# Research Notes

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*Research Notes* are a brief description of the insider trading, accounting, or governance behaviors that we have been investigating for possible inclusion in standard 3DA reports, and may also include other information of general interest to 3DA subscribers. The ⬆ symbol indicates that we have observed management behavior that suggests a bullish sentiment.

## Companies in this Research Notes

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## 3DAdvisors Research Notes

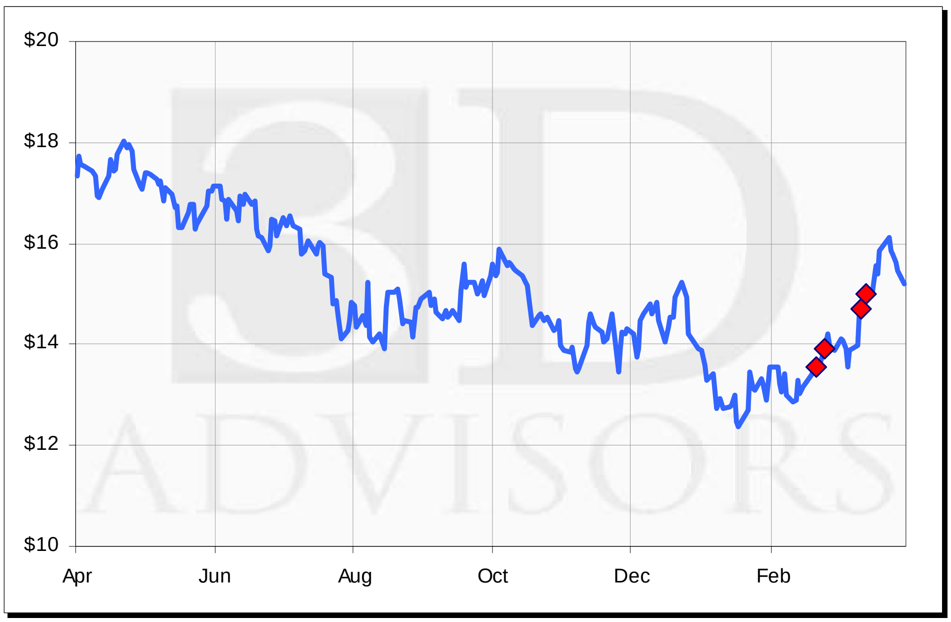
Inland Real Estate Corp. (NYSE: IRC) ⬆

- We spend very little time these days commenting on insider purchases due to the surfeit of reasons many of them buy their company's stock that may have little to do with their true sentiment. But every once in a while we encounter a situation where there are simultaneous ancillary transactions that validate the authenticity of the activity as bullish and therefore are deserving of our attention. One such example has emerged at Inland Real Estate, which owns and develops retail shopping centers primarily in the Midwest. While buying has been the norm for the executive team over the past twelve months, our interest had not been piqued until late February and March when founder and chairman, **Daniel Goodwin** (64), wrote (sold) puts in addition to the $4 million he spent to add 287,300 shares to his already sizeable position between February 19th and March 14th.

- Put writing by corporate insiders remains perhaps one of the rarest of bullish insider actions we've highlighted for our clients over time. Our records indicate this is the first occurrence of such activity that we have seen in the past two years. In fact, the most significant evidence of this particular derivative activity transpired at IVAX

Corp., where CEO **Philip Frost** persistently wrote puts in IVAX shares between late 2002 and early 2005 which were trading at low prices prior to the announcement that the Company was engaged in merger discussions with Teva Pharmaceuticals (deal closed in January 2006). Frost's moves were indeed prescient as IVAX shares traded from $9 when he first began to sell the puts to $32 when the Teva deal closed. By selling puts on their companies' shares at low prices, insiders who do so subtly signal a willingness to accumulate the shares at the contract price level. In the current situation at IRC, Goodwin's recent actions, which occurred *after* the shares had lifted from their late-January lows, arouse our curiosity as to whether Goodwin may possess certain "information" that would suggest higher prices to come for his Company's shares.

**Figure 1.** IRC Daily Closing Price, 04/02/07 through 03/31/08. Red diamonds are the dates that CB Daniel Goodwin wrote puts. Source: Reuters and IRC SEC Filings.




- Chairman Goodwin first began writing puts on February 21st and by March 14th sold 6,020 contracts covering 602,000 shares, for which he received premiums totaling $1 million. The options expire in September 2008 and carry a strike price of $15. As we mentioned, he has been a buyer going back to May 2005 but this is the first time he has bought into strength and a first for the option activity. His actions speak loudly to us, as it implies the issue's recent momentum should continue and he is willing to take delivery of a lot of stock if it fails to do so. He conveys even more confidence in the upside by writing the puts with expiration dates six and seven months out as the longer timeframe increases his risk the options will be in the money at expiration.

