This 3DAdvisors Report Covers:
✓ **Insider Trading**: Insider Trading Behavior
Accounting: Quality of Earnings Issues
Governance: Corporate Governance Issues

Insider Research Bulletin

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Insider Research Bulletin describes significant insider trading behavior that we have identified at the following companies and is a summary of the first step in our research process. The next step is that these same companies will undergo a review of accounting and governance behavior, and if we identify indicative behavior in one or both areas, then a "full 3DA research report" will be published on that company. Note: Inclusion of a company in this report by itself does not necessarily mean a full research report will be published. The ⬆ symbol indicates that we have observed trading behavior that suggests a bullish sentiment.

Insider Research Bulletin is published periodically and exclusively for 3DA Research subscribers.

Companies in this Bulletin

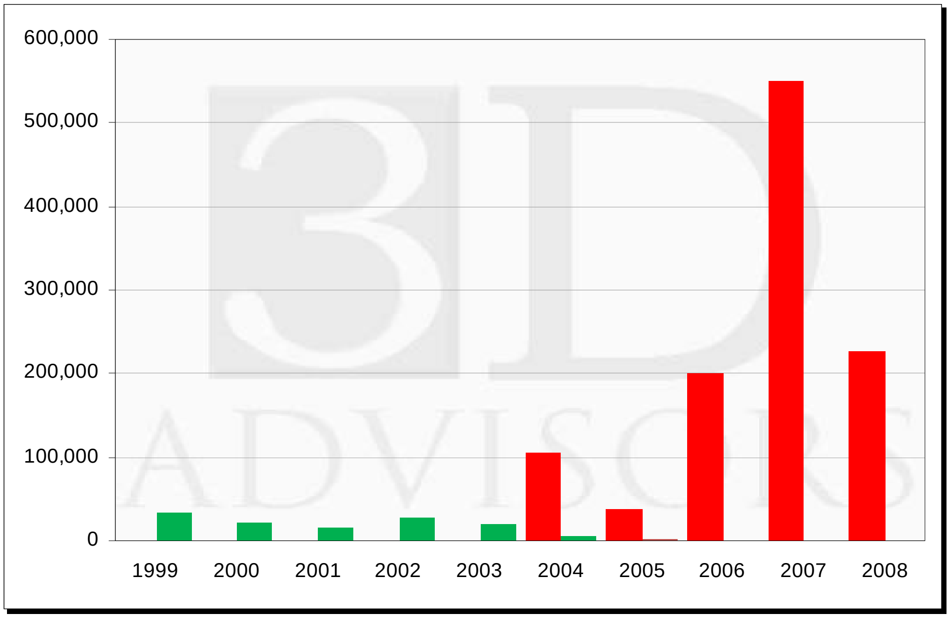
- Core Laboratories N.V. (NYSE: CLB)
- EnerSys (NYSE: ENS)
- MasterCard Inc. (NYSE: MA)

Discussion of 3DAdvisors Findings

Core Laboratories N.V. (NYSE: CLB)

In theory, shares of Amsterdam, Netherlands based Core Laboratories, a Company whose products and services enhance the productivity and efficiency of oil and gas drillers, should track with oil prices since its customers generally increase capital expenditures when oil prices are high. This held true through much of 2006 and 2007, but there has been a noticeable divergence since late February as crude oil prices eclipsed $100 while CLB traded in the opposite direction, a trend which began back in November. After hitting an all-time high of $155 last November following the Company's Q3 earnings release, CLB shares have been going through significant distribution, trading as low as $104 in Q108 despite surging oil prices. It was during this span that three top officers collectively sold 226,624 shares at declining prices from $128 to $121, which qualified as the second largest round of sales in the past ten years. What the Company has failed to properly communicate is that the large sales over the past year were not in fact open market, but purchases by the Company through an ongoing stock repurchase program that evidently has been more rewarding for the insiders than the shareholders.

Figure 1. Annual Buying (Green) and Selling (Red) Volume of Core Laboratories Insiders. Source: CLB SEC Filings.



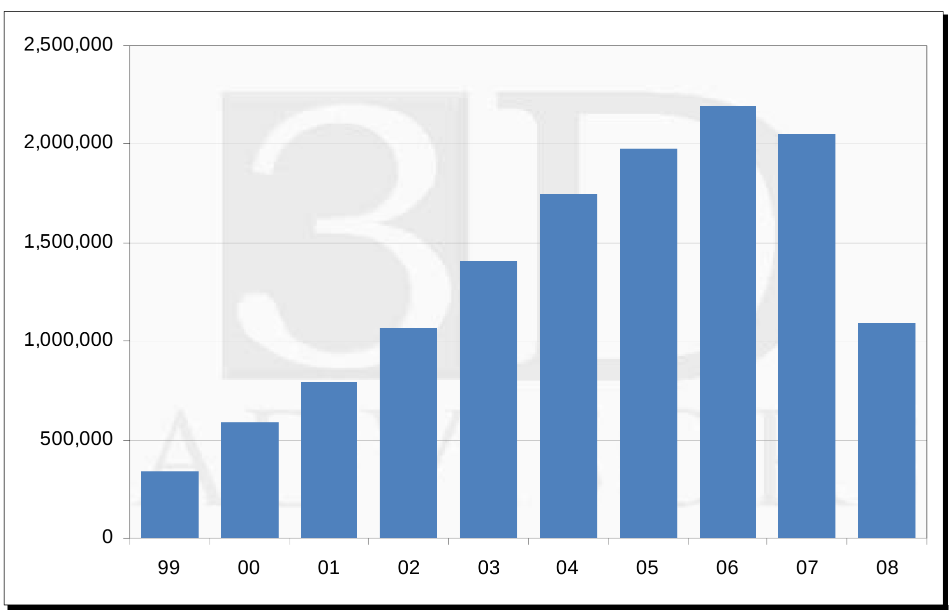
For many years Core Labs insiders were better known for their ownership accumulation rather than profit taking, having executed 41 buy transactions between 1999 and 2003 at a total cost of $1.7 million, compared to zero sales over the same time frame. A number of these purchases were made as CLB shares traded at or near what were then all-time high prices. Core Labs began an unprecedented growth cycle in early 2007, which is when the insider selling reached levels not seen since 1997 and 1998. There are a number of sly behaviors that have come to light since the selling first escalated. For one, the Compensation Committee implemented substantial stock ownership guidelines for its executive officers at the end of 2006. At the time, none of the four named officers held the requisite number of shares, which amounted to stock valued at 60 to 150 times their base salary, some of the highest multiples we've ever seen. For Chairman, Chief Executive **David Demshur**, this translated to 925,000 shares of common with a market value of $75 million.

