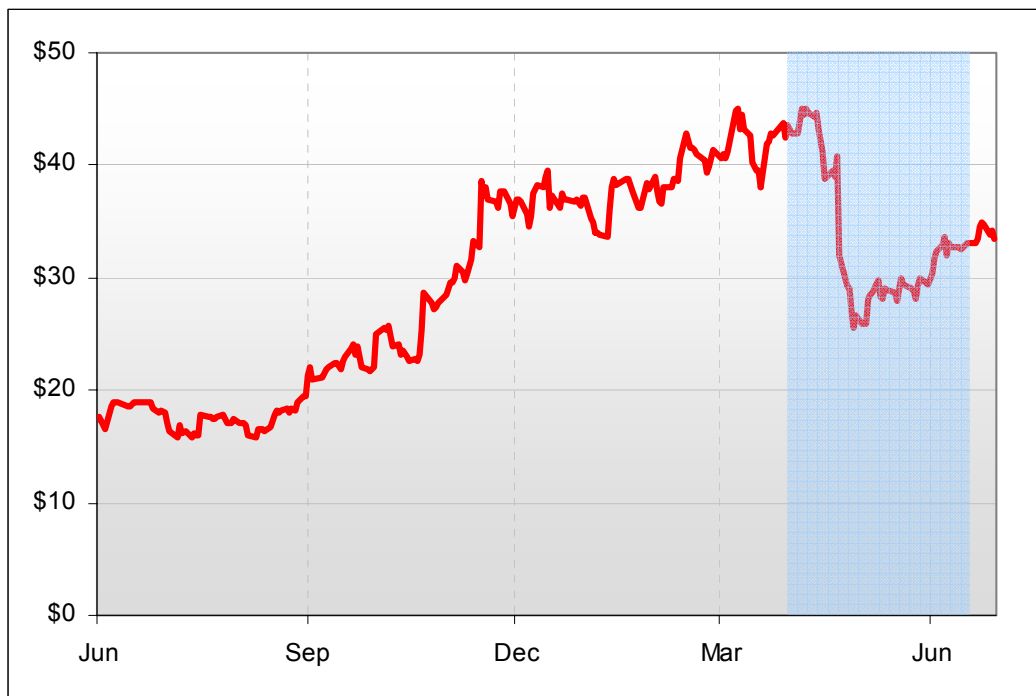
- **Donald Winter (56)** – Corporate V.P., President, Northrop Grumman Mission Systems. Winter joined Northrop Grumman when his firm, TRW, was acquired by the Company in 2002. Shortly after coming on board, shares of NOC dropped from the mid-\$60s down to \$40 (adjusted for a June 2004 two-for-one split) in less than a year, leaving his options underwater. Now that shares have climbed back, Winter moved to lock in gains. On May 31st he exercised three option series, none of which were set to expire until February 2007 at the earliest, and sold the underlying shares at \$55.44. But even though he **sold 60% of his holdings**, a large percentage by any account, we're more interested in the fact that he willingly accepted a slim profit on one of his options. Winter cleared out his February 2008 options that had a strike price of \$49.85 and sold them at an 11% pretax profit, this while he holds newer vested options with a lower strike price. In his two prior sales in August 2004 and November 2004, he accepted spreads of 50% and 36%, respectively, on his options transactions. It seems to us that he was protecting what may be fleeting value contained in his higher priced options.
- **James O'Neill (51)** – Corporate V.P., President, Northrop Grumman Information Technology. O'Neill, a Section 16 filer since May 2004, probably made the most aggressive move of the recent sellers. In May, O'Neill had four option series with exercise prices between \$47 and \$57 at his disposal. With a number of those series being close to market price or underwater, his profit-taking opportunities were limited, but that didn't deter him from taking gains, as meager as they were. On May 26th he exercised his March 2012 and August 2013 options at \$54.38 and \$47.11 and immediately executed his first distributions on record at \$55.19. It is almost unfathomable that he would **monetize the March 2012s for a pretax profit of 1.4%**, but his urgency was confirmed when he then tapped into his common holdings to sell an additional 7,400 shares. In all, the 25,460 shares he disposed of **shed 68% of his position**, which is even more compelling when you figure he will only have a total of 18,000 new options vest by the end of 2006.
- **J. Michael Hateley (58)** – Corporate V.P., Chief Human Resource and Administration Officer. While O'Neill accepted the slimmest return on his options, Hateley, a Section 16 filer since 2000, was the most aggressive with the number of options series he tapped into. On April 29th, he exercised five series with expiration dates ranging between December 2008 and August 2013, and sold all 35,250 shares he acquired at roughly \$54. Not only did he exercise multiple series, but also **cleared out a non-expiring series (set to expire in December 2008) at an 8% profit**, well below what we're accustomed to seeing corporate insiders accepting for their options. This behavior certainly isn't routine for Hateley, who last sold 20,500 shares in February 2004, when he exercised only two series and didn't accept a profit less than 27%.
- **Robert Iorizzo (64)** – Corporate V.P., President, Northrop Grumman Electronic Systems. Iorizzo is in the same situation as his peers, as most of his stock options are priced just below or above the current market price. With few options to take profit at his disposal, Iorizzo tapped into his common stock holdings for the first time

since filing as a Section 16 insider back in 2001. On May 31st, he sold 24,000 shares at \$55.75, liquidating two-thirds of his common holdings and **30% of his total actionable position** (common stock plus vested options). This was his third sale since last June, all of which were for roughly the same number of shares, though his last sale in November was at marginally higher prices (\$56.62). We should also point out that the Company has stock ownership guidelines, which Iorizzo was in compliance with before this transaction. Now, he has less than a year to pick up an additional 15,000 shares in order to meet his target.

