



This 3DAdvisors Report Covers:

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

Insider Research Bulletin

April 16, 2004

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Insider Research Bulletin is a summary of significant insider trading behavior that 3DA has identified at the following companies. None of the companies in this Bulletin have been previously covered in a full 3DA Research Report, 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

- ▶ AutoDesk Inc. (NASDAQ: ADSK)
- ▶ BJ Services Co. (NYSE: BJS)
- ▶ Foot Locker Inc. (NYSE: FL)
- ▶ Masco Corp. (NYSE: MAS)
- ▶ SCANA Corp. (NYSE: SCG)

Discussion of 3DAdvisors Findings

AutoDesk Inc. (NASDAQ: ADSK)

Three to five years ago we used to see considerably more insiders at tech companies selling off shares with little concern for the trade's effect on their personal holdings, or what we refer to as the actionable position (common stock plus exercisable options). The emergence of Sarbanes-Oxley, adoption of 10b5-1 trading plans, and the earlier bear market helped to reduce this aggressive behavior. This is why the selling at AutoDesk grabbed our attention, as a handful of insiders sold off large percentages of their holdings. The sales started on March 2nd, just a week after the Company reported robust fourth quarter earnings and voiced optimism heading into fiscal 2005. In all, twelve insiders sold 1,051,244 shares from March 2nd through March 25th between the prices of \$27.91 and \$29.10. This was the heaviest monthly selling by share count that we've seen at AutoDesk dating back to 1995. The last time we saw such heavy volume (666,222 shares) was in February and March 2002, ahead of a four-month slide from just under \$23 to \$11.56. This selling isn't totally unexpected considering several execs took 10% pay cuts and had their bonuses waived in fiscal 2003 due to Company

performance. But the real story here is the impulsive approach insiders have taken to parting with their stock. Veteran company execs such as Executive V.P.s Mike Sutton and Joseph Astroth sold 79% and 30% of their holdings, respectively, while two additional senior execs sold nearly their entire positions. These insiders have managed to wipe out each of their 200,000-plus share positions since last September. And from the size of their option grants and length of vesting schedules, these holdings aren't going to be replenished anytime soon.

- **Carl Bass (46)** – Senior V.P.-Design Solutions Division. Since registering as a Section 16 filing insider over five years ago, Bass, who has been a jack of all trades at the Company and held numerous positions including chief technology officer and chief strategic officer (and also led the Company's unsuccessful dot com spin-off, Buzzsaw) had only surfaced with one transaction – a 100,000-share sale in December 2003 at \$23.05. Recently, he exercised options to acquire 123,749 shares and sold everything. His first sale of 55,000 shares on March 5th was executed at \$28.80, and then he unloaded another 68,749 shares eleven days later at a slightly lower \$27.91. What caught our eye though was that this **sale wiped out 87%** of Bass's entire actionable position (common stock plus exercisable options).
- **Marcia Sterling (60)** – Senior V.P., General Counsel, Secretary. Sterling has a more extensive selling history than Bass, having made twelve sales since 1995. However, her selling has become more aggressive of late, as she followed-up her largest-ever sale made in December 2003 (150,000 shares at \$23.06) with an 83,750-share disposition on March 2nd executed between \$28.50 and \$28.85. The sale, like Bass's activity, **wiped out nearly all of her holdings**. Sterling sold twice as many shares in 2003 as she had in any of the past nine years.
- **Mike Sutton (58)** – Executive V.P., Business Operations. Sutton, an AutoDesk executive for seventeen years, was the Company's second largest controlling insider (Bartz has the largest ownership position) heading into 2004. This changed on March 4th and March 18th when he sold 455,000 shares, grossing just over \$13 million. This activity is very out-of-character for Sutton whose largest sale was 106,200 shares back in December 2001 and had only sold a total of 288,918 shares combined since 1995. Even more impressive is that he **shed 79% of his holdings** with the disposition.
- **Joseph Astroth (48)** – Executive V.P., AutoDesk Location Services. Between 1995 and 2003, Astroth had sold 498,351 shares combined. Of that total, nearly half were disposed of between February 26th and March 4th of 2002. The timing was impeccable, as the stock slid from a split-adjusted \$22.95 in late March to under \$13 in two months. He also sold at short-lived highs in February and March 2000 – leading us to believe that Astroth has a good feel for the stock's value. More recently, Astroth **sold 30% of his holdings** with an 84,600-shares sale on March 24th and 25th at \$28.50.
- **Carol Bartz (55)** – Chairman, President, CEO. Bartz established a 10b5-1 trading plan in September 2003 that allows her to sell roughly 20,000 shares per week. She has been following this plan faithfully and most recently sold 80,000 shares between March 2nd and March 22nd at \$28.23 to \$28.90.