- Rounding out the activity are two officers and one director who spent $116,000 to acquire 8,700 shares on the open market. CEO **Robert Parks** (64) increased his direct common ownership by 47% since August, taking into account the 7,500 shares purchased on February 19th at $13. Director **Thomas McCauley** (63), president of Inland Capital Markets Group, bought 1,000 shares on February 19th and has now increased his stock holdings by nearly 50% since November. The 2,000 shares he added on November 9th, also in the $13 range, marked his first acquisition since joining the board in 2004.

- The Inland activity is essentially inconsistent with the behavior of the REIT insider populace as of late (see our coverage below), as the March selling volume for the group was at its highest level in twelve months. This escalation was particularly noticeable in the shopping center management area where insiders at prominent names such as Regency Centers (NYSE: REG), Simon Property (NYSE: SPG, and Kimco Realty (NYSE: KIM), to name a few, have been quick to take profits into the interim rebound. But the Inland insider sentiment appears to be distinctly different than the peer group for a while now, as management spent $13.7 million to pick up shares in 2007 as the issue fell from a high of $19 down to $12 and have resumed their accumulation after the release of 4Q07 earnings on February 14th. The odds are good that the stock is currently a good value based on Goodwin's behavior.

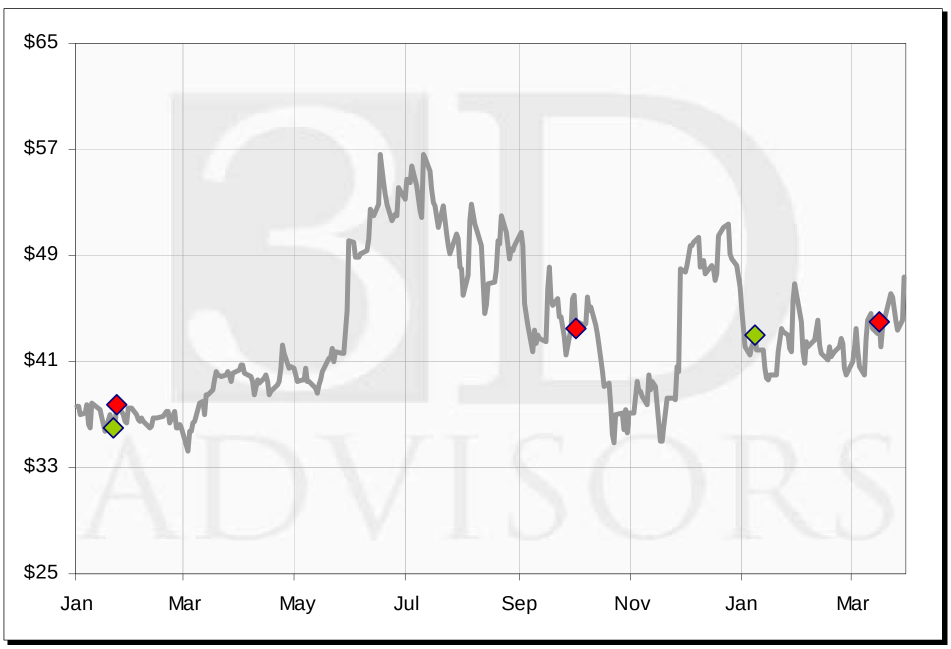
J. Crew Group Inc. (NYSE: JCG) ⬆

- We issued a Special Report on 02/26/08 covering a large contribution made by J. Crew's chairman and chief executive, **Millard "Mickey" Drexler** (63) to a Grantor Retained Annuity Trust (GRAT). Drexler transferred 1 million shares into a GRAT on January 10th and now has 2.5 million shares, or 30% of his total position, in two such trusts. Just as a reminder, GRATs are a subtle indication the deposited shares will appreciate as beneficiaries of a GRAT receive the tax-free gains of the assets accumulated in that trust, above and beyond the initial value of the assets deposited plus an annual "hurdle rate" established by the IRS. This means that assets deposited in the GRAT must appreciate more than that annual rate in order for the GRAT to generate any tax advantages for the beneficiaries of the trust. Because of this, it makes sense for an insider who is funding a GRAT with shares of company stock to do so at the lowest possible price level and with no negative news on the horizon. For more specifics on GRATs and additional examples, please refer to the 3DA report issued on 08/02/06 titled "Long Ideas: Grantor Retained Annuity Trusts".

- Shortly after issuing the February report, J. Crew released 4Q07 earnings that matched expectations, but the real story was the 2008 EPS guidance issued, $1.85 to $1.87 per share, which bested the mean analyst forecast of $1.52, driving the issue 4% higher on the day. JCG has now appreciated 16% since Drexler made the GRAT contribution and outgained its apparel retailers peer group by 20% over the past six months. Apparently, however, the recent strength has provided incentive for other parties to take some profits. First to act was Chief Financial Officer **James Scully** (42), a former human resource officer at Saks before joining J. Crew in September 2005. Scully monetized 100,000 options on March 17th and March 24th that were not set to expire until September 2015 and June 2016. These were his largest sales on record after having sold just 23,000 shares under a pre-arranged trading plan in July and August of 2007. We also note that after selling last year at prices between $48 and $54, this year he has accepted sharply lower prices, having sold in the $40 to $45 range. Though the stock accounted for 45% of his currently available ownership we must note that, year over year, his holdings have actually increased 70% due to the continued vesting of his new-hire option awards, of which another 65,000 will become actionable in September.