Tessera Technologies Inc. (NASDAQ:TSRA)

Insiders at Tessera Technologies have been cashing out of their shares on a monthly basis since February 2004. It didn't appear that anything would halt the sell-off until Friday, April 22nd when the Company announced its first quarter results after the market close. While first quarter figures were in line with expectations, it was the full-year guidance that took analysts by surprise, as 2005 net income and revenues were guided down to come in 20% and 33%, respectively, below consensus expectations. The issue dropped nearly 30% in after-hours trading down to three-month lows. To our surprise, not even this negative sentiment and waning share price inhibited management from their enduring share liquidation, and in some instances, the selling pace even accelerated at the depressed prices. Behavior such as this ranks among the most significant of all insider actions.

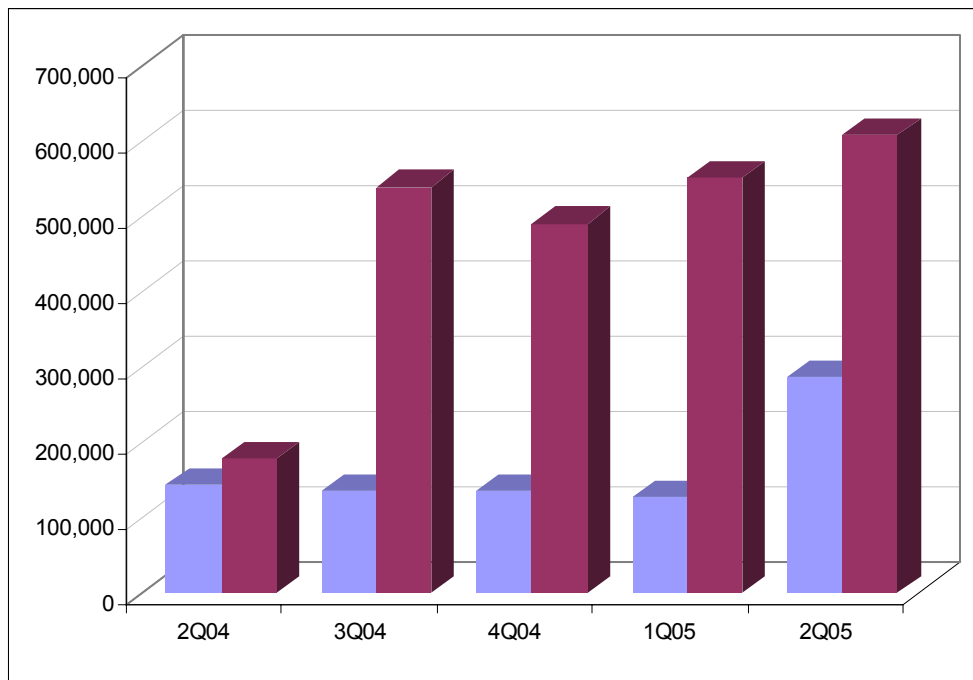
Figure 2. TSRA Daily Closing Price, June 1, 2004 through June 29, 2005. Blue shaded area is where 7 insiders sold 605,357 shares (April 1 to June 20). Source: Reuters and TSRA SEC Filings.



Many of our significant insider observations involve sudden, uncharacteristic behavior by key corporate executives. The reaction of Tessera Tech insiders, however, after such a significant drop in the Company share price, suggests there may be more risk and uncertainty to come.

Tessera Tech executives have displayed a proclivity towards monetizing their options, which vest monthly, nearly as soon as they can get their hands on them. We can't remember another company where this type of behavior has persisted for this long a period. Since early 2004, a majority of the current sellers have executed monthly distributions, in many cases increasing their pace, despite a steadiness in the number of new options that vest. The options burn rate has decimated their holdings since early last year and have left them at such low levels that with the exception of Chairman, President, CEO **Bruce McWilliams**, not one of the senior execs possesses enough shares to sell at the same pace as they had just months earlier, even after options vest over the next few quarters. Figure 3 below shows the new options that have become exercisable each quarter for the seven named executives compared to their total distributions.

Figure 3. Options That Have Become Exercisable (Blue Bars) and Shares Sold (Red Bars) by TSRA Named Executives. Source: TSRA SEC Filings.