In addition to the above mentioned execs, five non-employee directors sold between 6,800 and 20,000 shares. Included in the group, **J. Hallam Dawson (67)** made his first sale since 1999, selling 20,000 shares and reducing **his holdings by 30%**.

BJ Services Co. (NYSE: BJS)

Last time we saw BJ Services insiders converge to sell was in January/February 2001 at prices close to the current level, and just before the stock slid from \$41 to \$23 by July. Recently, many of those same execs again congregated to sell 926,787 shares from March 16th through March 26th, between the prices of \$42.50 and \$45.73. There are a couple points to this story. First off, BJS insiders have been very quiet over the past few years. The last selling of any significance was the above-mentioned early-2001 activity. Since then, insiders had only sold 28,000 shares total during 2002 and 2003. What's unusual about this is the stock had twice traded up to \$40 during those years and insiders remained on the sidelines, whereas now the stock climbed to equivalent levels and they hold the largest round of selling in the past four years (insiders sold 1.7 million shares in January through March 2000). Not only did they sell heavily as a group, but on an individual basis as well, as four of the seven sellers reduced their holdings by at least 26%, including one director who sold 95% of his position. But we're not surprised to see two directors reducing their holdings by such large amounts – there's very little incentive for them to build stock positions. Under the Director's Benefit Plan adopted in 2000, non-employee directors are given a very generous severance package after their service to the Company ends. For every year they are board members, they will receive one year of the director's annual retainer fee. So, for a director who is on the board for ten years, they shall receive \$500,000 (\$50,000 annual retainer) in severance. With this much money provided at the backend, there is less reason for them to hold their shares throughout their term.

- **James Stewart (59)** – Chairman, President, CEO. Between 1996 and 2003, Stewart had sold 1.5 million shares of stock, 1 million of which was disposed of after 2000. This might seem like a lot of shares, but Stewart is the Company's largest controlling shareholder – and is so by a sizeable margin. But despite that, his selling has been rather infrequent, as his last sale was in January 2001 ahead of significant weakness. So, we were taken back when Stewart resurfaced to sell 511,912 shares from March 19th through March 26th, equivalent to **26% of his holdings**. Not only is this his largest sale to date, but this is also the first time that we've seen him dumping this large a percentage of his holdings.
- **Margaret Shannon (55)** – V.P., General Counsel, Secretary. Shannon, an executive since 1994, also last sold (23,937 shares) in January 2001. And also like Stewart, became much more aggressive with her recent activity. After having sold 435,000 shares since 1996, Shannon exercised four series of non-expiring options (expiration dates: 11/07 @ \$17.90, 11/07 @ \$30.59, 10/08 @ \$7.06, 10/08 @ \$21.63) and sold the underlying 193,378 shares on March 17th and 19th. This is the first time we've ever seen Shannon exercise this many series of options dating back nine years. Not to mention the **selling wiped out 64%** of her actionable position (common stock plus exercisable options).
- **James Payne (66)** – Director. Since joining the board in 1999, Payne, who is also a board member at Global Industries (NASDAQ: GLBL), Nabors Industries (AMEX:

NBR), and Nuevo Energy (NYSE: NEV), had only sold once – a 20,000-share sale in April 2000 at \$35. In fact, his last transaction was a 10,000-share open-market purchase in May 2001 when the stock dipped down to \$21. Recently he resurfaced, selling another 20,000 shares on March 7th at roughly \$44.56 and **reducing his holdings by 40%**. We should point out that over the past couple years Payne has now sold his BJS shares twice, and in January 2004 disposed of Nabors stock. Other than those transactions, he has sat on his other shares.

- **Don Jordan (71)** – Director. Even though Jordan's term is up this year (he's been on the board since 1990), he is still nominated for re-election. And despite the fact that he is 71 years old, is still very much involved in the board's decision-making as the chairman of the Compensation Committee. For these reasons we can't ignore his 40,000-share sale on March 18th, especially considering the transaction cleared out **95% of his holdings**. Over the past nine years Jordan had only sold 108,000 shares, with his most recent sale coming in May 2002 ahead of a 30% slide over the ensuing four months (Jordan was actually the last insider to sell before the recent activity).

Foot Locker Inc. (NYSE: FL)

In January 2000, Foot Locker stock picked up steam, jumping from \$6 to \$16 by yearend. Insiders remained quiet. The issue treaded through two years of volatility but managed to hold its gains. Despite the stock's strong run, insiders still managed to remain patient. Between 2000 and 2003, a total of 737,139 shares were disposed of. This does seem like a lot, but company Chairman, President, CEO Matthew Serra, sold a majority of these while mid-level execs accounted for a small percentage. In fact, a handful of mid-level execs and directors bought 109,000 shares on the open market during this period. However, all this changed when the stock broke out in 2003 and into 2004 – Foot Locker insiders' trading behaviors changed dramatically. From March 5th through March 18th, seven insiders sold 713,192 shares between the prices of \$23.50 and \$26.18. While we definitely expect to see profit taking considering the stock's momentum, that they've sold nearly as many shares in a two-week span as they had over the past four years is alarming. Serra unloaded shares for only the second time in his career, dumping 26% of his actionable position (common stock plus exercisable options) in the process, while company CFO Bruce Hartman trimmed 47% of his holdings. The timing of the abnormally heavy selling is unsettling since it came on the heels of the Company's warning that 2004 earnings might not come in as high as analysts are expecting.