- Also selling was board member **Steven Grand-Jean** (65), a close advisor to CEO Drexler and president and 100% shareholder of Grand-Jean Capital Management (GJCM) which provides financial advisory and investment services to the Drexler family. GJCM sold 12,500 shares, roughly 45% of the firm's stake, on March 18th at $44. However, between his own personal ownership and the remaining stock held by GJCM, Grand-Jean still controls nearly 100,000 shares and vested options. Again though, we need to point out that Grand-Jean last sold 6,000 of his own shares in June 2007 at 22% higher prices. The last shareholder that needs to be addressed is Texas Pacific Group (TPG), which obtained a controlling interest in JCG when the Company completed a recapitalization back in 1997. Following the June 2006 IPO, TPG owned 21.1 million shares, equal to 36% of the outstanding stock. Since then they have distributed 16.3 million shares with three separate transactions since January 2007, including the 3 million sold most recently on March 18th at $42.50. They now hold 7.8% of the outstanding shares. It does not appear they have been particularly prescient with the timing of their past sales, but we did notice this was the first occasion they sold after an earnings release.

**Figure 2.** JCG Daily Closing Price, 01/03/07 through 04/01/08. Green diamonds are the dates that CEO Mickey Drexler contributed shares to a GRAT; Red diamonds are the dates where TPG sold shares. Source: Reuters and JCG SEC Filings.




- We are reporting these trades because we believe our clients should have all the relevant information in hand with regards to the insider picture at JCG. Having documented this, it is our opinion that the sentiment of Drexler's GRAT contribution, as subtle as it may be, outweighs the significance of the more visible open market selling. There are a number of reasons that Scully and Grand-Jean may have sold, and TPG's behavior is in step with its other sizeable positions new to the market, but there is only one reason Drexler would deposit 30% of his ownership into GRATs; he wants to maximize the returns for his beneficiaries. If he did not believe this to be the case, he would not have put forth the cost and effort to establish and administer the trusts in the first place. What's more, Drexler is now the largest shareholder with a 14% stake and is in a position to influence strategic corporate decisions more so than any other involved party. We are still confident the foundation is in place for this to be another rewarding GRAT situation and will continue to monitor the situation carefully.

Mattel Inc. (NYSE: MAT)

- 2007 proved to be the most challenging year for toy maker Mattel since its fateful 1999 acquisition of The Learning Company. Plagued by a wave of recalls and fading sales of flagship product lines such as Fisher-Price and Barbie, MAT closed the year down 36% from its April high of $29.71. Although the Company reported earnings of $0.89 in the fourth quarter, a 19% increase over the prior year (most of the increase was attributed to an income tax benefit), there are few on Wall Street, and even at Mattel's El Segundo, CA headquarters, who would claim there will be significant improvement in 2008. Chairman, CEO **Robert Eckert** (53) commented on the January 31st conference call that he anticipates trouble in the areas of "higher cost for commodities, labor and quality testing along with the general sentiment of worsening economies". At least Eckert did not camouflage his concerns before selling 1 million shares between March 20th and March 26th, shortly after CFO **Kevin Farr** (50) sold 100,000 of his own in February.

- Eckert's sales were his first since he jumped ship from Kraft to join Mattel in May 2000. His only prior trade was a 5,000 share purchase to fund a family trust in February 2005, for which he paid $20 per share. Although most casual followers might not have detected the Company's disclosure, Mattel did in fact issue a vague forewarning Eckert intended to sell. An SEC Form 8-K (no press release) was filed on February 21st disclosing that he adopted a 10b5-1 trading plan to "provide for the orderly exercise of [May 2010] stock options and the sale of underlying shares of stock prior to the expiration of the stock options". No adoption date was reported nor was there a timetable or schedule provided for the sale executions.

- What we do know at this time is that Eckert, with two years remaining before the options' expiration, monetized one-third of his 3,000,000 May 2010 options (exercisable in the $11 range) in one efficient undertaking in late March at roughly $21.50. Let's not forget, he was a buyer three years earlier at $20. The shares accounted for just 22% of his actionable holdings, but more importantly, the May 2010 options currently make up 65% of his ownership, the remainder of which, all vested options, carry a weighted average strike price of $19 and would thus seem hardly logical candidates for early exercise. The fact he is selling prematurely, and has dumped one million options/shares immediately after entering into the plan rather than spread the sales out in a more structured fashion over the next 25 months, provides little reassurance that MAT will trade above its current levels any time soon.