The effects of this “burn rate” are most evident in their holdings, which are down dramatically since early last year as shown in Table 1. The named executives’ holdings were diminished even more in the current quarter, when all seven of them sold 605,357 shares from April 1st to June 20th as the stock fell from \$44.50 to lows of \$24.95 (see Figure 2 above). As mentioned earlier, a few of the sellers were not shy about selling into the issue’s weakness. Senior V.P., CFO **R. Douglas Norby** sold a total of 80,000 shares in the first quarter at an average price of \$41 but then dropped 120,000 shares in

the fourth quarter, 80,000 of which were sold in the \$30 to \$33 range at 26% lower prices, while McWilliams sold considerably more shares in the second quarter at prices as low as 38% below where he sold a quarter earlier. This type of action is rare as their willingness to shed substantial portions of their holdings at depressed prices compels us to look for other indicative behavior and ulterior motives.

Table 1. Holdings and Percentage Reductions for TSRA Named Executives. Source: TRSA SEC Filings.

| Named Executive | Position | 04/01//2004 | 5/27/2005 | Reduction since 2004 |
|-----------------|-----------------|-------------|-----------|----------------------|
| B. McWilliams | CB, P, CEO | 1,794,968 | 971,727 | 46% |
| R. Norby * | SVP, CFO | 36,666 | 113,370 | N/A |
| M. Forman | VP-Finance | 223,302 | 68,505 | 69% |
| N. Colella | Director | 220,000 | 16,882 | 92% |
| K. Flatow | SVP | 220,651 | 12,579 | 94% |
| C. Pickett | General Counsel | 478,979 | 35,347 | 93% |
| D. Tuckerman | SVP, CTO | 129,131 | 153,848 | N/A |

* R. Norby had 275,000 options vest by September 2004.

On a final note, the Company issued a press release on June 8th announcing that second quarter sales would come in nearly 25% higher than initially predicted due to larger-than-expected payments from existing customers for past production, along with higher than anticipated royalty payments. However, buried at the end of the release, they added, “The increase in our revenue guidance is partially offset by lower Product Development Services Revenue, which we expect to be down slightly sequentially from the first quarter, as it is taking us longer than expected to complete some customer funded technical development programs.” Somehow, the 25% higher quarterly revenues only translated to a 3% increase in full-year revenue targets. In typical fashion, insiders continued to sell following the very mixed news.

- **Kirk Flatow (46)** – Senior V.P., Product Miniaturization Division. On April 4th, Flatow exercised one option series set to expire in February 2012 and then monetized the 12,500 shares at \$41.45. Just one month later on May 4th he tapped into the same option series for another 12,500 shares, only this time he sold into the issue’s weakness, accepting 37% less for his shares (sale price: \$26.22). Then, on June 6th, he once again exercised his February 2012s and sold another 12,500 shares at \$32. In all, Flatow has sold 85,819 shares on the year, **equal to 74% of his actionable holdings** (exercisable options plus common stock). Even though he liquidated a large percentage of his holdings in the second half of 2004, that hasn’t stopped him from immediately monetizing his options upon their monthly vesting. After holding 220,000 shares just one year earlier, he now has holdings totaling 12,579 shares, only 78 of which are in actual common stock. Although he will have 42,500 options

vest in both the third and fourth quarters (see Appendix A), his average quarterly selling over the past year has been 86,000 shares.

- **R. Douglas Norby (69)** – Senior V.P., CFO. Norby joined the Company in July 2003 and was immediately provided two grants covering a total of 440,000 options. The disclosure on his Form 4s of these series' vesting schedules is very misleading, as he claims that one of the series vests 25% on the first anniversary (July 2004) and 1/36th each month thereafter. However, the Form 4 (along with our data records) shows that Norby has already monetized 92% of one series, including the 120,000 shares he sold between April 11th and June 10th. But what stands out most about his activity is that he has been selling, and at larger increments, into the shares' weakness. Norby's first sales occurred in the first quarter when he sold 80,000 shares at an average price of \$39. Since then, he sold 40,000 shares on April 11th at \$44.20, and then sold an additional 40,000 shares at 32% lower prices on May 19th. He didn't wait for the stock to pick up much of its losses before selling again, as he unloaded an additional 40,000 shares on June 10th at marginally higher prices (\$32). On the year, Norby has now **cashed out 71% of his position**, a majority of which were distributed well off the highs. Should he continue at the current pace, he will liquidate his entire holdings in a few months since he only has 4,583 options vesting each month down the road (see Appendix A).
- **Christopher Pickett (38)** – Senior V.P., Licensing, General Counsel. Pickett has been selling above his means since 2Q04, as he has routinely sold considerably more shares than he's had new options vest. With the exception of the current quarter, he has only had 12,500 new options vest each quarter, while over that same period, his quarterly selling has averaged 104,644 shares. The activity has dropped his actionable holdings from just under 500,000 in early 2004 to its current level of 35,347 vested options (Pickett doesn't own any common stock). Although his selling volume is down this quarter, it is only because he no longer has enough shares to sell at his accustomed rate. This quarter, Pickett first exercised three series (expiration dates 6/08, 2/09, 7/11) and sold the underlying 50,000 shares on April 1st at \$42.50. Shortly after the first quarter earnings release, he sold another 25,000 shares at 40% lower prices on May 2nd. Then, on June 20th he exercised two newly-vested series (expiration dates: 4/05/14, 4/15/14) to sell an additional 9,191 shares at \$32. This year alone Pickett has **liquidated 87% of his holdings**, and with only 63,542 new options vesting by year end (see Appendix A), it is impossible for him to maintain his current distribution pace.
- **Bruce McWilliams (48)** – Chairman, President, CEO. If you want to find the conductor of the insider activity, look no further than the Company's chief executive. McWilliams had been selling roughly 110,000 shares per quarter, well in excess of his monthly vesting, but since the issue's weakness unloaded 304,001 shares. In fact, after selling 42,001 shares on April 1st at \$42, he later sold the other 262,000 shares at an average price of \$28, the lowest prices he accepted for his shares since last October. All of the recently sold shares were acquired from the exercise of one long-held option series which isn't set to expire until October 2009. McWilliams' 1.79 million share ownership position in March 2004 is now **46% lighter** at just below 1 million shares and vested options. Should he cease all selling, that number will increase 13% from the vesting of options by year end (see Appendix A). Considering he has sold each month dating back to last June, we don't think he's likely to stop selling anytime soon.

