



This 3DAdvisors Report Covers:

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

Assuming Big Financial Risks as Art Market Peaks? Sotheby's (NYSE:BID) Update

September 5, 2007

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Business Description

Sotheby's, together with its subsidiaries, operates as an auctioneer of authenticated fine art, decorative arts, and collectibles. It operates in two segments, Auction and Finance. The Auction segment offers property in approximately 70 collecting categories, including fine art, decorative arts, jewelry, and collectibles. This segment also provides various related activities, including the purchase and resale of art and other collectibles, and the brokering of private purchases and sale of art, jewelry, and collectibles. The Finance segment offers art-related finance to art collectors and dealers, and is involved in licensing activities. The company also offers online auctions. It has a retail jewelry joint venture, which offers jewels for sale throughout Asia, Europe, and North America with The Steinmetz Diamond Group. Sotheby's was founded in 1744. It was formerly known as Sotheby's Holdings, Inc. and changed its name to Sotheby's in July 2006. Sotheby's is based in Bloomfield Hills, Michigan.

Summary of 3DAdvisors Findings for BID

- ▶ **Fundamentals:** Ballooning auction guarantees fuel growth as well as risk
- ▶ **Accounting:** Other balance sheet and off-balance sheet risks are significant
- ▶ **Insider Trading:** Insiders continue to show extreme aversion to holding shares
- ▶ **Accounting:** Bulging inventories while questions linger about 2006 acquisition

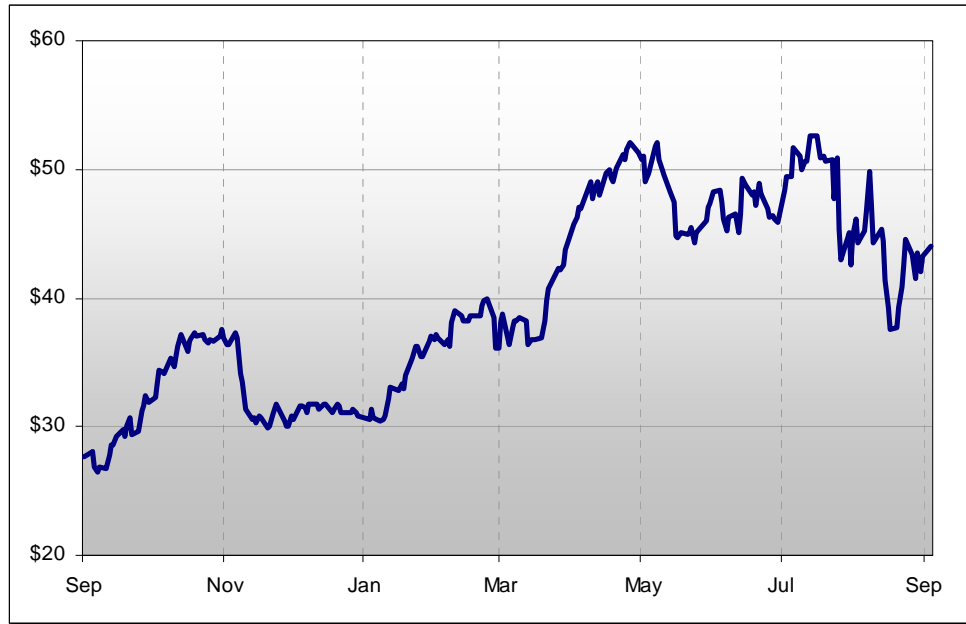
Discussion of 3DAdvisors Findings for BID

The art market seems to keep expanding with each new auction posting record sales. Works of art have become an alternative asset class unto themselves, with prosperous Wall Street types and rapidly growing wealth from Russia, China and other emerging markets fueling the demand and higher prices. Sotheby's in fact recently posted financial results that sported the best six months in the Company's history.

However, recent trading in BID shows how closely tied the Company's fate is to the financial markets. On August 8th, the date of the 2Q earnings call, Sotheby's closed

at \$50.04 per share and on August 17th it closed down 24.6% at \$36.75, mirroring closely the volatility in the overall market during that recent stretch.

Figure 1. BID Daily Closing Price, 09/01/06 through 09/04/07. Source: Reuters.



Since our full report on BID (09/15/06) and the subsequent update report (12/12/06), insiders have demonstrated little interest in holding shares, and that behavior has persisted, even though the shares are now well off the recent highs. Like the stock market and business sector in general, the art market moves in cycles, and insiders may be signaling that we are at or near a top. According to a recent article in the Financial Times¹, a typical cycle in the art market lasts six to seven years. Currently, we are in the sixth year of this upswing and perhaps the management of BID recognizes that.

