3D ADVISORS

This 3DAdvisors Report Covers:

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

Big Forward Sale by Chairman Follows Auditor Change
WCI Communities Inc. (NYSE:WCI) Update

June 22, 2005

Contact: Bob Gabele (954) 779-3974 or bgabele@3DAdvisors.com

WCI Communities, Inc. is a fully integrated homebuilding and real estate services company with experience in the design, construction and operation of leisure-oriented, amenity-rich, master-planned communities. WCI designs, sells and builds single- and multi-family homes serving move-up, pre-retirement and retirement home buyers. The Company also designs, sells and builds luxury residential towers targeting affluent, leisure-oriented home purchasers. The Company acquires and develops the land in its communities, constructs the residences, designs, builds and operates the amenities in many of its communities and otherwise controls most aspects of the planning, design, development, construction and operation of its communities. In certain situations, it elects to sell parcels and lots to others, including other builders and developers or end users.

Summary of 3DAdvisors Findings for WCI

- **Insider Trading:** Chairman continues to use stealth to unload his holdings
- **Insider Trading:** Additional WCI executives sell off the highs
- **Governance:** Company selectively discloses material information

---

Discussion of 3DAdvisors Findings

The convergence of a number of key WCI Communities insiders, each making decisions to monetize a substantial amount of their holdings, back in February and March, (3DA report dated March 24th) certainly proved to be timely, as the issue has been trading lower, at heavier volumes, since. In the wake of the issue's increased volatility, a number of material events have surfaced which our clients should be aware of, including the firing of its independent auditor, Chairman **Alfred Hoffman's** largest forward sale to date, and a number of open-market sales by Company execs at lower prices than they sold at in February.

Insider Trading: Chairman continues to use stealth to monetize his holdings

The most compelling information we have to pass along is the activity of Hoffman. Although he entered into forward sale contracts in December 2003, and then later in June 2004, it wasn't until March of this year that there was a noticeable escalation of his activity, which just happened to coincide with weakness in the shares. On March 4th and March 15th Hoffman pledged a total of 656,300 shares, held by the Alfred Hoffman Jr. 2003 Long Term Trust, of which he is a beneficiary. Just last week, he monetized an additional 1,000,000 shares on June 15th, driving the total number of shares he now has "reported to" pledge (more on this later) to third-parties to 1,999,500 shares. Hoffman isn't the only WCI insider to enter into similar transactions over the years, but he is the only one that has seemingly attempted to provide as little detail about his activity. His apparent efforts at obfuscation succeeded only in attracting our attention.

In early 2004, Director **Don Ackerman** established a 10b5-1 trading plan, making known his intent to monetize a small fraction of his holdings using a number of forward sales. In March 2005, newly-appointed president and chief executive **Jerry Starkey** pledged about 15% of his shares through a forward sale and clearly defined the terms of his contract, including the amount he received for the shares. Then there's Hoffman.

Figure 1. WCI Daily Closing Price, June 2, 2003 through June 21, 2005. Blue diamonds are the dates that Alfred Hoffman entered into forward sales contracts. The most recent, on June 15th, was for 1 million shares, his largest forward sale to date. Source: Reuters and WCI SEC Filings.

First, Hoffman's filings are filed by a trustee (Mary Ann Wilson), which on most insider data provider websites shows up as sales by Wilson, throwing analysts off the trail. Secondly, Hoffman's filings do not offer any detail as to who the counterparty is, or even what upfront cash payment he received in the transaction. In Starkey's case, we know that he accepted a 16% discount from market on his shares, above the typical 10% discount we're accustomed to seeing in these transactions. Since Hoffman's disclosure is incomplete, it is very possible that he has been monetizing his shares at an even greater discount.

What's more, Hoffman's obfuscation is different from any other derivative situation we've researched. When an insider plans to monetize their shares, they first file a Form 144, stating their intent to sell. The actual transaction is then reported on a Form 4, which in all other instances has been consistent with the information provided on the 144 in terms of the number of shares involved. With the exception of his June activity, Hoffman has repeatedly reported pledging only half of the shares he initially stated his intentions to monetize, which indicates he might deliver, at the expiration of the contract, **more shares** than he initially reports planning to sell. Based on his 144s filings since December 2003, **Hoffman has tied up as much as 3,093,700 shares, equal to 60% of holdings**, a substantial amount considering that he is WCI's largest shareholder and owns more shares than all of the Company's other executives and directors combined. For a more detailed discussion of the unusual filing behavior we have observed for Mr. Hoffman, see our first report on WCI dated 03/24/05.

Insider Trading: Additional WCI executives sell off the highs

Hoffman isn't the only WCI insider to sell since our last report. Senior V.P., President of the Northeast Division **Mitchell Hochberg** sold 166,000 shares, all out of his common holdings, between May 25th and May 31st at an average price of $30. Not only did he **shed 38% of his position**, but did so at prices 15% below the highs of just two months earlier. Hochberg joined the Company in May 2004 when WCI acquired Spectrum Communities, which he founded in 1987. The acquisition, which so far has cut into the Company's operating margins, gave WCI the long-anticipated exposure to New York, New Jersey, and Connecticut. Hochberg's sale is quite telling as all of his actionable holdings are tied up in his common stock, and he won't have any options vest until February 2007 at the earliest.

In addition to Hochberg's open-market activity, there were a handful of mid-level execs that sold a total of 24,931 shares between June 6th and June 15th at an average price of $29.69, and just prior to the issue's recent surge. The sellers included Senior V.P., Treasurer **Steven Adelman**, Senior V.P., Marketing and Sales **Michael Curtin**, Senior V.P., General Counsel **Vivien Hastings**, and Senior V.P., Business Development **Albert Moscato**. With the exception of Hastings, each of the sellers exercised all of their vested options and sold back only a portion of the shares, which for all three, equaled roughly 25% of their holdings. It should be noted that they were all participants in the February selling, and now accepted prices between 12% and 17% less than in the prior round.

Governance: Company selectively discloses material information

We're seeing an interesting pattern with WCI's disclosure, as it seems to be very selective with its dissemination of material information to the media and investors. On

May 13th the Company issued a press release announcing the sale of a 506 acre parcel of land in Jupiter, Florida, which it had initially hoped to sell to the county for a major development project. When the county went with another site, many were left wondering what WCI would do with the land. After months of uncertainty regarding the prospects for the land, the Company announced through a press release that the parcel was sold for a $100 million profit, juicing full year 2005 earnings by roughly 13%.

Less than two weeks later, on May 24th, the Company issued a Form 8-K announcing that it had "dismissed" PricewaterhouseCoopers as its independent auditor. The Company didn't provide any details, leaving us, and investors, to question if there's more to this story that WCI is trying to keep from surfacing.

On June 7th, in similar fashion, the Company issued a subsequent Form 8-K announcing that it had appointed Ernst & Young as its new auditor. While the dismissal of an auditor may not necessarily be a significant event, in itself, we find it rare for a company to do so without having a successor waiting in the wings. After a rather extensive search of situations where an auditor was unexpectedly dismissed, we did not find a single instance where a company failed to name a replacement on the same date as the dismissal. Consequently, the fact that WCI waited two weeks to announce the hiring of Ernst & Young suggests to us the transition was something other than orderly.