Transocean Inc. (NYSE:RIG)

It was on June 16th that we first covered Transocean in a *Special Report* highlighting companies where we have observed abusive Rule 10b5-1 trading plan behavior. Further research, however, not only showed that the scope of issues at RIG extends beyond just their 10b5-1 activity but also that that significant new selling had occurred since the report.

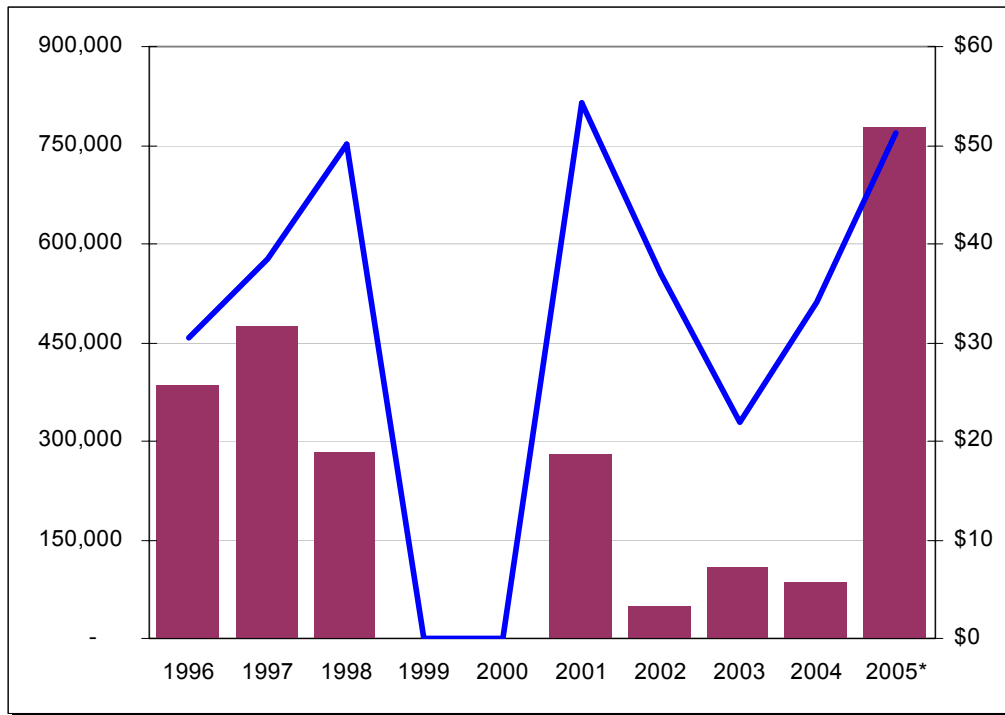
On the surface, it would appear that RIG is an analyst favorite, a fact attested to by the impressive number of recent upgrades based on everything from a possible stock buyback or special dividend to the new contract wins announced within the last few weeks. In spite of these great expectations, key insiders not only seem to be selling most of their holdings but also seem reluctant to maintain the holdings levels required to trigger the accessibility of certain vested performance options that are currently unexercisable under the Company's current ownership guideline requirements.

Although a number of Transocean executives have been selling under 10b5-1 plans, it wasn't until this year's second quarter, when the issue's persistent momentum finally stalled, that we saw a number of new execs adopt trading plans, modify old plans, and become more aggressive with their selling pace. In fact, insiders have sold 504,611 shares in the quarter, more than we've seen being unloaded in any prior year, with the exception of 1997 when insiders distributed 560,000 shares. Let's not forget all of this has transpired while the Street has been very bullish on the issue. Though the shares are still trading near all-time highs, and some profit taking is expected, it's the manner in which they have sold that has us interested.

The most serious exploitation of their trading plans is defined by the uncharacteristic holdings reductions that have resulted from their year-to-date sales. Since we issued the *Special Report*, which covered activity through June 14th, seven insiders surfaced to sell an additional 256,739 shares. The Company's four named executives have **sold between 62% and 96% of their holdings** this year, most of which occurred in the current quarter. At the forefront of the activity was COO **Jean Cahuzac**, who monetized nearly all of his vested options which comprised nearly his entire actionable position (common stock plus exercisable options).