Never before have we seen ownership targets this high. But having seen what has unfolded we are left to wonder if these guidelines were a legitimate exercise to increase management's ownership or publicity maneuver to facilitate unprecedented profit taking. It is unclear how long the officers had to meet these targets, but shortly after they were put in place each of the four named execs exercised all of his stock options, multiple series with expiration dates between 2008 and 2013, to acquire the needed shares. Each exec sold part of the acquired stock to cover the exercise costs (cashless exercise), although CEO Demshur, COO **Monty Davis**, and General Counsel **John Denson** had to pony up extra cash to buy the stock. Since that time, however, they have each sold more than enough shares to cover the costs, consequently collecting sizeable profits to date. And while this option-to-stock conversion has helped accomplish the attainment of insider ownership guidelines, it has come at the expense of their total actionable holdings levels.

Named Officer	Exercise Cost	Value of Stock Sold Since
David Demshur	$10.7 million	$27.7 million
Richard Bergmark	$5.2 million	$27.3 million
Monty Davis	$5.7 million	$8.0 million
John Denson	$2.1 million	$5.8 million

On account of the lengthy period of stock buying and abstention from selling while their derivative equity continued to vest, Core Labs' insiders had managed to accumulate a significant amount of stock and exercisable options. The holdings of all four key officers grew each year from 1999 to late 2006, collectively increasing their holdings by 550% over the eight year period. The selling that has taken place since these guidelines were instituted has erased 50% of their total combined actionable holdings, covering all equity acquired since 2002. Based on our calculations, it would seem their most recent sales were dictated by the ownership guidelines as each officer now holds the bare minimum of shares stipulated by their individual ownership targets. Should CLB shares trade below the current price range, none of the officers will be in compliance.

Figure 2. Cumulative Annual Actionable Ownership of Core Laboratories Named Executive Officers. Source: CBL SEC Filings.



Making this situation even more interesting is that now, with all of their stock options cashed in, CLB insiders will have a very limited amount of restricted stock that will become actionable over the next few years. Total restricted stock scheduled to vest through 2009 ranges between 0 and 4,000 depending on the individual. The specifics are outlined below. We should also point out that Core Labs' six independent board members do not have any stock guidelines, so we cannot attribute the Q4 sales by three directors, which eliminated 45% to 95% of their holdings, to the same interpretation. **Jacobus Schouten**, a board member since the 1995 IPO, did not take profits in the last few quarters because he previously cleaned out his entire position.

As we mentioned early in the report, we have established that all of the shares sold by Core Labs' four key officers in 2007 were not in fact open-market sales, but shares repurchased by the Company. We suspect the same applies to the 2008 activity based on the earlier pattern, although we have to wait for formal confirmation. While the 2007 repurchases have never been candidly disclosed in any corporate filings, including the individual Forms 4s using the appropriate "D" transaction code to indicate a repurchase by the issuer, a seldom looked at footnote in the option exercises table in the Preliminary Proxy Statement released on 02/28/08 reveals that none of their 2007 sales were executed on the open market. It is now unmistakable that all 433,000 shares sold by the four named officers during the year were bought by the Company at a cost of $40.4 million, nearly 25% of the total spent on buybacks in 2007. It is very possible the $10 million in stock sold by three board members and Chief Accounting Officer **Charles Miller** in 2007 were also bought back by Core Labs. To put this in perspective, less than 1% of the shares repurchased in 2006 were bought from the insiders.

A company buying back stock from its executives is an uncommon practice, albeit one that probably occurs more often than investors are privy to. While it is typically immaterial if the shares are bought on the open market or from the insiders, it has a direct impact on shareholders' equity when the involved company buys the stock from the insiders at rich prices. In this case, we have seen evidence of the Company buying the stock from the executives at significantly higher prices than those they are paying on the open market at other times of the year. For example, the Company provided the monthly Q4 repurchase totals along with the average price paid for each share in the 10-K filed on 02/22/08 (see below):

Period	Total Number Of Shares Purchased	Average Price Paid Per Share
October 1-31, 2007	132,373	$128.93
November 1-30, 2007	221,600	$133.83
December 1-31, 2007 (1)	60,978	$121.57
Total	414,951	$130.46

As you can see, their October purchases cost an average of $128, but we know they paid General Counsel Denson $141 for 25,000 shares on October 29th. Similarly, we believe they bought 41,000 shares back from Director **Joseph Perna**, a former CLB executive, on November 6th at $149 when Core Labs' purchases during the rest of the month averaged $133 per share. More recently, the same 10-K stated that the Company repurchased 250,000 shares at an average price of $113 between January 1, 2008 and the 10-K release date. Just weeks later, after the issue gapped up on the 4Q07 earnings release, they bought 226,000 shares from the executives at an average price of $125. With a debt-to-equity ratio of 4.8, we suspect there are better uses for their cash than to buy stock from the insiders at premium prices. It should come as no surprise that the architect of this self-serving behavior is management itself, according to this disclosure also found in the 10-K [bolding is ours]:

> **"The repurchase of shares in the open market is at the discretion of management pursuant to shareholder authorization."**

Core Labs might very well be primed for a recovery as most of the sell-side analysts predict. It could be assumed that after the strong fourth quarter, solid guidance provided, and continued oil price strength, the recent price volatility was just short-sighted profit taking. But the insider behavior clearly suggests a different outcome, as executives hedged their positions after years of confidently holding sizeable amounts of stock and options. With the short interest trending higher every two weeks since January 1st and now at its highest level (7.8%) in the past 52 weeks, it would seem that not everyone is anticipating a quick turnaround.