In order to both remain competitive and keep revenues growing, Sotheby's must take on increasing risk in the form of auction guarantees. The attendant risk manifests itself when the Company, after having made more and more guarantees to sellers that reflect the record prices recently paid, finds itself having to honor those guarantees when the buyers disappear and prices soften. There are all sorts of interesting issues that emerge from this scenario, including how art work is actually valued and several related accounting issues. All of which puts the trading behavior of BID executives in an entirely new light.

Fundamentals: Ballooning auction guarantees fuel growth as well as risk

Auction guarantees, where the Company has committed to consigners a minimum price in connection with the sale of property at auction, have virtually skyrocketed this year, and as of the latest count have topped \$378 million. The practice is so pervasive that Sotheby's management has requested and has received board

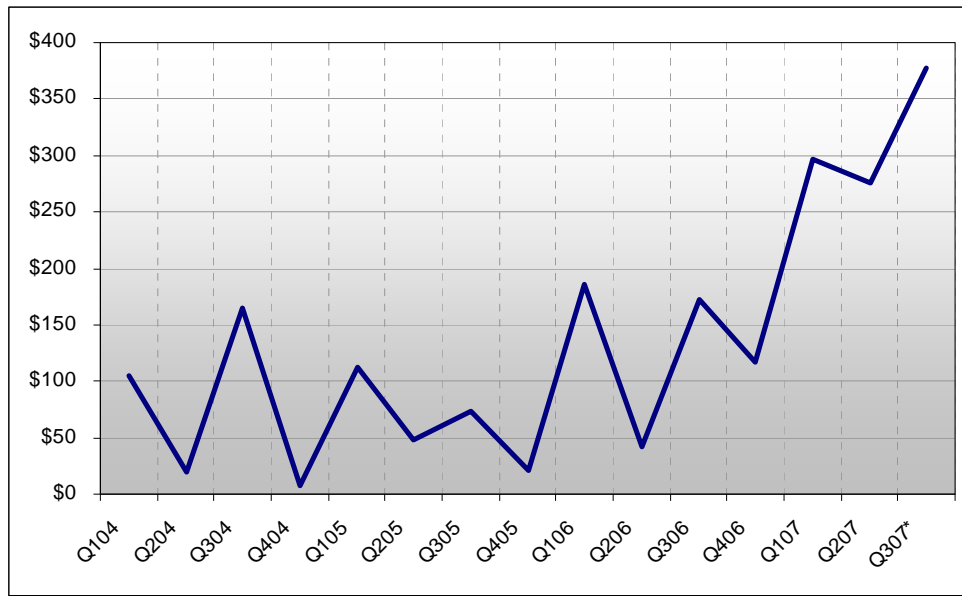
¹ FT.com "Investing in the art market" by Deborah Brewster, July 13, 2007

approval for a hike in the authorized ceiling for such guarantees from \$400 to \$500 million.

Should a guaranteed property not sell at auction for the minimum price, Sotheby's must pay the difference between the sales price and the guarantee to the seller. More importantly, if the property fails to sell, the entire guaranteed amount must be paid. In these cases, the Company would take the item into inventory for sale, as principal, at a later date.

It is interesting to note that most sell-side analysts viewed Sotheby's recent disclosure of these increasing guarantees as a positive event. They argue that the higher levels of guarantees has not only provided the Company with high quality offerings for the upcoming fall auctions but also that Sotheby's will benefit from positive spreads when the hammer price of such properties exceeds the guaranteed levels. When this happens, Sotheby's retains some, if not all, of the excess price. To this, we would point out that, as is the case with real estate, such dealings work great in periods of upwards price momentum. When prices go the other way, or when "guaranteed" works fail to sell at auction, the risk situation becomes dramatically inverted.

Figure 2. BID Auction Guarantees, Q104 to Q307* (Millions of \$). Source: BID SEC Filings.



* Auction guarantees in the above chart for Q307 of \$378 million were disclosed by the Company in an SEC Form 8-K on 08/23/07 and reflect the actual balance as of 08/21/07. The end of quarter figure may be higher or lower than \$378 million but will not be disclosed until the next 10-Q is filed.