As we mentioned in our earlier report, the abuse of insider 10b5-1 trading plan activity originally piqued our interest here as a number of executives have repeatedly entered into new plans, in many cases shortening their length, providing them flexibility not intended by the spirit of Rule 10b5-1. For example, **Eric Brown**, the Company's general counsel and the executive that we would have hoped would be most sensitive to the Rule's intent, is now trading in his third plan in just over a year and has not only shortened the length of the terms, but has also picked up his volume plan-to-plan. Another determinant of plan abuse involves the time between a plan's adoption and the insider's commencement of selling. It is recommended by securities lawyers that an insider wait between 30 and 60 days before executing their first plan sales, so that it eliminates the appearance that they're trading on material, non-public information. Not only do RIG's plan participants sell shortly after plan adoption, but have done so shortly after material news.

Figure 3. Stock Sales by RIG Insiders (Red Bars and Left Scale) and Average Weighted Price of the Sales (Blue Line and Right Scale). Source: RIG SEC Filings.



* Sales data through June 28th only.

On February 15th, Company vice president and controller **William Henderson** abruptly resigned after holding his position for less than seven months since joining RIG from Cooper Cameron. Three days later, on the same day the Company made Henderson's resignation public, it was also announced that President, CEO **Robert Long** had entered into his first 10b5-1 trading plan. Long wasted little time selling within the plan, as four days following adoption he executed a 76,400-share sale, his first sale in nearly four years.

Table 2. Holdings Reductions for RIG Named Executives. Source: RIG SEC Filings.

| Named Executive | Position | 2/1/2003 | 2/1/2004 | 6/25/2005 | Year-to-Date Reduction |
|-----------------|----------|----------|----------|-----------|------------------------|
| R. Long | P, CEO | 178,679 | 233,247 | 99,468 | 72.40% |
| J. Cahuzac | EVP, COO | 138,603 | 180,269 | 9,991 | 95.90% |
| G. Cauthen | SVP, CFO | 17,090 | 22,017 | 12,308 | 61.60% |
| E. Brown* | SVP, GC | -- | -- | 9,294 | 91.80% |

* Brown had an actionable position of 113,962 shares as of January 1, 2005

We emphatically note that the holdings of these key insiders are now at record lows. But there's more: Transocean's compensation strategy has evolved to an emphasis on both options and restricted stock grants. The restricted stock grants carry restrictions on what recipients are allowed to sell, even after vesting. Coincident with the introduction of the new compensation plan, emphasizing restricted stock grants, the Company also modified its stock ownership guidelines that prohibit executives from selling any of their vested restricted shares until holdings guideline requirements are met. Based on our interpretation of the rather ambiguously disclosed guideline definition (after multiple calls to the Company, we have yet to find clarity in exactly how RIG defines "holdings") we can only assume that insiders are required to hold an aggregate amount of common stock and now vested restricted shares based on a multiple of their base salary. Since the Company has put such an emphasis on executive ownership through these new performance-based awards, the guidelines preclude executives from selling any of their vested restricted shares until they meet their individual holdings threshold.

It is quite apparent that certain key executives still have yet to meet the new requirements (see Table 3 below) and are thus prohibited from selling any of their previously granted, and vested, restricted shares until targets are met. Had they chosen not to exercise options and sell so aggressively, they would have clear access to their already-vested restricted shares, according to Company ownership guidelines. Since restricted shares are basically no-cost granting of stock (unlike options) for those involved, we are very curious that they chose to exercise options, incurring the related costs, in lieu of simply holding on to enough shares to meet ownership guidelines, thus freeing up previously vested restricted shares for future sale. This is very curious behavior indeed and something we have yet to encounter anywhere else.

Table 3. Ownership Requirements for RIG Named Executives. Source: RIG SEC Filings.

| Insider | Shares Required To Hold* | Currently Held Shares |
|------------|--------------------------|-----------------------|
| R. Long | 60,728 | 67,469 |
| J. Cahuzac | 22,023 | 17,666 |
| G. Cauthen | 17,558 | 12,801 |
| E. Brown | 15,584 | 15,690 |

* Based on the executive's 2004 base salary and issue's closing price on June 22, 2005.

The Company's executives aren't the only insiders that have ownership requirements. Just this year the board implemented ownership guidelines for its non-management directors, calling for them to own by 2010 a number of shares and/or deferred units equal in value to an amount five times the annual director retainer. It seems odd to us that even though they have five years to reach the targets, too many long-time board members have yet to make a move to comply with the new

requirements (see Table 4 below). Their reluctance to do so gives us the impression that they feel there will be more opportune times to pick up shares in the future.