- **David Demshur (52)*** – Chairman, President, Chief Executive Officer. Demshur has been with the Company for nearly 30 years and has served in his current role since the 1995 IPO. An infrequent seller over the past 13 years, his dispositions commencing in 1Q07 were the first worth mentioning since 1998. More importantly, the 100,000 shares sold on February 28th and February 29th at declining prices from $125 to $121 were his first-ever sales that were *not* executed into momentum. After selling only 7,000 shares between 1999 and 2006, Demshur has distributed 270,000 shares since February 2007 for a pre-tax profit of $17 million. His total actionable ownership, which had increased each of the past nine years, is **down 40% since early 2007**. He does not have any derivative equity scheduled to vest in the next two years.

- **Richard Bergmark (54)*** – Executive V.P., Chief Financial Officer, Director. Bergmark has now sold 265,000 shares for a profit of $22 million in the past 13 months, including the 100,000 common sold on February 26th and February 27th. This was his largest historical round of sales. He had been a regular buyer from 1999 through 2004, but sold all those shares and more in the past year. In fact, his sales since February 2007 **shed 60% of his holdings**, which are now at their lowest level since 1999. Bergmark will only have 4,000 restricted shares become actionable over the next two years, which is immaterial to his recent ownership erosion.

- **Monty Davis (53)*** – Senior V.P., Chief Operating Officer. **Davis' holdings are down 60% in the past two years**, due in part to the 75,000 shares sold since February 2007. His most recent trades occurred on February 26, 2008 at roughly $127, after the shares traded down from a November all-time high of $155. After growing his ownership year over year since 2001 with open market buys and the vesting of stock options, he has depleted his holdings back to their 2001 level. He will have only 2,000 new shares vest through the remainder of 2008.

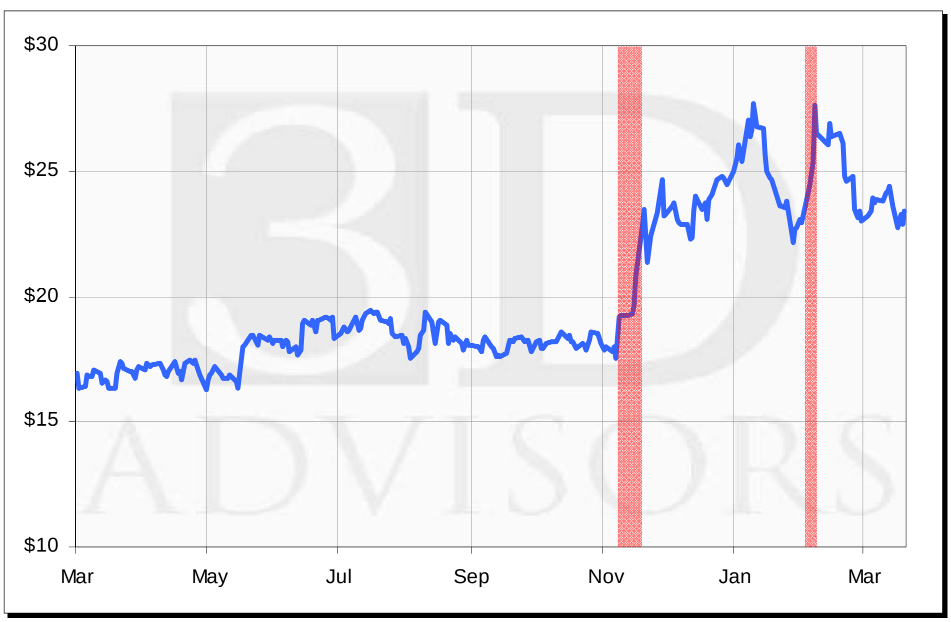
- **J.D. Denson (50)*** – V.P., General Counsel, Secretary. Denson's last activity, sales covering 25,000 shares back in October, is quite relevant due to the impact on his ownership despite the fact he announced on March 21st that he would be leaving the Company. Although his volume was considerably lighter than those discussed above, his holdings have always trailed those of his long-time peers. The October sales, at prices as high as $141, lowered his holdings down to the minimum he is required to hold under the stock ownership guidelines, hence, he was prohibited from selling in 1Q08. **Denson shed 41% of his position in 2007**, which will not be replaced any time soon as he has only 4,000 shares scheduled to vest through 2009.

* Indicates individual was a "Named Executive" in the Company's last proxy.

<u>EnerSys (NYSE: ENS)</u>

As the 10b5-1 trading plan movement evolves and continues to influence the landscape of corporate insider trading, we are continually intrigued by the actions of those executives and directors who pioneer new trading strategies that circumvent the very spirit of the Rule. Whether it is trading outside of a plan, modifying or terminating plans to generate higher profits that would not be achievable within the constraints of the existing plan, or even timing the sales to coincide with corporate news releases, we thought we had seen the full mélange of questionable trading practices. That was until sales by executives at industrial battery manufacturer EnerSys crossed our screens. EnerSys' senior management team has entered into multiple short-term sales plans over the past six months that facilitate post-earnings release profit taking. Whereas the fundamental premise of a trading plan is that it is set up to achieve systematic sales over a period of time without the benefit of material, non-public information, ENS officers launch plans that allow for the allotted shares to be sold immediately after the earnings report date. It seems no coincidence the last two earnings reports exceeded the consensus estimates, boosting the stock as much as 65% since November. What's more, the plans have coincided with lock-up periods associated with institutional shareholders' sales that otherwise would have prohibited the insiders from taking profits.

Figure 3. ENS Daily Closing Price 03/01/07 through 03/20/08. Red shading indicates the dates of the ENS executives' 10b5-1 plan sales after FY2Q08 and FY3Q08 earnings releases. Source: Reuters and ENS SEC Filings.