- CFO Farr is more of a practiced trader, having executed ten sale transactions between 1997 and 2007. The 100,000 options monetized between February 27th and February 29th, two years ahead of their expiration, were sold at an average price of $20. This selling volume is in line with his more recent activity, which routinely covered 100,000 shares per trade or over a short timeframe. While the February activity, which was not part of a 10b5-1 sales plan, only trimmed 15% from his actionable ownership, we need look back only one year to gain some perspective on why the recent activity stands out. In February 2007, Farr sold 100,000 shares at $26.81, which amounts to almost 30% higher prices. In fact, there were only two prior instances in the last ten years where he sold at prices below $20. That he is now willing to part with stock at these prices speaks volumes as to his expectations for the retail environment ahead. As is the case with Eckert, the remainder of his exercisable options carry strike prices between $16 and $20. Farr is a director at Beckman Coulter Inc. (NYSE: BEC) and has yet to sell any BEC stock since joining the board in 2004.

- Disclosure has been noticeably expanded in the risk section of Mattel's 10-Q filed on 10/26/07 shortly after the well-publicized, numerous product recalls:

> **Recalls of Mattel products could result in adverse governmental actions, including new legislation and regulations that may materially and adversely affect Mattel.**
>
> As a result of product recalls, withdrawals, or replacements Mattel has been the subject of governmental actions, inquiries, and proceedings in several countries. Mattel has incurred expenses to respond and has had adverse effects on its business, including temporary suspension of its ability to import products into various countries and to export certain products from China. Product recalls, withdrawals, or replacements have resulted in increased governmental scrutiny of Mattel products. There can be no assurance that Mattel will not be subjected to future governmental actions and scrutiny that may lead to increased costs or to interruptions or disruptions of its normal business operations. In addition, regulatory agencies and legislatures in various countries, including the United States, have undertaken reviews of product safety, and various proposals for additional, more stringent laws and regulations are under consideration. Current or future laws or regulations may become effective in various jurisdictions in which Mattel currently operates and may increase Mattel's costs and disrupt its business operations.

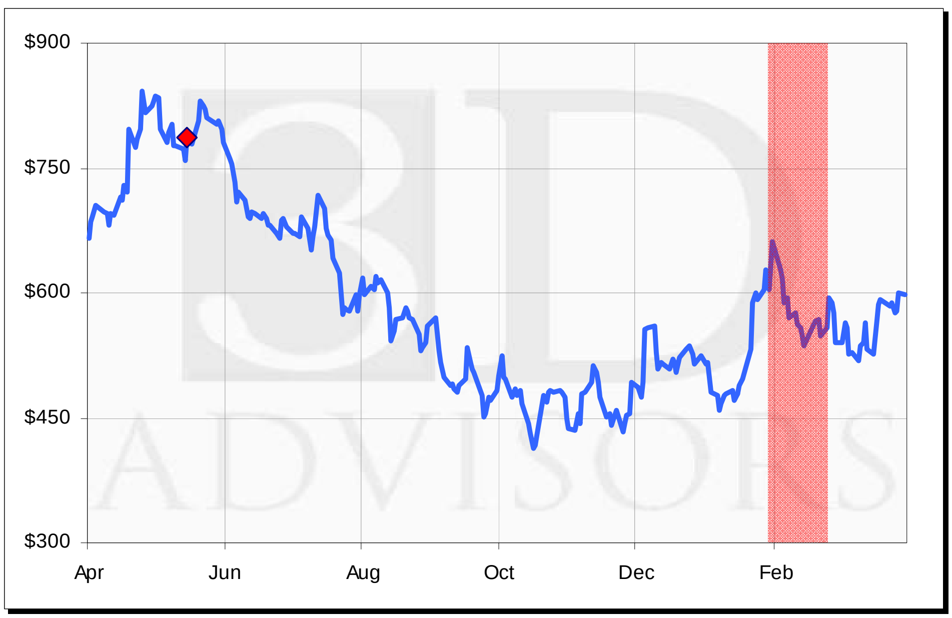
- Only yesterday (April 2$^{nd}$) the governor of the state of Washington, **Chris Gregoire**, signed a bill passed through both houses of the state Legislature, that places the toughest restrictions in the US on the amount of lead in children's products. The controversial bill, called the Children's Safe Product Act, reduces the allowable level of lead in toys to 90 parts per million, far below the federal standard of 600 parts per million. Mattel lobbied hard against the bill, even sending officials to meet with the governor. The new regulations, which will take effect in July 2009, will indisputably drive up toy makers' production and testing expenses, adding further pressure to their already slim margins. It will be very interesting to see if other states, and even the federal government, follow suit and strengthen their toy safety laws.