Table 4. Board of Director Ownership Requirements and Actual Shares Held. Source: RIG SEC Filings.

| Directors | Year Joined | Required to Hold ¹ | Currently Held Shares |
|----------------------------|-------------|-------------------------------|-----------------------|
| J. Kelly | 2005 | 4,476 | 0 |
| R. Monti | 1999 | 4,476 | 0 |
| I. Strachan | 1999 | 4,476 | 500 |
| V. Grijalva | 1999 | 4,476 | 43,124 |
| A. Lindenauer ² | 1999 | 6,267 | 5,121 |
| R. Pattarozzi ² | 2001 | 5,372 | 0 |
| K. Siem ² | 1996 | 5,372 | 0 |
| M. McNamara ² | 1994 | 5,372 | 3,000 |
| R. Sprague | 2004 | 4,476 | 3,000 |
| J. Talbert ² | 1994 | 14,324 | 81,113 |

¹ Based on the director's 2005 annual retainer (includes additional retainer for committee chairmanship)

² Committee chairman

- **Robert Long (59)** – President, CEO, Director. Long is a perfect example of an insider that has utilized a 10b5-1 trading plan to alter his trading behavior. Between 1996 and May 2001, when he was the Company's chief financial officer, Long sold a total of 211,000 shares at prices ranging between \$28 and \$54. Once he became head of the Company, he ceased all selling and accumulated shares through vesting options; that was until this year when he adopted his first trading plan on February 18th, after which he wasted little time before selling, executing his first plan sale just four days later and has since sold a total of 262,046 shares at an average price of \$51. The selling has **dropped his holdings by 72% on the year** and leaves his ownership position at its lowest total since 1999. Since the plan sales began in February, Long has subsequently sold less with each sale, but that is only a result of his low holdings, as he doesn't even hold enough to sell as much as he did in April (119,600 shares). His selling pattern (Long has sold every two months since February) tells us that he will surface again in August shortly after 31,000 options will become exercisable (see Appendix B) and we expect him to monetize the entire lot.
- **Jean Cahuzac (51)** – Executive V.P., COO. Whereas Long's trading plan activity was a clear reversal from his prior trading behavior, Cahuzac's activity shows transparent abuses of the intended spirit of 10b5-1 trading plans. Under his first plan adopted in February 2004, Cahuzac sold a total of 8,333 shares over the

course of nine months, equal to 5% of his holdings. Under the second plan, which he entered into in November 2004, he increased his selling by a small margin, but sold roughly 30% of his holdings over a three month timeframe. It is his third and current plan that caught our attention. Since February, Cahuzac has sold 231,027 shares, which has **shed 96% from his actionable position**. A small portion of those holdings will be replenished in July when 28,477 new options vest (see Appendix B). We will be very interested to see if he chooses to hold those options long. We should also point out that Cahuzac's volume within the current plan has increased dramatically into the strengthening share price. This clearly distinguishes his manipulation of the plan's terms, as it is expected that the selling volume should remain consistent over the course of the plan, independent of the price.

- **Gregory Cauthen (47)** – Senior V.P., CFO. Prior to adopting his first 10b5-1 plan in November 2004, Cauthen had sold a total of 6,458 shares since joining the Company in 2001. Under the two ensuing pre-arranged trading plans, he's sold over ten times that amount. Within the first plan, which ended in April, his average sale totaled 15,149 shares and shed 67% of his holdings. He then entered into a second plan on May 9th but first sold 2,850 shares out of plan the next day. It is unclear why these shares weren't part of the 10b5-1, but he later executed his first sale under the new plan when he sold 19,700 shares on June 15th at \$55. We find it interesting that his plan sales are considerably heavier and have led to a **61% reduction in his holdings this year**. Cauthen currently holds 11,500 vested options, 808 shares of common stock held in his ESOP, and will have an additional 20,524 new options vest in July, which are the only ones that will become exercisable by year end (see Appendix B).
- **Eric Brown (53)** – Senior V.P., General Counsel, Secretary. Brown is one of the longest tenured execs, having served as the Company's head counsel since 1995. Over the years he had built up a sizeable ownership position, mainly due to his absence of selling since August 1997. This changed when he adopted his first trading plan in February 2004 and began selling just days later. However, it wasn't until his third plan, which he implemented on May 31st that we began to see a new aggressiveness. From June 9th through June 16th Brown cleared out all of his vested options comprised of six different series with expiration dates between February 2008 and July 2013. He then sold all 96,541 shares at an average price of \$54. Not only have we never seen him tap into this many of his options series, but he has now **sold 92% of his ownership position year-to-date**. This certainly isn't the behavior we'd expect from the Company's top legal expert who is most in touch with Rule 10b5-1. But then again, we can see with tutelage like this where his peers picked up their adverse trading plan practices.

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Appendix A

Option and Restricted Stock Vesting Schedules for Selected Tessera Technologies Inc. Insiders