The main restriction on the use of Rule 10b5-1 plans is that, to be valid, they must be adopted while the executive does not possess material non-public information. Although EnerSys has disclosed that all of its officers' plans comply with the Company's insider trading policy (the policy itself is not disclosed), we are skeptical about the opportunistic timing of their plan activity from conception to conclusion. All five ENS named officers entered into a plan on August 30th or August 31st, just one month before the close of the fiscal second quarter of 2008. The same timing applies to the next two rounds of plan adoptions, which occurred one month before the conclusion of the fiscal third and fourth quarters. There is no question that in most businesses management has a pretty good idea how a quarter will turn out two months into the quarter. It seems to us that by setting up such short term plans immediately ahead of positive earnings news while in possession of material, non-public information, and then selling immediately afterwards, these insiders are violating the spirit and letter of the Rule.

We return to the beginning to provide some context for their activity. EnerSys was formed back in late 2000 after management, with the assistance of Morgan Stanley, purchased the business from Japanese battery manufacturer Yuasa Corp. At the time of the July 2004 IPO, Morgan Stanley and its subsidiaries owned 61% of the outstanding shares. Though a security holder agreement was put in place that implied limits on management's ability to sell for the first three trading years, sufficient loopholes were built in which allowed them to trade relatively freely. When these limits lapsed in July of 2007, however, all five named officers entered into trading plans the following month to initiate aggressive profit taking. The first notable activity surfaced in August, shortly after the Company issued fiscal 1Q08 earnings. During the month four key officers sold 220,000 shares, but this activity stands out to us because the sales were executed just before trading plans were entered into at month's end.

While it is not all that uncommon for insiders to sell the shares reserved under a trading plan in a shorter time frame than initially reported by the company, we cannot recall having seen plans as abridged as those at EnerSys. It was disclosed the trading under the August plans would last for eight or nine months after their October 2007 commencement date. Each of the five officers sold the full allotment of shares in *just one month* before initiating his next plan on December 3rd. These subsequent plans reportedly covered sales over a six month window, but once again, the sales commenced on the fiscal third quarter release date (02/07/08) and each insider sold all his plan shares in a *matter of weeks*. This again leaves us to question how these sales, executed only in one short window, are considered an appropriate pre-planned diversification strategy rather than just a shelter for timing their activity to maximize profits and to convince investors that they were "plan" sales. It would seem this behavior provides the same advantages to those who terminate a plan only to begin a new one shortly after, or even sell outside of a plan (both of which are denounced by the SEC). Most securities attorneys will say the best plan is one that calls for regular, frequent sales over a longer period of time as it will be easier to defend in litigation than plans that result in large sales shortly after adoption.

EnerSys insiders are not the only ones who seem on a mission to swiftly unwind their positions. While officers were selling upwards of 50% of their ownership over the last few quarters, secondary offerings were held for the three original institutional shareholders with the largest positions to sell in July 2007, November 2007 and February 2008. While we can appreciate their entitlement to take profits after having skin in the game for so long, these are significant holdings reductions taken during a short timeframe.

Institution	Holdings As of 6/1/07	Holdings As of 3/25/08	Reduction
Morgan Stanley and Affiliates	22,940,740	9,425,593	60%
JP Morgan and Affiliates	2,918,559	1,274,573	56%
GM Capital Partners	1,947,606	459,395	76%

We wrap up with some color on the downstream vesting of their unvested derivative equity as it helps put in context the recent ownership depletion along with the imminent impact of the recently-adopted 10b5-1 plans. EnerSys executives were granted a significant amount of options both prior to and shortly after the 2004 IPO. These options have already vested in full and the equity awards issued since, both options and stock, have been more modest on account of the early awards. The executives will gain access to only a small amount of actionable shares over the next two years through new vesting which will not be nearly enough to replace the ownership diversified away over the past seven months. The table below provides the total amount each insider has sold since August and the sum of all options and shares currently scheduled to vest over the next 24 months.

Officer	Position	Shares Sold Since 8/1/07	Equity Scheduled to Vest by 4/1/10
John Craig	CB, Pres, CEO	662,292	85,952
Michael Philion	CFO	348,363	21,913
Raymond Kubis	Pres of Europe	143,943	24,122
Richard Zuidema	EVP of Admin	250,000	21,913
John Shea	EVP of Americas	116,079	21,913

- **Michael Philion (56)*** – Executive V.P. of Finance, Chief Financial Officer. Philion has served the Company and its predecessor since 1994 and has been in his current position for the last eight years. He adopted his first trading plan in November 2006, but it was not until he opened his second plan on August 31st that his sales took off. Philion sold 205,000 shares under this plan in October and November, just before entering into a third plan in December under which he sold another 100,000 shares. In all, he has now sold 318,000 shares in the last two quarters, nearly three times his volume in 1Q07 to 3Q07, which **accounted for 50% of his actionable shares**. To put this volume in perspective, he sold ten times more shares since Q4 than he currently holds in unvested stock and options scheduled to vest through 2011 (see appendix A). We should also point out that he adopted another sales plan on February 22nd and the related 8-K reported he has already sold all shares covered by the latest plan. We anticipate his next sales will occur after the next earnings release.

- **Richard Zuidema (59)*** – Executive V.P. of Administration. Zuidema has traded under his second 10b5-1 plan since August, selling 250,000 shares since the fourth quarter. This is a considerable increase from the 41,000 shares sold before he began using sales plans to diversify his ownership. **The disposed stock made up 40% of his holdings**, which will not be replaced by the 6,600 options and shares which will vest through December 2008 (see Appendix A). Although he does still hold 400,000 vested options, one-fourth of these carry strike prices just 4% below market.

- **Raymond Kubis (54)*** – President of Europe. Based out of the Company's European headquarters in Zurich, Switzerland, the great distance between Kubis and his peers apparently has not shielded him from the aggressive trading habits exhibited by them. Under two consecutive trading plans he monetized 108,943 options between November 8th and February 7th that were not set to expire until November 2012. After completing the second plan, entered into in December, he then surfaced on February 19th to sell another 20,000 shares. **The trades since Q4 covered 32% of his holdings** and we expect to see this figure climb over the next few quarters with roughly one-half of his remaining vested options scheduled to expire next March. Kubis will have 6,600 options and shares become exercisable through the end of the year, but like the others, this will do little to restock his holdings (see Appendix A).