Related to the auction guarantees, Sotheby's inventory continues to grow. Granted, a big jump occurred when the Company bought Master Paintings B.V. (or "NMP") in Q4 of 2006 (more on this below). Another component of inventory growth, and subsequent principal activities (i.e. sales out of inventory), however, comes from properties that fail to sell at guaranteed auctions and then become "held for sale" by Sotheby's. For example, such inventory has grown by \$37 million "due to the acquisition

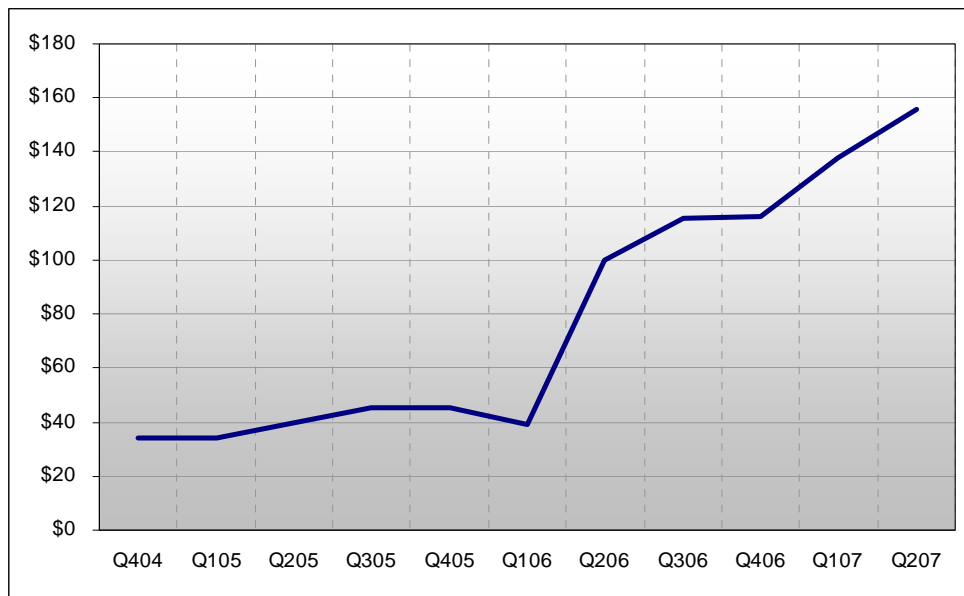
of property relating to auction guarantees that did not sell at auction during the first half of 2007". We found certain changes in Sotheby's disclosures relating to principal activities and inventory growth to be quite revealing. For instance, below is the Company's disclosure back at the time of its 2005 SEC Form 10-K [bolding is ours]:

Principal activities consist mainly of gains or losses on sales of inventory, income or loss related to auction guarantees and gains or losses related to the sales of loan collateral, as well as any decreases in the carrying value of the Company's inventory. The level of principal activities in a period is largely attributable to the success of the Company in selling property acquired in connection with auction guarantees, as well as the supply of quality property available for investment and resale and the demand by buyers for such property.

Now, note the change in the same disclosure by the time of the Company's most recent SEC Form 10-K for the year 2006 [bolding is ours]:

Auction segment principal activities consist mainly of income or loss related to auction guarantees and gains or losses related to the sale of Auction segment inventory, as well as any decreases in the carrying value of its inventory. Auction segment inventory consists principally of objects obtained as a result of the failure of guaranteed property to sell at auction, and to a much lesser extent, objects obtained incidental to the auction process, primarily as a result of defaults by purchasers after the consignor has been paid, and the honoring of purchasers' claims.

Figure 3. BID Inventories of Art Work Held for Sale, Q104 through Q207 (Millions of \$).
Source: BID SEC Filings.



So, Sotheby's disclosure of principal activities has changed from attributing it to Sotheby's "success" at "selling property acquired in connection with auction guarantees" to the "failure of guaranteed property to sell at auction". To us, the semantics here should not be overlooked. Given the growing levels of Sotheby's guarantees, the Company's already-swelling inventory level would be at risk of expanding significantly should recent events in credit markets worldwide result in a disappointing fall auction season.