<u>NVR Inc. (NYSE: NVR)</u>

- As a result of the DJ US Home Construction Index having declined 55% in 2007, there has been very little insider activity within the industry for us to monitor. But the

Index's recent 40% bounce off the January lows, in spite of continued housing price deterioration and escalating foreclosure rates, has shaken out a few insiders who seemingly lacked any conviction that the rebound would be sustained. Topping the list are those at NVR, a company we have spent considerable time following over the past five years. We last issued coverage on the name in a 05/16/07 Research Notes report when a group of insiders led by Chairman **Dwight Schar** unloaded a record amount of stock whilst NVR withstood the early stages of the industry downturn, trading to a high of $850. The timing of management's profit taking proved insightful as the issue reversed course almost immediately after their sales, touching a low of $470 just five months later. Now, after selling at considerably higher prices less than twelve months ago, three insiders have sold 19,700 shares, valued at $12 million, between January 31st and February 26th at prices ranging from $519 to $652.

**Figure 3.** NVR Daily Closing Price, 04/02/07 through 03/31/08. Red diamond is the date of the Research Notes where we last covered NVR (05/16/07); Red shaded area is the period where 3 insiders sold 19,700 shares. Source: Reuters and NVR SEC Filings.




- First to sell was **William Inman**, president of the Mortgage Finance division, who vested in 12,500 options in December and monetized the full amount on January 31st after the issue rallied from $460 to $620. These were his only vested options and the stock sold accounted for 36% of his actionable ownership. It is important to recognize that his $620 exit price is 26% below where he last sold in April 2007. Also averaging down was Audit Committee member **Scott Bartlett**, a board member since 1993. Bartlett sold 5,500 shares on January 31st and February 26th at roughly $595, doubling his selling volume from January 2007 when he sold at prices up to $670. His sales covered 43% of his actionable holdings. Lastly, veteran director **David Preiser** sold 1,500 shares over three different sessions in February. After last selling in April at $830, he has now chosen to accept prices of $653, $615, and $593 in February *in that exact order*. His sales covered just 17% of his actionable ownership, but the three sales at successively lower prices is the more noteworthy factor.

- While there have been occasions over the past 15 years that one or two NVR insiders had sold at lower prices within a twelve month period, never before have we seen an individual's consecutive trades go off at such steeply discounted prices. Additionally, after looking over the 252 sales executed between 1994 and 2007, we can say that Director Preiser's three February sales were the first instance of any executive or director averaging down within a short window. There really is little justification for such behavior, especially in light of their low ownership levels and the amount of options they have scheduled to vest downstream. The Company recently disclosed that options awarded to its officers in May 2005, which are tied to EPS targets, will likely expire unvested at the end of 2008 due to the Company's recent performance. While there are other options scheduled to vest over the next two years, their amounts are now considerably less. What's more, Director Bartlett's sales put his current common stock ownership in a position that could be in jeopardy of falling below his stock holding requirement should NVR experience any sharp price decline. All in all, this is not the behavior of a group who anticipates a continuation of the recent price movement.

- There have also been a number of isolated trades at other home builders where the behavior casts doubt on the notion that the housing stocks may be reaching a bottom in the near future. For example, on March 24th a veteran director at Toll Brothers, **Robert Blank** (67), monetized 2,000 options scheduled to expire in December 2008 and 50,000 that would lapse in December 2009. He sold 25% of his holdings at prices 17% below the 52-week high. KB Home's (NYSE: KBH) Chief Financial Officer, **Domenico Cecere** (58), who announced he would be leaving in May after just five years with the Company, monetized 80,000 options on January 31st after the issue rallied from a low of $15 up to $27 in a matter of weeks. With the remainder of his vested options carrying a weighted average strike price of $30.23 (under water), the shares sold accounted for 90% of his actionable holdings. We can appreciate Cecere might have wanted to settle his options before leaving, but he would have had three months after his departure date (through August) to squeeze additional profits out of this series if he anticipated further upside. Instead, it looks as though he was more concerned the options, which carried a $21 strike price, would even be in the money down the road.

- Finally, we noticed three sales that occurred a few weeks after DR Horton (NYSE: DHI) released fiscal 1Q08 earnings on February 7th. CEO, President **Donald Tomnitz**, CFO **Bill Wheat**, and Treasurer **Stacey Dwyer** each monetized the same option series that was scheduled to expire in July. All three retained some of the stock but did receive some after-tax cash from the trades. However, a closer look shows that CFO Wheat also monetized options that were not set to expire until October 2010, which accounted for 60% of the total exercised, suggesting he had another motive for taking profits beyond the impending option expiration. The 25,000 shares he sold on February 21st at prices 35% off the year-to-date high accounted for 30% of his actionable ownership. Ironically, Wheat had only purchased stock before this sale, paying $30 to $40 per share in 2003 and 2004. It looks like he finally gave up trying to get a return on those investments.