- **John Craig (57)*** – Chairman, President, Chief Executive Officer. Craig has been at the Company's helm since leading the management buyout with Morgan Stanley in 2000. It should be expected that he would take some profits after the issue rallied for the first time above $20. But after selling 165,000 shares in 2Q07 and 3Q07, he has since sold 512,000 shares under a 10b5-1 plan between November 9th and February 19th. More than half of the options monetized, which were not set to expire until March 2009, carried strike prices of $16 which he would sell for $19 per share. After having **distributed 30% of his holdings in plan**, Craig filed his intent to continue selling when he opened a new plan on February 22nd. We anticipate these sales will commence after the Company reports fiscal Q4 earnings in June. Craig will vest in 31,000 options and shares in May, but that will be it for the remainder of the year (see Appendix A).

- **John Shea (45)*** – Executive V.P. of Americas. Although he is the youngest member of the senior management team, Shea has been with the Company and its predecessor for the last 21 years. Back in August he sold 25,000 shares days before entering into his first trading plan, under which he sold 15,000 shares in November. Two weeks later he adopted a second plan and sold 76,079 shares on February 5th and February 7th at $25 and $26. Any further sales will have to come out of his common stock position as the 126,000 vested options he holds have strike prices of $21.91 and $29. If we give him credit for the 100,000 options that are only just in the money, **his sales since November shed 50% of his actionable holdings**. At this time he is scheduled to vest in only 35,000 options and shares through 2011 (see Appendix A).

* Indicates individual was a "Named Executive" in the Company's last proxy.

MasterCard Inc. (NYSE: MA)

We have always maintained that there are certain executives within a company whose behavior it is imperative to monitor as they are most likely to establish the deportment of insider behavior amongst the corporate hierarchy. One such executive is the very insider with responsibility for establishing the trading boundaries, the head counsel, who is not only most familiar with the company's insider trading regulations, but is also the gatekeeper charged with appraising and approving the legality of the Section 16 transactions. Their role has grown increasingly important since the SEC's introduction of Rule 10b5-1, as trading plans have become a widely adopted, yet controversial medium used by insiders to diversify their ownership. Because of counsel's involvement in signing off on these plans, we immediately take notice when we see a GC whose personal trading behavior denigrates the very spirit of the Rule. This type of behavior is clearly evident in the case of MasterCard, where **Noah Hanft**, who serves as both general counsel and chief franchise officer, has set an interesting precedent for elusive if not deceptive trading practices that have evidently been embraced by his colleagues.

The Bear Stearns meltdown has proven that the credit crisis can topple any finance organization, regardless of its size and prestige, and it has been widely conceded the shakeout is far from over. Those looking for alternative plays in the sector have turned to companies with the least amount of credit risk such as MasterCard, whose revenues come from card service and processing fees, making it less sensitive to the defaults in payments that rise during economic downturns. As a result, MA has been one of the most successful IPOs in the past two years, gaining more than 450% since May 2006 and outpacing the DJ Consumer Finance Index by 80% over the last six months. There is no question MasterCard's managers should benefit from the successful offering and continued earnings and revenue growth that has engendered shareholder wealth, but we cannot close our eyes to the aggressive insider behavior that led up to the highly-anticipated March 19th IPO of rival Visa Inc. Between October 12th and March 12th eight executives sold 308,000 shares valued at $60 million.

It might not seem as though 300,000 shares is an alarming amount with over 130 million shares outstanding, but in this case it certainly is. By the Company's own account, executive officers and directors held only 311,000 shares and exercisable options as of June 1, 2007. While executives have vested in additional stock since then, the newly available shares only fueled the selling rather than offset the ownership erosion over the last five months.

We should start from the beginning, when eight officers spent $10.8 million to buy 276,000 shares in the May 2006 initial offering (directed share program). The associated six month lock-up period along with the short-swing rule eliminated the possibility of any profit taking for the next six months. Although their compensation equity awards did not begin to vest until May 2007 (options) and December 2007 (restricted stock), this did not inhibit them from capitalizing on the issue's momentum sooner. The Company disclosed in an SEC 8-K that six of the Company's executive officers adopted 10b5-1 sales plans on August 13th. The disclosure (below; bolding is ours) falls short of indicating how many shares each individual intends to sell, since they provided total share counts for all the insiders involved, but other areas of this disclosure are more telling:

In the aggregate, the plans entered into by the Executives allow for the sale of a maximum of: (i) 40,500 shares of the Company's Class A common stock, par value $0.0001 per share (the "Class A common stock"), purchased by the Executives in the Company's directed share program in connection with its initial public offering in May 2006, (ii) approximately 138,413 shares of Class A common stock associated with restricted stock unit awards and (iii) 51,260 shares of Class A common stock underlying stock option awards. Sales of shares by the Executives pursuant to the 10b5-1 Plans are expected to occur over a two-year period and provide for sales of specified share amounts at specified market prices, subject to specified limitations. Sales pursuant to the 10b5-1 Plans are expected to begin as early as October 12, 2007 and will terminate no later than August 13, 2009, unless terminated sooner in accordance with the 10b5-1 Plans' terms.

First off, the disclosure gives the impression that the selling would commence on October 12th at the earliest. While the 10b5-1 sales did in fact begin on 10/12/07, two insiders took profits outside of their respective plans before they were permitted to sell in plan. General Counsel Hanft sold 3,000 of the 8,000 purchased in the IPO on August 22nd while President of Global Accounts **Chris McWilton**, who bought the IPO and additional shares four months later, sold roughly 30% of his stock on August 23rd and August 24th. On their own these trades seemed inconsequential, but they proved to be the first indication of questionable 10b5-1 activity. The second misleading item in the disclosure is the line indicating the plan sales will occur over a two year period. It does not seem to have been the intent from the beginning that these plans would last for the full two years, as three of the six who adopted a plan in August entered into a second plan just three months later (November), including the aforementioned Hanft and Chief Executive **Robert Selander**. Both executives are currently trading under two plans simultaneously, alternating the plans with each new trade, which is rare behavior that never fails to get our attention. We again remind our clients that this is similar to the 10b5 strategy employed by Countrywide Financial's chief executive, **Angelo Mozilo**, which caught the government's attention.