Accounting: Other balance sheet and off-balance sheet risks are significant

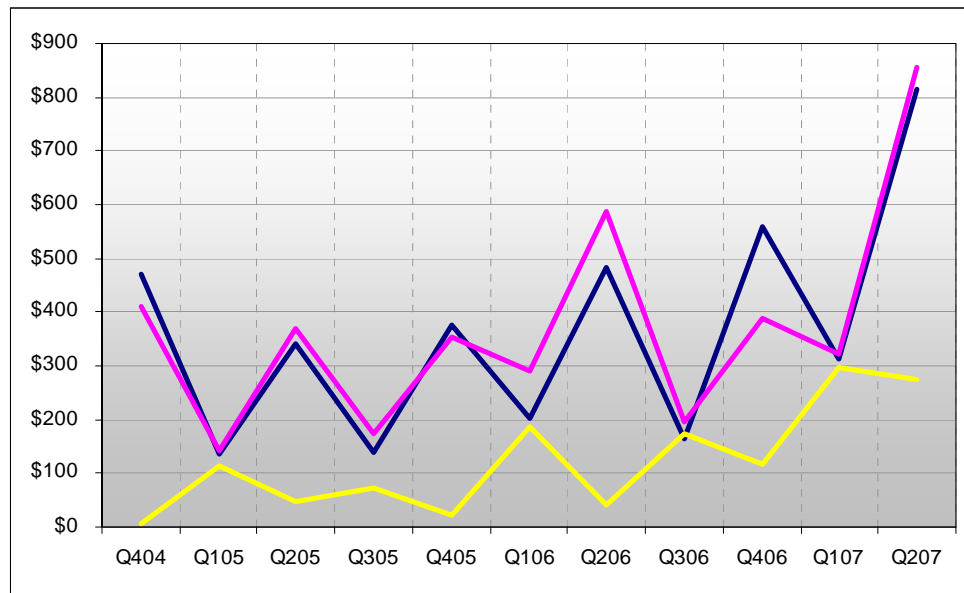
We find it interesting that in this, the best six month period in Company history, Cash from Operations showed an outflow of \$69 million. This is not a one-time event as this trend had manifested itself through Q3 with cash collections ramping up in Q4 of each of the past two years. Along with increasing guarantees, Sotheby's finds itself advancing increasing amounts to consignors prior to auction. In fact, Notes Receivable and Consignor Advances totaled \$148 million at June 30, 2007, a 54% increase year-over-year. Accounts Receivable, as of the same dates, are at record highs at \$857 million, up 120% since 12/31/06 (46% yoy).

Accounts Receivable, of course, cannot be viewed in isolation. With Sotheby's increased level of revenues, a greater level of receivables is certainly expected. However, we must note that the recent large increase in receivables has occurred with no accompanying increase in the allowance for doubtful accounts. During the first six months of F/Y 2007, with A/Rs jumping 120%, Sotheby's has increased its Allowance for Doubtful A/Rs by a paltry 2.7%.

An important consideration directly related to these receivables is the significantly increased Amounts Due to Consignors. This liability (\$816 million at 06/30/07) represents what Sotheby's owes to consignors for art sold at auction and for which the Company was still awaiting payment from the purchasers at 06/30/07. This represents a major obligation and in order for it to be met, absent some form of additional financing, receivables must turn over in a timely fashion. This is vital in managing cash and working capital requirements and seems to have resulted in some deft handling by Sotheby's in recent periods.

For example, given an average 20% buyer's premium, Amounts Due to Consignors (ADCs) should theoretically track at about 80% of Accounts Receivable. We note, however, that this is simply not the case as amounts carried as ADCs, track very close to actual Receivables and, in some periods, are actually greater than A/Rs on the books. The reason for this is most likely the timing of buyer vs. consignor payments but, given the high levels of ADCs to A/Rs at any given reporting period, it would seem that Sotheby's delays payments to consignors as long as possible. Figure 4 below illustrates this. Sotheby's booked Accounts Receivable primarily represents the gross amounts of Auction Sales for that period. Since much of these A/Rs are actually owed to the seller, when the A/Rs are recorded, Sotheby's books a corresponding liability, Amounts Due to Consignors, which theoretically should represent 80% of A/Rs, but in recent periods (such as Q406) have actually exceeded A/Rs by a significant amount.

Figure 4. Amounts Due to Consignors (Blue), Accounts Receivable (Pink) and Auction Guarantees (Yellow) in Millions of \$. Source: BID SEC Filings.