Pulte Homes Inc. (NYSE:PHM)

- The use of forward sales rarely fails to get our attention, but they really stand out when we observe the behavior in an industry where shares are already beaten down and well off the highs. We have two such situations to share in this issue of Research Notes in Pulte Homes Inc. and Urban Outfitters Inc. (see below for our coverage of URBN). Founder, Chairman **William Pulte** (75), who owns 16% of the outstanding shares, sold forward 3,350,000 shares (8% of his ownership) on February 26th. In exchange for the pledged stock, William Pulte received an upfront cash payment of $33 million, which translates to a 35% discount on the shares' market value on the contract date. This is probably the steepest, or one of the steepest, discounts we have ever seen accepted in a forward sale contract. The Company was upfront about the transaction, issuing a press release [1] on February 11th when Pulte filed the Form 144 for the transaction and later issued another press release [2] on February 28th when the transaction was completed. He initially filed the 144 for 3.8 million, but ended up only selling forward 3.3 million, which he will be required to deliver in March 2009. The Company reported that, "Pulte is selling the shares to provide liquidity for non-company transactions involving friends and family".

- One additional item we find very interesting is that the Proxy Statement filed on 04/04/07 reports 3.15 million shares (7.5%) of William Pulte's holdings were "pledged as security". A more recent 13D filed on 02/28/08 now discloses that 27 million are pledged to secure loans. Taking into account those just pledged in the forward sale, 76% of William Pulte's ownership, or 12% of Pulte's outstanding shares, are currently pledged to third parties. This is a significant added risk for Pulte shares should they come under further pressure and the counterparties force what is in effect a margin call. For more information on the implications of insider pledged ownership, please refer to the 3D Special Report posted on 09/14/07 titled Hidden Risks: Insider Shares Pledged as Collateral.

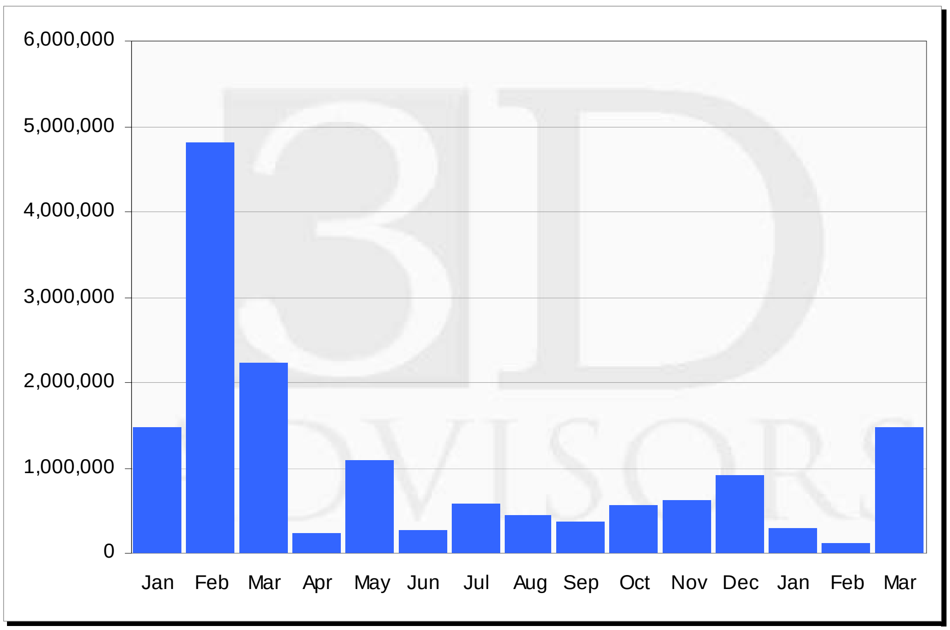
REIT Industry Activity (Various Companies)

- One industry that has clearly benefited from the recent market strength is the beaten down real estate investment trusts (REITs). While the Dow has advanced 3% over the last month, the REITs have gained nearly 16% over the same period. The recent momentum has spurred a dramatic increase in insider profit taking during this period, leading us to presume industry insiders do not think the momentum is likely to be sustained. Figure 4 below illustrates the combined monthly selling volume of all REITs with a market cap greater than $1 billion since January 2007. The February 2007 outlier skews the data to a degree, but it is clear the selling pace has recently accelerated to levels last seen in March 2007, when the Dow Jones REIT industry index was 25% higher than where we are at now. We should also point out the heavy volume in February 2007 coincided with a five-year industry high. We were initially drawn to the industry acceleration in activity when we noticed a handful of large or odd insider transactions at a few different names:

[1] "Pulte Homes Chairman Files Form 144", PRNewswire-First Call, February 11, 2008.
[2] "Form 4 Filed on Previously Announced Transaction Involving Pulte Homes Chairman", PRNewswire-First Call, February 28, 2008.