It is important to bear in mind that none of the above transactions is an unlawful action under the loosely-defined rules of 10b5-1. We have defined a number of our own 'best practices' to evaluate the veracity of insider sales plans, which are in accordance with the recommendations of the legal community and regulators. The one action widely recognized as the most detrimental to the safe harbor protection afforded by the Rule are sales executed outside of the trading plan constraints. Though we have, in the past, highlighted a number of insiders at other companies who have traded outside of their respective plans, this is the first time we can recall reporting a head counsel as the perpetrator. With two open plans in place, GC Hanft went outside of his plan on February 5th to sell 4,000 shares at the intraday high of $215, which proved to be an insightful decision as MasterCard shares reversed course later in the session and have yet to trade above $210 since. His behavior bears even more relevance due to his direct involvement in the Company's defense against a number of anti-trust claims (interchange fees) and "significant" (Company's wording) lawsuits, including those filed by American Express and Discover. Visa, which was also a co-defendant in the suit, settled with AMEX for $2.25 billion. The excerpt below was taken from the Risk Section of MasterCard's SEC 10-K filed on 02/21/08 [bolding is ours]:

> **If we are unsuccessful in defending against either or both of these lawsuits, the ultimate liability for MasterCard could have a material adverse effect on our results of operations, financial position and cash flows in the quarterly and annual period when such losses are recognized. Such liability could also have a material adverse effect on our overall financial position and, in certain circumstances, even cause us to become insolvent. Similarly, if we decide to settle either or both lawsuits or if we establish provisions in connection with them (which will depend on our continuing reconsideration of the progress of the litigation), such a settlement or the establishment of such provisions could also have a material adverse effect.**

Figure 4. MA Daily Closing Price, 03/01/07 through 03/24/08. Red diamond is the date the GC Noah Hanft sold outside of his trading plan (02/05/08). Source: Reuters and MA SEC Filings.

Exacerbating already troubling insider profiles are the resultant ownership reductions from the recent profit taking. Insider holdings have actually declined since the Company provided ownership figures in the Proxy Statement (record date: 04/09/07) even though they have since vested in both stock and options. This is not a situation where their holdings will be replenished in the near term, as officers such as CAO **Michael Michl** and division president McWilton, who collectively sold 58,000 shares since October, will each have only 10,000 shares/options become actionable through the remainder of the year. CEO Selander is the only executive whose ownership will be replenished by December.

Executive	Position	% Ownership Sold Since Oct-07
W. Roy Dunbar	Pres of Global Technology [1]	100%
Michael Michl	Chief Admin Officer	91%
Chris McWilton	Pres of Global Accounts	90%
Gary Flood	Pres of Products and Svcs	70%
Noah Hanft	General Counsel	65%
Alan Heuer	Vice Chairman (executive)	40%
Robert Selander	President, CEO	30%

[1] Dunbar resigned from the Company effective March 15, 2008

With the large sales and attendant reductions in mind, we looked to the Company's compensation philosophy for a better understanding of the board's position on management ownership and were intrigued to see the explanation for the large restricted stock awards issued at the time of the 2006 IPO. The Compensation Committee purportedly issued these grants because they "believe having executives who have a significant equity stake in the Company aligns their interest with those of the stockholders". This reasoning is consistent with the stock ownership guidelines implemented in December 2006. But we cannot help questioning why, with ownership requirements in place and the stock issued to facilitate the attainment of the ownership guidelines, three of the top executives hold fewer than 5,000 shares, well below their targets. In fact, CAO Michl has already sold all shares he purchased in the IPO and those that became unrestricted in December. It would seem the issue's current valuation was a disincentive to retaining the shares and complying with their ownership requirements. We suspect they intend to accumulate the stock at a future time when selling will not be as lucrative.

We have not uncovered any risks in MasterCard's governance practices and ownership structure with the exception of the well-known complicated dual class structure that entitles its financial institutional *customers* (holders of M class voting stock) such as Citigroup and Bank of America to appoint their own board members. However, one issue we feel warrants a mention is the resignation of **W. Roy Dunbar**, the former President of Global Technology. Dunbar joined MA in September 2004 and received a total compensation package valued at $5.2 million in 2006, including a delayed $2 million signing bonus. Although his active employment ended in January, the same month he was announced as the new chief executive at Network Solutions, MasterCard made his resignation effective on March 15th which allowed him to monetize options that vested on March 1st for a pre-tax profit of $500,000. We are unable to compare his compensation at MasterCard with his new Network Solutions package since it is a private firm, but suspect he was compensated handsomely for the $15 million in unvested stock and options he left on the table.

- **Michael Michl (61)*** – Chief Administrative Officer. Michl, a former Avon Products human resource executive, joined MasterCard in 1998 and has been in his current position for the last four years. Michl began trading under his first sales plan in October, only to enter into a second plan which he sold under simultaneously in January. Due to the ambiguity of the 10b5-1 disclosure, it is unclear how many shares he was allowed to sell under the first plan, or even how many he has sold under the second. But we know that he has already sold a total of 26,817 shares between October 31st and January 31st at prices ranging from $178 to $210. **The shares sold to date accounted for 91% of his actionable position and he currently holds no common after selling all that previously vested**. Michl will have 10,000 more options and shares become actionable this year, the majority of which will vest in December (see Appendix B).

- **Chris McWilton (48)*** – President of Global Accounts. McWilton was the Company's CFO from 2003 until he was repositioned in November. MasterCard reported the move was done to give broader experience to other senior officers, but this reasoning makes little sense considering McWilton was replaced by an outsider (**Martina Hund-Mejean**). Regardless, McWilton remains a high-ranking officer and one who has sold off the majority of his position in recent months. McWilton first adopted a 10b5-1 sales plan in August and opportunistically sold 13,500 shares in late August and early November before commencing his plan sales on November 29th. Since that time he has sold another 22,184 shares in plan through March 12th, which in total has **covered 91% of his actionable ownership**. He now holds just 4,500 shares after having monetized the last of his exercisable options which had vested on the first of March. It is not clear if he has additional shares reserved for sale under his existing 10b5-1 due to the limited disclosure. He will have another 11,000 options and shares vest through December 2008 (see Appendix B).