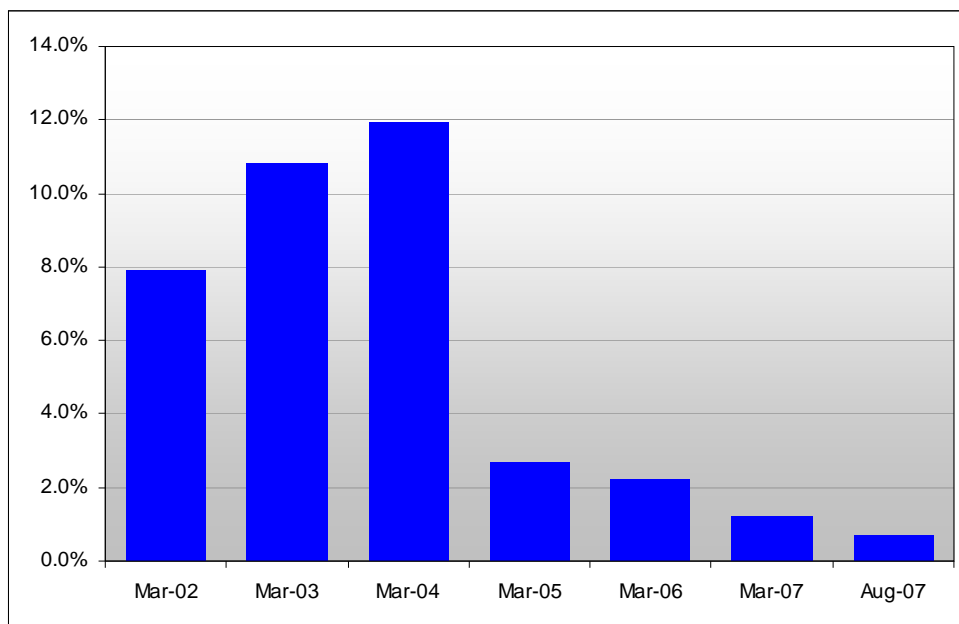


Insider Trading: Executives continue to show extreme aversion to holding shares

The insider profile at Sotheby's has materialized into one of the more aggressive cases of ownership diversification we have seen in recent years. What started out as routine profit taking in early 2006 has continued through the current quarter and still shows no signs of a respite despite the severely depleted ownership levels and the fact that the shares are well off the highs. The selling volume over the last 20 months (excluding Taubman family sales) exceeds the total distributed over the prior 15 years, leaving the current management team with the lowest level of exposure to BID shares on record. Making this story even more interesting to us is the fact there has not been any turnover in the executive hierarchy. The trading decisions have come exclusively from this very experienced executive team who have collectively (11 individuals) served the Company for an average of 16 years. This is clearly a situation where insider behavior is so disconnected from the general bullish sell-side opinion that a negative surprise could cause a significant reaction.

More than 450,000 shares have been distributed since January, rendering 2007 the second heaviest year of executive sales in the Company's history. As is evident from Figure 5 below, executives and directors as a group now collectively hold less than 1% of Sotheby's outstanding shares after owning 12% back in 2004. Keep in mind these figures exclude the Taubman family's significant holdings before divesting their position in 2005 and 2006. More important than the number of shares distributed this year is the manner in which they sold and the types of ownership cleared out.

Figure 5. Total Insider Ownership as a Percent of Total Shares Outstanding. Source: BID SEC Filings.



In an effort to increase management's retention of common stock, the Company's compensation philosophy shifted in 2004 towards the sole use of restricted stock for its long-term equity compensation. It has become evident this strategy has not served its purpose. In addition to clearing out their older stock options well ahead of their expiration dates, executives have cashed in their newly-vested restricted stock at the earliest moments during the past two years. To say they have failed at building any direct ownership in the Company is an understatement, as this year they sold common carried over from 2006 in addition to shares that became actionable in 2007 (see Table 1 below). Now, with most of their older stock options having already been monetized, and their common stock levels depleted to zero or very low balances across the board, the only actionable ownership that remains is an option series that vested in full last month. We fully expect to see these exercised and sold in the near term. Currently held restricted shares will next become freely tradable in 1Q08, but the amount scheduled to vest during the course of 2008 is well below the amount of stock they gained access to in past years. Based on the amount of ownership they intend to carry into 2008, it would seem they do not anticipate the same profit taking opportunities next year.

- **William Ruprecht (51)*** – President, Chief Executive, Director. Ruprecht is currently trading under his third personal sales plan in the past year, having renewed his intent to continue selling in June. The Company has yet to lay out any of his plan details, short of the adoption dates, but we do know that his plans have called for the monetization of stock options and sale of most of his common stock, including shares that became actionable this year. Since January 1st he has sold a total of 210,000 shares, with his last sale of 10,000 coming on August 15th at prices (\$44) more than 10% below his last dispositions in April and May. **This year's sales shed 45% of his actionable ownership** and brought his ownership down to the lowest level since 2001. Equally as notable, he managed to sell off his common stock

holdings despite 100,000 shares becoming actionable this year. Ruprecht will have 127,000 options and restricted shares vest in 2008 (see Appendix A).

Table 1. Common Stock Ownership of Sotheby's Executive Officers. Source: BID SEC Filings.

Executive	01/01/07	New Common Actionable in 2007	09/01/07
W. Ruprecht	25,178	102,108	1,945
W. Sheridan	8,992	27,351	0
R. Woodhead	12,169	33,125	0
G. Bailey	0	17,601	3,033
M. Zuckerman	0	15,588	0
R. Buckley	3,882	7,821	0