- **Regency Centers (REG)** – President, COO **Mary Fiala** sold 54,223 shares at $66 on March 25th under a 10b5-1 plan. The shares only accounted for 16% of her actionable position, but we are more interested in the fact these sales commenced *just one day after she adopted the plan*. We are certain our clients are aware that securities analysts advise their clients to wait at least 30 to 60 days before commencing plan sales as a show of good faith and also as a way to defend against charges of trading while in possession of non-public information. This very point was at the center of an October 2007 speech given by the director of the SEC's Enforcement Division, Linda Chatman Thomsen. What's more, Fiala was last a buyer in January 2007 at $70, so she sold the stock at a loss.

**Figure 4.** Monthly Shares Sold by Insiders at REITs with Market Capitalizations Greater Than $1 Billion, January 2007 through March 2008. Source: 3DAdvisors, LLC.




- **Kimco Realty (KIM)** – Five insiders sold 246,000 shares between March 7th and March 25th at a variety of prices between $33 and $40. While the majority of shares were sold by Executive V.P. **Thomas Caputo** just before he jumped ship to Equity One, there are some other curious trades. The remaining four sellers, including VP **Raymond Edward** and two board members, each last sold in March 2007 at $49 or $50 and are now selling at an average price of $37. Treasurer **Glenn Cohen** has been averaging down since March 2007, first selling at $50, then at $45 in September, and now at $40 in March 2008. That they jumped at the opportunity to take profits into the recent price movement, albeit at lower prices than their last exit points, shows little confidence the momentum will continue.

- **Taubman Centers (TCO)** – CFO **Lisa Payne** adopted her first 10b5-1 plan in March 2007 when TCO traded at nearly $60. This earlier plan, which she traded under for a better part of 2007, covered a limited amount of her holdings. Payne then entered into a second plan on March 3, 2008, only this time the shares traded at a 20% discount to where they were last March at the time of her first plan adoption. Apparently she could not wait until the plan commenced to begin taking profits, as she would cash in 90,000 shares on March 10th outside of the plan. Of the total sold on this date, one-third of the non-expiring options monetized carried a $40 strike price which she sold at $47 (17% profit). She then initiated her 10b5-1 plan sales on March 19th, well ahead of the recommended 30 to 60 day delay period. Payne has already distributed 30% of her position and still has a full allocation of shares that will be disposed under the sales plan. Her behavior is plainly incompatible with the intended objective of Rule 10b5-1.

- **Simon Property (SPG)** – Four insiders sold 270,000 shares between March 11th and March 24th as the issue rallied from $86 to $95. **David Bloom**, an advisory director, sold 176,200 shares while President of International Division **Hans Mautner** sold 84,000 shares. This was the largest round of sales since four insiders, including two who sold in March, distributed 900,000 shares at 20% higher prices last February. There were no resultant material ownership reductions from these sales, but the key facet is the two sellers who averaged down from their last sales and the consensus exhibited by four insiders who took profits with the issue still well below the 52-week high.

- **Camden Property (CPT)** – Director **William Cooper** (71) sold 403,286 shares on March 17th and March 18th at $50 to $52. The shares accounted for 50% of his holdings. It could be said that the sales were part of his estate planning due to his age, but he is on both the Audit and Compensation Committee so we do not anticipate he plans to leave the board soon considering the Company's mandatory retirement age is 75. Although he does not have an extensive track record, his last sale in December 1998, covering 20% of his position, was executed just before the issue began a prolonged downtrend.

Urban Outfitters Inc. (NASDAQ: URBN)

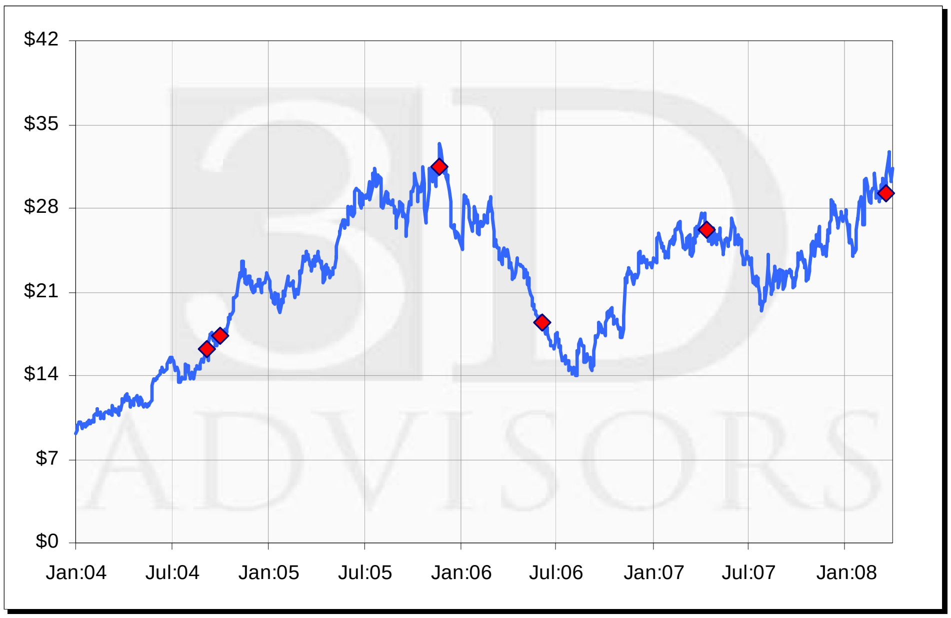
- A few years back the Associated Press began issuing brief reports on insider trades which now litter the news wires. In our opinion many of these reports can incorrectly characterize the actual transactions, misleading the reader as to the true nature of the activity. This has never been more evident than the March 25th release[3] disclosing what the AP characterizes as option exercises by Urban Outfitters' Chief Financial Officer, **John Kyees** (61). The headline alone gives the appearance Kyees acquired stock, and as you read down through the body of the report it is conveyed he exercised 300,000 options at $14.35 apiece and sold 75,000 at $30, which suggests cashless acquisition of 225,000 shares. Noticeably absent to us in this AP report is the forward sale Kyees entered into covering 225,000 shares that was filed on Table II of the same Form 4 as the transactions above.