| Grant Date | Equity Type | Options/Shares | Strike Price (Options) | First Vesting Date | Expiration Date (Options) | Remaining Options/Shares in Series | Unvested Options/Shares in Series | Vesting Dates of Remaining Restricted Shares/Options |
|--------------------------------------------------------------------------------------------------------------|-------------|----------------|------------------------|--------------------|---------------------------|------------------------------------|-----------------------------------|------------------------------------------------------|
| Nicholas Colella, Senior V.P.-Product Miniaturization Division. Common stock holdings: 14,086 shares | | | | | | | | |
| 07/16/01 | Option | 300,000 | \$2.10 | 07/17/01 | 07/16/01 | 24,482 | 6,250 | Vests in full on 07/17/05 |
| 02/10/03 | Option | 100,000 | \$3.25 | 02/10/04 | 02/10/13 | 41,666 | 41,666 | 2,083 options vest each month through 02/07 |
| 04/05/04 | Option | 45,000 | \$18.66 | 04/05/05 | 04/05/14 | 34,688 | 31,892 | 938 options vest each month through 04/08 |
| Kirk Flatow, Senior V.P.-Advanced Semiconductor Packaging. Common stock holdings: 78 shares | | | | | | | | |
| 03/04/02 | Option | 600,000 | \$3.25 | 03/04/03 | 02/11/02 | 112,501 | 100,000 | 12,500 options vest each month through 03/06 |
| 04/05/04 | Option | 80,000 | \$18.66 | 04/05/05 | 04/05/14 | 53,433 | 53,433 | 1,667 options vest each month through 04/08 |
| Michael Forman, V.P.-Finance and Administration, Corporate Secretary. Common stock holdings: 0 shares | | | | | | | | |
| 03/19/01 | Option | 70,000 | \$2.15 | 03/19/02 | 03/19/11 | 56,838 | 0 | Fully Vested |
| 04/05/04 | Option | 40,000 | \$18.66 | 04/05/05 | 04/05/14 | 40,000 | 28,333 | 833 options vest each month through 04/08 |
| Bruce McWilliams, Chairman, President, CEO. Common stock holdings: 60,445 shares | | | | | | | | |
| 10/07/99 | Option | N/A* | \$1.50 | 10/07/00 | 10/07/09 | 438,364 | 0 | Fully Vested |
| 07/16/01 | Option | 400,000 | \$2.10 | 07/17/01 | 07/16/01 | 400,000 | 8,333 | Vests in full on 07/17/05 |
| 04/05/04 | Option | 200,000 | \$18.66 | 04/05/05 | 04/05/14 | 200,000 | 141,666 | 4,167 options vest each month through 04/08 |
| 04/15/04 | Option | 50,000 | \$17.30 | 04/15/05 | 04/15/14 | 50,000 | 35,416 | 1,042 options vest each month through 04/08 |
| 08/17/04 | Option | 230,000 | \$17.75 | 08/17/05 | 08/17/14 | 230,000 | 230,000 | 25% vest on 8/17/05, remainder vest 1/36 each month |
| Douglas Norby, Senior V.P., CFO. Common stock holdings: 19,703 shares | | | | | | | | |
| 07/16/03 | Option | 220,000 | \$5.50 | 07/16/04 | 07/16/13 | 18,334 | 0 | Fully Vested |
| 09/28/03 | Option | 220,000 | \$7.00 | 09/28/04 | 09/28/13 | 203,666 | 128,333 | 4,583 options vest each month through 09/07 |
| Christopher Pickett, Senior V.P.-Licensing, General Counsel. Common stock holdings: 0 shares | | | | | | | | |
| 06/01/98 | Option | N/A* | \$4.50 | 06/01/99 | 06/01/08 | 1,433 | 0 | Fully Vested |
| 08/28/00 | Option | N/A* | \$6.12 | 08/28/01 | 08/28/10 | 24,804 | 0 | Fully Vested |
| 04/05/04 | Option | 150,000 | \$18.66 | 04/05/05 | 04/05/14 | 115,360 | 106,250 | 3,125 options vest each month through 04/08 |



Appendix A

Option and Restricted Stock Vesting Schedules for Selected Tessera Technologies Inc. Insiders

| Grant Date | Equity Type | Options/Shares | Strike Price (Options) | First Vesting Date | Expiration Date (Options) | Remaining Options/Shares in Series | Unvested Options/Shares in Series | Vesting Dates of Remaining Restricted Shares/Options |
|------------|-------------|----------------|------------------------|--------------------|---------------------------|------------------------------------|-----------------------------------|------------------------------------------------------|
| 04/15/04 | Option | 25,000 | \$17.30 | 04/15/05 | 04/15/14 | 17,709 | 17,709 | 521 options vest each month through 04/08 |
| 08/17/04 | Option | 125,000 | \$17.75 | 08/17/05 | 08/17/14 | 125,000 | 125,000 | 25% vest on 8/17/05, remainder vest 1/36 each month |

David Tuckerman, Senior V.P., Chief Technical Officer. Common stock holdings: 30,863 shares

| | | | | | | | | |
|----------|--------|---------|--------|----------|----------|---------|---------|----------------------------------------------|
| 02/10/03 | Option | 500,000 | \$3.25 | 02/10/04 | 02/10/13 | 331,318 | 208,333 | 10,417 options vest each month through 02/07 |
|----------|--------|---------|--------|----------|----------|---------|---------|----------------------------------------------|

* The Company has never disclosed the number of options awarded in the original grant