- **Robin Woodhead (55)*** – Executive V.P., CEO of Sotheby's Europe and Asia, Director. Woodhead's holdings have been on the decline for the past four years, dropping from nearly 400,000 shares and vested options to the current level of 20,000. While his 2007 selling volume is down significantly from the 180,000 shares traded last year, it is only because he has very little equity remaining. His last activity (June 14th) was the sale of his remaining common shares, leaving him with only vested options from one series that just became fully vested in August. **His two sales this year covered 60% of his holdings.** We do not expect it will be long before he clears out his remaining options, leaving him without any actionable holdings until restricted stock begins to vest in February, giving him access to 32,000 new shares by year-end 2008 (see Appendix A).
- **Mitchell Zuckerman (60)*** – President, Sotheby's Financial Services and Sotheby's Ventures. Zuckerman's behavior has been puzzling to say the least. One of Sotheby's highest ranking officers, **he has maintained a zero ownership balance for more than a year now** after owning 350,000 shares and vested options a few years earlier. He has routinely cashed out his derivative equity as soon as it has become actionable, including his last 10,000 options that vested in August. In all, he has sold 20,112 shares on the year at prices between \$37 and \$46, never holding newly-vested options and shares for more than a week. He will have 15,500 new shares vest in 1Q08, but that will be it for the remainder of the year (see Appendix A).
- **Richard Buckley (44)** – Managing Director, North America Regional Auction Division. Like many of his peers, Buckley has shed his ownership at every turn, clearing out previously restricted shares shortly after they vest. This year he **cleared out all of his actionable ownership** (28,640 shares), which was partially restocked

when 10,000 options became actionable in August. After beginning the year with nearly 4,000 shares of common, and vesting in another 7,800 shares, he heads into September with a zero common balance. His most recent trade on June 20th was executed under a 10b5-1 plan just a few business days after the plan was entered into. It is recommended by securities attorneys that executives wait at least 30 days before commencing plan sales, so his expedited June trade is an additional clue he prefers holding cash, sooner rather than later, over BID shares. Buckley will gain access to 7,821 shares by December 2008, most of which vest in Q1 (see Appendix A).

* Indicates a named executive officer as of the current proxy statement.

Accounting: With bulging inventories, questions still linger about 2006 acquisition

Ever since Sotheby's acquisition, in June of 2006, of Dutch art dealer Robert Noortman's company, Noortman Master Paintings (NMP), we have been curious about the motivation behind the deal. Sotheby's paid about \$55 million for NMP in return for 3.8% of BID shares. Prior to the deal, we had found evidence showing that Noortman had been a bidder in some of Sotheby's auctions. In January of 2006, for instance, Noortman was the largest buyer in one auction ("Important Old Masters") purchasing about 10% of the total hammer prices from that event.

In buying NMP, the composition of what Sotheby's bought is what truly interested us. In the deal, Sotheby picked up \$47 million in Noortman inventory (more on this below), and forgave \$11.7 million NMP had owed Sotheby's, from previous auctions. Sotheby's also assumed over \$20 million of NMP's debts in the deal. In picking up that inventory, it seemed to us that Sotheby's was simply getting some of the paintings it had sold to NMP at prior auctions, which had been bid for/up by Noortman.

The acquired Noortman inventory became even more interesting to us when it became evident that, for the related Purchase Price Allocations, Sotheby's initially disclosed that "the fair value of the art-related assets acquired is being estimated by a team of qualified art experts." At that time we were left to assume that, without the indication that it was using "independent" experts, Sotheby's was using its own staff for the appraisals. This, it turns out, proved to be the case, as evidenced by the following which was disclosed in the 2Q07 SEC Form 10-Q [bolding is ours]:

In the fourth quarter of 2006, the Company substantially completed its valuation of the NMP assets acquired (including intangible assets) and liabilities assumed and will finalize the valuation in the first quarter of 2007. The fair value of the art-related assets acquired was estimated by a team of qualified art experts. The fair value of all other NMP assets and liabilities were estimated utilizing a number of techniques, including independent appraisals.

And now, the Sotheby's in-house valuation of NMP acquired assets has resulted in the increase of the value of the related inventory by \$15 million, or 36%. Goodwill was reduced by an offsetting amount. But that's not all. After the deal, Sotheby's took a \$20 million key man insurance policy on Noortman, who then died unexpectedly just over six

months later. Upon his death, the benefit was paid but Sotheby's had to write down NMP deal-related Goodwill and Intangibles to the tune of \$15 million.

So, we continue to wonder about the motivation behind Sotheby's decision to buy out Noortman. The Company basically now owns a good chunk of what Noortman had bought in earlier auctions, has forgiven outstanding NMP payables owed it of \$11.5 million in the process, picked up \$20 million in other Noortman payables plus another \$13 million in NMP receivables. And all this for what was apparently a one-man show, given the fact \$15 million in acquired intangible assets were considered impaired as a result of his death.

A newer deal, considered immaterial by Sotheby's (about \$1.3 million), has recently been consummated in France, where it has purchased a small French art auctioneer/dealer. According to CEO Bill Ruprecht, "He's a talented individual who knows a lot about Impressionist, Modern and Contemporary art who is part of our growing success in the Paris marketplace. I think our sales in the first six months in our Paris Marketplace - I can't remember - were up something like 60% year-over-year". Pardon us, but it would seem that Sotheby's already knew plenty about Impressionist art etc. We wonder if this individual, like Noortman, may have been an active bidder in any of Sotheby's Continental auctions recently.