- **Matthew Serra (59)** – Chairman, President, CEO. Since assuming his current role in 2000 (he was named Chairman effective February 2004), we had only seen Serra make one transaction, which is surprising considering he has the largest ownership stake of all Company insiders. His only prior transaction came in June 2002, when he sold 457,397 shares immediately preceding a two-month slide from \$15 to \$9. So, when he recently unloaded another 400,000 shares between March 5th and March 18th we took notice. Also interesting about the selling, he began locking in gains at \$26 and sold down to \$23. While this isn't selling into dramatic weakness, taking slimmer profits on large blocks of stock isn't positive. Finally, the sale **trimmed Serra's actionable position by 26%**.

- **Bruce Hartman (50)** – Executive V.P., CFO. Hartman, who's been with the Company a few years longer than Serra, has also been an infrequent seller in the past. Since 1996 he had executed three sales for a total of 87,253 shares. However, he has also bought back a total of 35,238 shares on four separate occasions. His most recent sale was a mere 238 shares in October 2002, which is why we had to take a closer look when his 151,735-share sale hit our screens on March 5th. The **sale wiped out 47%** of his holdings and shows an aggressive change in his trading behavior.
- **Jeffrey Berk (48)** – Senior V.P.-Real Estate. On March 8th and 9th, Berk exercised two options to acquire 40,000 shares and then sold the underlying lot plus additional shares. In all, he disposed of 52,937 shares, grossing \$1.3 million. This is only Berk's second transaction since filing back in 2000 – he last sold 25,000 shares in September 2003. The sale **reduced his holdings by 21%**.
- **Rick Mina (47)** – President, CEO-Foot Locker USA. Mina is a relatively new Section 16 filing insider, having assumed his current position only last year. Shortly after filing, he sold 26,560 shares in June 2003. Like his peers, he has become more aggressive with his selling, having sold 66,826 shares on March 5th at an average price of \$25.75. After the sale, Mina still holds 375,000 shares of common stock and exercisable options.

Masco Corp. (NYSE: MAS)

Not much in the realm of insider trading analysis is more disconcerting than seeing insiders sell shares following a disappointing earnings announcement. We were very surprised to find this occur on the heels of Masco's fourth-quarter earnings release as six insiders sold 652,949 shares between March 10th and March 31st, grossing \$19.7 million. Now, the earnings announcement wasn't spun as being all bad – the Company actually reported an increase in revenues before a \$0.24 per share one-time charge hit the bottom line. But what the Company snuck in there while trying to play down the fourth quarter's close miss was first quarter earnings would probably fall below analyst expectations – and that's without any charges. But the insider signals are clear – there's concern here. Last time we saw this many insiders converge to sell was back in October and November 1998, when they disposed of 692,193 shares. Now, we can admit that the stock has managed to race to highs last seen in 1999, but the issue has traded close to those 1999 levels over the past few years and insiders were relatively quiet. In fact, during 2002 and 2003, when the stock had come up just short of \$30 twice, insiders had sold only 213,664 shares total. What also caught our attention is that a majority of shares sold during the past 10 years was done so by three insiders who had sizeable ownership stakes. This wasn't the case last month, where mid-level execs appeared to lock in gains. This is an indication that there might be some disquiet within the rank and file.

Some points of interest: we should highlight that the Company has ownership guidelines in place for its executives. The guidelines are standard, requiring the CEO to hold five times his base salary in stock, the President has to own stock greater than four times his base salary, and down the line the multiple lessens. All sellers are in line with the requirements set by the ownership guidelines. On a less positive note, the Company has loan programs that were established in 2000. Even though they are no longer

allowed to loan money to executives under Sarbanes-Oxley, it's a practice that leads us to dig deeper into their governance behavior. The loans are rather straightforward, as key employees were given five-year full-recourse loans for the full amount to purchase Company stock. The loan amounts range between \$1.3 million and \$26 million. In addition, each barrower was given a restricted stock grant with a ten-year vesting period to entice them to stay with the Company longer than five years. These were generous practices to say the least. On a final note, we were a little surprised to see Company CEO Manoogian reimbursed the Company \$635,000 in services the Company provided him. The services ranged from financial services to property maintenance services to administrative assistance. While we by no means are trying to draw a comparison to a case like Adelphia, there seems to be a substantial amount of personal services that the Company is fronting for Manoogian.