Appendix B

Option and Restricted Stock Vesting Schedules for Selected Transocean Inc. Insiders*

| Grant Date | Equity Type | Options/Shares | Strike Price (Options) | First Vesting Date | Expiration Date (Options) | Remaining Options/Shares in Series | Unvested Options/Shares in Series | Vesting Dates of Remaining Restricted Shares/Options |
|-------------------------------------------------------------------------------------------------|-------------|----------------|------------------------|--------------------|---------------------------|------------------------------------|-----------------------------------|------------------------------------------------------|
| Eric Brown, Senior V.P., General Counsel, Secretary. Common stock holdings: 9,294 shares | | | | | | | | |
| 07/10/02 | Option | 35,000 | \$28.80 | 07/10/03 | 07/10/12 | 11,667 | 11,667 | 07/10/05 |
| 07/10/03 | R. Stock | 19,118 | N/A | 04/11/05 | 01/01/07 | 12,722 | 12,722 | 01/01/06, 01/01/07 |
| 07/10/03 | Option | 14,170 | \$21.20 | 07/10/04 | 07/10/13 | 9,447 | 9,447 | 07/10/05, 07/10/06 |
| 07/10/03 | Option | 31,457 | \$21.20 | 04/11/05 | 07/10/13 | 20,972 | 20,972 | 01/01/06, 01/01/07 |
| 07/07/04 | R. Stock | 24,270 | N/A | Performance | N/A | N/A | N/A | N/A |
| 07/07/04 | Option | 39,170 | \$28.12 | Performance | 07/07/14 | 39,170 | N/A | N/A |
| Jean Cahuzac, Executive V.P., COO. Common stock holdings: 1,675 shares | | | | | | | | |
| 07/10/02 | Option | 50,000 | \$28.80 | 07/10/03 | 07/10/12 | 16,667 | 16,667 | 07/10/05 |
| 10/10/02 | Option | 25,000 | \$18.82 | 01/09/03 | 01/09/12 | 8,334 | 0 | Fully Vested |
| 07/10/03 | R. Stock | 47,974 | N/A | 04/11/05 | 01/01/07 | 31,983 | 31,983 | 01/01/06, 01/01/07 |
| 07/10/03 | Option | 35,430 | \$21.20 | 07/10/04 | 07/10/13 | 23,620 | 23,620 | 07/10/05, 07/10/06 |
| 07/10/03 | Option | 78,640 | \$21.20 | 04/11/05 | 07/10/13 | 52,427 | 52,427 | 01/01/06, 01/01/07 |
| 07/07/04 | R. Stock | 42,060 | N/A | Performance | N/A | N/A | N/A | N/A |
| 07/07/04 | Option | 67,900 | \$28.12 | Performance | 07/07/14 | 67,900 | N/A | N/A |
| Gregory Cauthen, Senior V.P., CFO. Common stock holdings: 808 shares | | | | | | | | |
| 07/14/01 | Option | 30,000 | \$38.07 | 07/14/02 | 07/14/11 | 11,500 | 0 | Fully Vested |
| 07/10/02 | Option | 40,000 | \$28.80 | 07/10/03 | 07/10/12 | 13,334 | 13,334 | 07/10/05 |
| 07/10/03 | R. Stock | 35,979 | N/A | 04/11/05 | 01/01/07 | 23,986 | 23,986 | 01/01/06, 01/01/07 |
| 07/10/03 | Option | 26,570 | \$21.20 | 07/10/04 | 07/10/13 | 17,714 | 17,714 | 07/10/05, 07/10/06 |
| 07/10/03 | Option | 58,978 | \$21.20 | 04/11/05 | 07/10/13 | 39,319 | 39,319 | 01/01/06, 01/01/07 |
| 07/07/04 | R. Stock | 32,350 | N/A | Performance | N/A | N/A | N/A | N/A |
| 07/07/04 | Option | 52,230 | \$28.12 | Performance | 07/07/14 | 52,230 | N/A | N/A |
| Robert Long, President, CEO, Director. Common stock holdings: 43,483 shares | | | | | | | | |
| 07/10/02 | Option | 60,000 | \$28.80 | 07/10/03 | 07/10/12 | 13,335 | 13,335 | 07/10/05 |



Appendix B

Option and Restricted Stock Vesting Schedules for Selected Transocean Inc. Insiders*

| Grant Date | Equity Type | Options/Shares | Strike Price (Options) | First Vesting Date | Expiration Date (Options) | Remaining Options/Shares in Series | Unvested Options/Shares in Series | Vesting Dates of Remaining Restricted Shares/Options |
|------------|-------------|----------------|------------------------|--------------------|---------------------------|------------------------------------|-----------------------------------|------------------------------------------------------|
| 10/10/02 | Option | 50,000 | \$18.82 | 01/09/03 | 01/09/12 | 16,667 | 0 | Fully Vested |
| 07/10/03 | R. Stock | 71,958 | N/A | 04/11/05 | 01/01/07 | 47,972 | 47,972 | 01/01/06, 01/01/07 |
| 07/10/03 | Option | 53,140 | \$21.20 | 07/10/04 | 07/10/13 | 35,427 | 35,427 | 07/10/05, 07/10/06 |
| 07/10/03 | Option | 117,956 | \$21.20 | 04/11/05 | 07/10/13 | 117,956 | 78,638 | 01/01/06, 01/01/07 |
| 07/07/04 | R. Stock | 97,050 | N/A | Performance | N/A | N/A | N/A | N/A |
| 07/07/04 | Option | 156,680 | \$28.12 | Performance | 07/07/14 | 156,680 | N/A | N/A |

* Options and restricted stock in red are performance based. The share totals are the maximum shares that can be awarded.

The share totals and vesting schedules will not be known until April 2006.