As a result of all this, Sotheby's has now seen its inventory rise to \$156 million, up from \$100 million at this time last year, and this while the Company is on the verge of its largest-ever amounts of consignor guarantees. The fall auction season had better be a barn-burner. Sotheby's insiders though don't seem to be betting on it.

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Appendix A

Option and Restricted Stock Vesting Schedules for Selected Sotheby's 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
Susan Alexander, Executive V.P. and Worldwide Head of Human Resources. Common stock holdings: 6,859 shares								
02/24/00	Options	67,500	\$18.87	02/24/01	02/24/10	67,500	0	Fully Vested
09/28/01	Options	50,000	\$11.24	09/28/02	09/28/11	10,000	0	Fully Vested
08/05/03	Options	40,000	\$8.65	08/05/04	08/05/13	10,000	0	Fully Vested
03/31/04	R. Stock	20,171	N/A	03/31/05	03/31/08	5,043	5,043	03/31/08
02/07/05	R. Stock	12,000	N/A	02/07/06	02/07/09	6,000	6,000	02/07/08, 02/07/09
02/10/06	R. Stock	6,477	N/A	02/10/07	02/10/10	4,858	4,858	02/10/08, 02/10/09, 02/10/10
06/16/06	R. Stock	8,000	N/A	06/16/07	06/16/10	6,000	6,000	06/16/08, 06/16/09, 06/16/10
02/09/07	R. Stock	14,557	N/A	02/09/08	02/09/10	14,557	14,557	02/09/08, 02/09/09, 02/09/10
02/26/07	R. Stock	15,000	N/A	02/26/08	02/26/11	15,000	15,000	02/26/08, 02/26/09, 02/26/10, 02/26/11
George Bailey, Managing Director - Sotheby's Europe. Common stock holdings: 3,033 shares								
08/05/03	Options	75,000	\$8.65	08/05/04	08/05/13	18,750	0	Fully Vested
03/31/04	R. Stock	39,682	N/A	03/31/05	03/31/08	9,921	9,921	03/31/08
02/07/05	R. Stock	12,000	N/A	02/07/06	02/07/09	6,000	6,000	02/07/08, 02/07/09
02/10/06	R. Stock	10,725	N/A	02/10/07	02/10/10	8,044	8,044	02/10/08, 02/10/09, 02/10/10
06/16/06	R. Stock	8,000	N/A	08/16/07	08/16/10	6,000	6,000	06/16/08, 06/16/09, 06/16/10
02/09/07	R. Stock	6,324	N/A	02/09/08	02/09/10	6,324	6,324	02/09/08, 02/09/09, 02/09/10
02/26/07	R. Stock	9,500	N/A	02/26/08	02/26/11	9,500	9,500	02/26/08, 02/26/09, 02/26/10, 02/26/11
Richard Buckley, Managing Director - North America Regional Auction Division. Common stock holdings: 0 shares								
08/05/03	Options	40,000	\$8.65	08/05/04	08/05/13	10,000	0	Fully Vested
03/31/04	R. Stock	7,887	N/A	03/31/05	03/31/08	1,972	1,972	03/31/08
02/07/05	R. Stock	10,000	N/A	02/07/06	02/07/09	5,000	5,000	02/07/08, 02/07/09
02/10/06	R. Stock	5,397	N/A	02/10/07	02/10/10	4,048	4,048	02/10/08, 02/10/09, 02/10/10
06/16/06	R. Stock	8,000	N/A	06/16/07	06/16/10	6,000	6,000	06/16/08, 06/16/09, 06/16/10
02/09/07	R. Stock	3,906	N/A	02/09/08	02/09/10	3,906	3,906	02/09/08, 02/09/09, 02/09/10
02/26/07	R. Stock	10,000	N/A	02/26/08	02/26/11	10,000	10,000	02/26/08, 02/26/09, 02/26/10, 02/26/11
Donald Pillsbury, Executive V.P., Worldwide General Counsel, Secretary. Common stock holdings: 14,514 shares								
08/05/03	Options	30,000	\$8.65	08/05/04	08/05/13	30,000	0	Fully Vested
03/31/04	R. Stock	50,000	N/A	03/31/05	03/31/08	12,500	12,500	03/31/08