- **Noah Hanft (54)*** – General Counsel, Chief Franchise Officer. As MasterCard's administrator for executive stock transactions, we would expect to see Hanft hold himself to a higher trading standard. Instead, he currently trades in an out of two open sales plans entered into just three months apart (August and November), under which he sold 20,777 shares **liquidating 65% of his available equity**. Included in the total were 4,000 sold out of his common revealing quite an interesting medley of carefree 10b5 activity. Hanft will have 5,000 options vest in May and then nearly 6,000 shares will become actionable in December (see Appendix B), but these will not be enough to replace the equity sold over the last few months.

- **Robert Selander (57)*** – President, Chief Executive Officer, Director. Selander's first MA trade was a 120,000-share purchase into the May 2006 IPO. He has now reversed the sentiment, selling part of the shares under a 10b5-1 trading plan entered into in August. Between October 12th and February 25th he sold a total of 72,000 shares at an average price of $193. As is the case with his peers, we have no idea how many shares he intends to sell under his existing sales plan, but he has **already sold nearly 30% of his position**. To his credit, he has yet to sell any of his vested options, instead opting to take profits on the majority of stock awards he has vested in to date. Selander will have nearly 50,000 options become actionable in May followed by 35,000 shares in December (see Appendix B).

* Indicates individual was a "Named Executive" in the Company's last proxy.

Appendix A

Option and Restricted Stock Vesting Schedules for Selected EnerSys 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
John Craig, Chairman, President, Chief Executive Officer. Common stock holdings: 175,060 shares								
11/09/00	Options	384,158	$10.82	07/26/04	11/09/10	227,358	0	Fully Vested
[1]	Options	86,155	$21.91	07/26/04	11/09/10	86,155	0	Fully Vested
[1]	Options	64,609	$29.36	07/26/04	11/09/10	64,609	0	Fully Vested
[1]	Options	594,626	$10.82	07/26/04	03/22/12	594,626	0	Fully Vested
[1]	Options	164,827	$21.91	07/26/04	03/22/12	164,827	0	Fully Vested
01/01/06	R. Stock	47,131	N/A	01/01/07	01/01/10	23,566	23,566	01/01/09, 01/01/10
05/29/07	Options	83,448	$18.25	05/29/08	05/29/17	83,448	83,448	05/29/08, 05/29/09, 05/29/10, 05/29/11
05/29/07	R. Stock	41,324	N/A	05/29/08	05/29/11	41,324	41,324	05/29/08, 05/29/09, 05/29/10, 05/29/11
Raymond Kubis, President of Europe. Common stock holdings: 14,413 shares								
03/22/09	Options	142,158	$16.24	07/26/04	03/22/09	122,158	0	Fully Vested
[1]	Options	217,760	$10.82	07/26/04	03/22/12	66,760	0	Fully Vested
[1]	Options	65,957	$21.91	07/26/04	03/22/12	65,957	0	Fully Vested
01/01/06	R. Stock	21,602	N/A	01/01/07	01/01/10	10,801	10,801	01/01/09, 01/01/10
05/29/07	Options	17,818	$18.25	05/29/08	05/29/17	17,818	17,818	05/29/08, 05/29/09, 05/29/10, 05/29/11
05/29/07	R. Stock	8,824	N/A	05/29/08	05/29/11	8,824	8,824	05/29/08, 05/29/09, 05/29/10, 05/29/11
Michael Philion, Executive V.P. of Finance, Chief Financial Officer. Common stock holdings: 13,562 shares								
03/22/09	Options	142,158	$16.24	07/26/04	03/22/09	42,158	0	Fully Vested
[1]	Options	153,657	$10.82	07/26/04	11/09/10	78,657	0	Fully Vested
[1]	Options	34,428	$21.91	07/26/04	11/09/10	34,428	0	Fully Vested
[1]	Options	25,821	$29.36	07/26/04	11/09/10	25,821	0	Fully Vested
[1]	Options	237,760	$10.82	03/22/05	03/22/12	117,760	0	Fully Vested
[1]	Options	65,957	$21.91	03/22/05	03/22/12	65,957	0	Fully Vested
01/01/06	R. Stock	17,183	N/A	01/01/07	01/01/10	8,592	8,592	01/01/09, 01/01/10
05/29/07	Options	17,818	$18.25	05/29/08	05/29/17	17,818	17,818	05/29/08, 05/29/09, 05/29/10, 05/29/11
05/29/07	R. Stock	8,824	N/A	05/29/08	05/29/11	8,824	8,824	05/29/08, 05/29/09, 05/29/10, 05/29/11
John Shea, Executive V.P. of Americas. Common stock holdings: 73,024 shares								
[1]	Options	34,428	$21.91	07/26/04	11/09/10	34,428	0	Fully Vested
[1]	Options	25,821	$29.36	07/26/04	11/09/10	25,821	0	Fully Vested