- **Lillian Bauder (64)** – V.P., Corporate Affairs. From March 10th through March 30th, Bauder sold 132,972 shares, grossing \$3.9 million. Since becoming a Section 16 filing insider back in 1992, she had only sold a total of 26,000 shares. With the few trades she's made in the past though, Bauder has displayed the ability to time her sales well. On August 7th 2001, she sold 10,000 at \$26.00. Three weeks later, the stock closed at a yearly low of \$17.76. She later sold 6,000 shares on March 4th at \$28.70 (the stock's two-year high was \$28.99 set that same day), ahead of a steady six-month slide down to \$17.25.
- **John Leekley (60)** – Senior V.P., General Counsel. On March 29th and 30th, Leekley sold 220,000 shares, grossing \$6.6 million. Leekley, an executive since 1979, sells a little more frequently than his peers. However, since 1995 he had executed nine sales for a total of only 228,447 shares. His last sale was executed into a rebound in February 2002, just as the issue became unstable and began a steady decline that lasted until yearend.
- **Alan Barry (age not disclosed)** – President, COO. After the unexpected death of Ray Kennedy last year, Barry was appointed to his current position. Since filing as a Section 16 insider in 1996, Barry was yet to sell. That changed on March 31st, when he sold 81,081 shares between \$30.48 and \$30.64.
- **Wayne Lyon (71)** – Director. Lyon, a board member since 1988, made his *smallest* sale on March 29th when he sold 30,700. Lyon used to have a significant stake in the Company compared to others on the board, but he has made some rather sizeable sales over the past years that have trimmed his holdings down dramatically. Lyon's term on the board expires this year, but he is up for re-election.
- **Eugene Gargaro Jr. (61)** – V.P., Secretary. Since filing as a Section 16 insider over ten years ago, Gargaro had only executed three sales (October 1998, February 2002, and December 2003). More recently, he sold 72,972 shares on March 31st, grossing \$2.2 million. The disposition was his largest during his career.

SCANA Corp. (NYSE: SCG)

It isn't often that we highlight utility companies such as SCANA, but when the insider signals are this compelling, it's tough to ignore. On February 26th the Company issued a press release stating that company Chairman, President, CEO William

Timmerman was selling stock for diversification purposes and pointed out that he will still have a substantial position. But we'll get back to that. We first have to mention that this was one of the most unusual company press releases about an insider's transaction that we've seen. After disclosing the transaction and some information about Timmerman's remaining holdings, the statement indicated that the exercise of stock options doesn't affect the service or rates paid by the Company's customers. The release then gives a tutorial on stock options and stock buybacks. Either these guys grossly underestimate the intelligence of the reader, or there is some serious concern about Timmerman's actions and they are using smoke and mirrors to hide their concerns. Our guess would be the latter. While the Company tried to make the transaction sound inconsequential, there's definitely more to it. First off, Timmerman's holdings aren't as sizeable they say (at least by our standards). After the transaction, which reduced his position by 71%, Timmerman's actionable position is 107,000 shares, which includes only 50,000 shares of common stock and 27,000 shares of *hypothetical stock* (deferred stock ultimately paid out in cash). His ownership stake is now only the third largest of SCANA execs. This is highly unusual for a veteran of this role.

But Timmerman isn't the only key to this story. Since 2000, insiders had sold a mere 45,353 shares. Not to mention, during that same timeframe 11,500 shares were purchased on the open market. Recently though, six insiders stepped up to sell 333,575 shares from February 24th through March 9th between the prices of \$34.51 and \$35.98.

- **William Timmerman (57)** – Chairman, President, CEO. As mentioned above, Timmerman sold 261,534 shares on February 24th and 25th, grossing \$9 million. This was his first sale in the past four years and **reduced his holdings by 71%**. As recently at 1991, Timmerman had the largest actionable position of all controlling shareholders. Following this recent sale, he is now third on that list.
- **George Bullwinkel (55)** – President, CEO-Scana Corp., President, CEO South Carolina Pipeline Corp. Like Timmerman, Bullwinkel was not one of the few insiders to sell over the past four years. On March 4th he finally surfaced with a 25,000-share sale that **wiped out 29%** of his holdings.
- **Duane Harris (51)** – Senior V.P.-Human Resources. With the exception of a 24,600-share sale in October 2003 at \$25, Harris hadn't sold until this recent round. On March 9th he exercised two series of options – costing roughly \$25 apiece – to acquire 16,767 shares, which he then sold for \$35.60.
- **Jimmy Addison (age not disclosed)** – V.P.-Finance. On March 2nd, Addison exercised three non-expiring options series (two of which he cleared out) to acquire 25,439 shares. He then made his first sale in the past four years when he disposed of the underlying shares at \$35.50.

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