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William Ruprecht, President, CEO, Director. Common stock holdings: 1,945 shares								
02/24/00	Options	200,000	\$18.87	02/24/01	02/24/10	180,000	0	Fully Vested
08/05/03	Options	150,000	\$8.65	08/05/04	08/05/13	37,500	0	Fully Vested
03/31/04	R. Stock	136,591	N/A	03/31/05	03/31/08	34,148	34,148	03/31/08
08/05/04	Options	100,000	\$15.51	08/05/05	08/05/14	85,000	25,000	08/05/08
08/05/04	R. Stock	50,000	N/A	08/05/05	08/05/08	12,500	12,500	08/05/08
02/07/05	R. Stock	115,000	N/A	02/07/06	02/07/09	57,500	57,500	02/07/08, 02/07/09
02/10/06	R. Stock	28,059	N/A	02/10/07	02/10/10	21,045	21,045	02/10/08, 02/10/09, 02/10/10
03/31/06	R. Stock	78,785	N/A	03/31/07	03/31/10	59,089	59,089	03/31/08, 03/31/09, 03/31/10
05/09/06	R. Stock	300,000	N/A	¹	¹	300,000	300,000	¹
02/09/07	R. Stock	57,277	N/A	02/09/08	02/09/10	57,277	57,277	02/09/08, 02/09/09, 02/09/10
William Sheridan, Executive V.P., CFO. Common stock holdings: 0 shares								
08/05/03	Options	65,000	\$8.65	08/05/04	08/05/13	16,250	0	Fully Vested
03/31/04	R. Stock	20,614	N/A	03/31/05	03/31/08	5,154	5,154	03/31/08
02/07/05	R. Stock	20,000	N/A	02/07/06	02/07/09	10,000	10,000	02/07/08, 02/07/09
02/07/06	R. Stock	15,111	N/A	02/07/07	02/07/10	11,334	11,334	02/07/08, 02/07/09, 02/07/10
08/03/06	R. Stock	53,681	N/A	08/03/09	08/03/11	53,681	53,681	50% vest on 08/03/09, 50% vest on 08/03/11
02/09/07	R. Stock	18,225	N/A	02/09/08	02/09/10	18,225	18,225	02/09/08, 02/09/09, 02/09/10
02/26/07	R. Stock	12,000	N/A	02/26/08	02/26/11	12,000	12,000	02/26/08, 02/26/09, 02/26/10, 02/26/11
David Ulmer, Senior V.P., Chief Technology Officer. Common stock holdings: 9,141 shares								
06/16/06	R. Stock	8,000	N/A	06/16/07	06/16/10	6,000	6,000	06/16/08, 06/16/09, 06/16/10
02/26/07	R. Stock	7,500	N/A	02/26/08	02/26/11	7,500	7,500	02/26/08, 02/26/09, 02/26/10, 02/26/11
Robin Woodhead, Executive V.P., Director; CEO of Sotheby's Europe and Asia. Common stock holdings: 0 shares								
08/05/03	Options	40,000	\$8.65	08/05/04	08/05/13	20,000	0	Fully Vested
03/31/04	R. Stock	62,500	N/A	03/31/05	03/31/08	15,625	15,625	03/31/08
02/07/05	R. Stock	20,000	N/A	02/07/06	02/07/09	10,000	10,000	02/07/08, 02/07/09
02/10/06	R. Stock	11,658	N/A	02/10/07	02/10/10	8,744	8,744	02/10/08, 02/10/09, 02/10/10
08/16/06	R. Stock	38,344	N/A	08/16/09	06/30/11	38,344	38,344	50% vest on 08/16/09, 50% vest on 06/30/11
02/09/07	R. Stock	18,330	N/A	02/09/08	02/09/10	18,330	18,330	02/09/08, 02/09/09, 02/09/10
02/26/07	R. Stock	10,000	N/A	02/26/08	02/26/11	10,000	10,000	02/26/08, 02/26/09, 02/26/10, 02/26/11



Appendix A

Option and Restricted Stock Vesting Schedules for Selected Sotheby's 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
Mitchell Zuckerman, President, Sotheby's Financial Services, Inc. and Sotheby's Ventures, LLC. Common stock holdings: 0 shares								
03/31/04	R. Stock	51,561	N/A	03/31/05	03/31/08	12,890	12,890	03/31/08
02/10/06	R. Stock	10,794	N/A	02/10/07	02/10/10	8,096	8,096	02/10/08, 02/10/09, 02/10/10
02/09/07	R. Stock	6,510	N/A	02/09/08	02/09/10	6,510	6,510	02/09/08, 02/09/09, 02/09/10
02/26/07	R. Stock	7,500	N/A	02/26/08	02/26/11	7,500	7,500	02/26/08, 02/26/09, 02/26/10, 02/26/11

¹ Ruprect's March 2006 restricted stock grant will only vest at the end of the third and fifth years of his employment arrangement, and only if certain objective performance and market-based criteria are satisfied