- One reason we are so resolute in our monitoring and coverage of executives' derivative contract activity, especially Variable Prepaid Forward Contracts (read: forward sales), is because of the numerous advantages the transaction provides corporate insiders, particularly the ability to unwind significant percentages of their ownership without having to report a "sale" which always runs the risk of attracting the attention of the investor community. While the favorable tax treatment and entitlement of the insider to collect dividends on shares that have for all intents and

[3] "Urban Outfitters CFO Exercises Options", Associated Press, March 25, 2008.

purposes been "sold" to a counter party are now the focus of the Internal Revenue Service, it is the underlying sentiment at the time of the initial hedge that we feel is the most relevant aspect of a forward sale. Kyees' sentiment comes through loud and clear with the March 20th forward sale and accompanying open market sales on the same date. In exchange for his promise to deliver the 225,000 shares in March 2009 (he can elect to settle in cash as well), Kyees received an upfront cash payment of $6.1 million, which indicates he sold forward the shares at a 10% discount to the $30 price he received for the 75,000 sold on the open market for a total of $2.3 million. We should add that it is quite rare to see an insider open a forward sale contract at the same time he or she sells on the open market.

**Figure 5.** URBN Daily Closing Price, 01/02/04 through 03/31/08. Red diamonds are the dates of prior sales by Ted Marlow. Source: Reuters and URBN SEC Filings.




- Kyees joined URBN in November 2003 after serving in the same position at bebe stores, inc. (NYSE: BEBE) for less than two years. These were his first trades of any kind since coming to URBN and they make quite a statement as the 300,000 shares accounted for 40% of his position. The shares pledged in the forward sale tie up his entire common position, which is allowed since the Company does not have any stock ownership guidelines or policy against hedging stock. Also selling shortly after the Company issued 4Q07 earnings on March 6th that beat the consensus was Audit Committee Chairman **Joel Lawson** (60), a board member since 1985, whose 40,000 share sale on March 18th was his largest since 2004. **Tedford Marlow** (56), President of Urban Brand Worldwide, monetized 100,000 options on March 19th that were not set to expire until July 2011. Marlow's selling history is quite interesting to us (see Figure 5 above) as two of his last three sales, executed in November 2005 and April 2007, were timed impeccably, catching highs just before sudden reversals. His June 2006 sale marked his first exit into persistent downward volatility, which ultimately saved him from another 12% in losses. Although neither Lawson nor Marlow sold more than 15% of their actionable ownership, there seems to be a budding consensus that the current lofty valuation (URBN P/E: 34.39, Industry P/E: 14.6) may not last long, especially if we are heading into a consumer led recession.

- Below we have included a table of the most significant Forward Sale contracts entered into by corporate insiders so far in 2008. We maintain a complete running list of all contracts dating back to 2003, which we would be happy to provide our clients upon request.

| Company | Insider | Date | Shares | % of Holdings |
|---|---|---|---|---|
| Compuware (CPWR) | CEO P. Karmanos | 03/13/08 | 6,000,000 | 30% |
| Compuware (CPWR) | DIR W. J. Prowse | 02/20/08 | 650,000 | 50% |
| Hasbro (HAS) | CB A. Hassenfeld | 02/20/08 | 1,000,188 | 7% [1] |
| Horizon Lines (HRZ) | CFO M. Urbania | 02/13/08 | 200,000 | 60% |
| LifeCell (LIFC) | CEO P. Thomas | 01/04/08 | 41,496 | 50% [2] |
| Pulte Homes (PHM) | CB Wm. Pulte | 02/26/08 | 3,350,000 | 8% |
| Urban Outfitters (URBN) | CFO J. Kyees | 03/20/08 | 225,000 | 33% |

[1] Alan Hassenfeld extended a forward sale contract entered into in October 2005 that was scheduled to settle

[2] LifeCell CEO Paul Thomas now has two open forward sale contracts covering 135,000 shares, equal to 50% of his actionable position