Appendix A

Option and Restricted Stock Vesting Schedules for Selected EnerSys 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
[1]	Options	65,957	$21.91	07/26/04	03/22/12	65,957	0	Fully Vested
01/01/06	R. Stock	17,183	N/A	01/01/07	01/01/10	8,592	8,592	01/01/09, 01/01/10
05/29/07	Options	17,818	$18.25	05/29/08	05/29/17	17,818	17,818	05/29/08, 05/29/09, 05/29/10, 05/29/11
05/29/07	R. Stock	8,824	N/A	05/29/08	05/29/11	8,824	8,824	05/29/08, 05/29/09, 05/29/10, 05/29/11
Richard Zuidema, Executive V.P. of Administration. Common stock holdings: 8,585 shares								
11/09/98	Options	24,692	$3.74	07/26/04	11/09/08	9,200	0	Fully Vested
03/22/99	Options	142,158	$16.24	07/26/04	03/22/09	42,158	0	Fully Vested
[1]	Options	153,657	$10.82	07/26/04	11/09/10	3,657	0	Fully Vested
[1]	Options	34,428	$21.91	07/26/04	11/09/10	34,428	0	Fully Vested
[1]	Options	25,821	$29.36	07/26/04	11/09/10	25,821	0	Fully Vested
[1]	Options	237,760	$10.82	03/22/05	03/22/12	237,760	0	Fully Vested
[1]	Options	65,957	$21.91	03/22/05	03/22/12	65,957	0	Fully Vested
01/01/06	R. Stock	17,183	N/A	01/01/07	01/01/10	8,592	8,592	01/01/09, 01/01/10
05/29/07	Options	17,818	$18.25	05/29/08	05/29/17	17,818	17,818	05/29/08, 05/29/09, 05/29/10, 05/29/11
05/29/07	R. Stock	8,824	N/A	05/29/08	05/29/11	8,824	8,824	05/29/08, 05/29/09, 05/29/10, 05/29/11

* Red highlight indicates options that are currently under water

[1] The exact grant date of this option series is unclear due to incomplete reporting

ADVISORS

Appendix B

Option and Restricted Stock Vesting Schedules for Selected MasterCard Inc. Insiders

Grant Date	Equity Type	Options/ Shares	Strike Price (Options)	First Vesting Date	Expiration Date (Options)	Remaining Options/Shares in Series	Unvested Options/Shares in Series	Vesting Dates of Remaining Restricted Shares/Options
W. Roy Dunbar, Former President of Global Technology and Operations. Common stock holdings: 0 shares								
05/26/06	Options	39,232	$39.00	05/25/07	05/25/16	29,424	29,424	05/27/08, 05/27/09, 05/27/10
05/26/06	R. Stock	30,513	N/A	01/31/10	01/31/10	30,513	30,513	01/31/10
05/26/06	R. Stock	46,154	N/A	12/31/07	12/31/09	9,231	9,231	12/31/09
05/26/06	R. Stock	7,477	N/A	12/31/08	12/31/08	7,477	7,477	12/31/08
03/01/07	Options	21,428	$106.29	03/01/08	03/01/17	16,071	16,071	03/01/09, 03/01/10, 03/01/11
Noah Hanft, General Counsel, Chief Franchise Officer. Common stock holdings: 10,434 shares								
05/26/06	Options	19,616	$39.00	05/25/07	05/25/16	14,712	14,712	05/27/08, 05/27/09, 05/27/10
05/26/06	R. Stock	15,257	N/A	01/31/10	01/31/10	15,257	15,257	01/31/10
05/26/06	R. Stock	26,154	N/A	12/31/07	12/31/09	5,230	5,230	12/31/09
05/26/06	R. Stock	5,816	N/A	12/31/08	12/31/08	5,816	5,816	12/31/08
03/01/07	Options	10,712	$106.29	03/01/08	03/01/17	10,712	8,034	03/01/09, 03/01/10, 03/01/11
03/01/07	R. Stock	3,107	N/A	02/28/10	02/28/10	3,107	3,107	02/28/10
03/01/08	Options	6,048	$190.00	03/01/09	03/01/18	6,048	6,048	03/01/09, 03/01/10, 03/01/11, 03/01/12
Alan Heuer, Vice Chairman (executive position). Common stock holdings: 60,722 shares								
05/26/06	Options	62,308	$39.00	05/25/07	05/25/16	62,308	46,731	05/27/08, 05/27/09, 05/27/10
05/26/06	R. Stock	48,462	N/A	01/31/10	01/31/10	48,462	48,462	01/31/10
05/26/06	R. Stock	83,077	N/A	12/31/07	12/31/09	16,616	16,616	12/31/09
05/26/06	R. Stock	20,354	N/A	12/31/08	12/31/08	20,354	20,354	12/31/08
03/01/07	Options	34,032	$106.29	03/01/08	03/01/17	34,032	25,524	03/01/09, 03/01/10, 03/01/11
Chris McWilton, President of Global Accounts. Common stock holdings: 4,500 shares								
05/26/06	Options	23,076	$39.00	05/25/07	05/25/16	17,307	17,307	05/27/08, 05/27/09, 05/27/10
05/26/06	R. Stock	17,949	N/A	01/31/10	01/31/10	17,949	17,949	01/31/10
05/26/06	R. Stock	26,154	N/A	12/31/07	12/31/09	5,231	5,231	12/31/09
05/26/06	R. Stock	5,816	N/A	12/31/08	12/31/08	5,816	5,816	12/31/08
03/01/07	Options	12,604	$106.29	03/01/08	03/01/17	9,453	9,453	03/01/09, 03/01/10, 03/01/11
03/01/07	R. Stock	7,057	N/A	02/28/10	02/28/10	7,057	7,057	02/28/10
03/01/08	Options	7,004	$190.00	03/01/09	03/01/18	7,004	7,004	03/01/09, 03/01/10, 03/01/11, 03/01/12

Appendix B

Option and Restricted Stock Vesting Schedules for Selected MasterCard Inc. Insiders

Grant Date	Equity Type	Options/ Shares	Strike Price (Options)	First Vesting Date	Expiration Date (Options)	Remaining Options/Shares in Series	Unvested Options/Shares in Series	Vesting Dates of Remaining Restricted Shares/Options
Michael Michl, Chief Administrative Officer. Common stock holdings: 0 shares								
05/26/06	Options	13,076	$39.00	05/25/07	05/25/16	9,807	9,807	05/27/08, 05/27/09, 05/27/10
05/26/06	R. Stock	17,436	N/A	01/31/10	01/31/10	17,436	17,436	01/31/10
05/26/06	R. Stock	26,154	N/A	12/31/07	12/31/09	5,231	5,231	12/31/09
05/26/06	R. Stock	7,062	N/A	12/31/08	12/31/08	7,062	7,062	12/31/08
03/01/07	Options	10,712	$106.29	03/01/08	03/01/17	10,712	8,034	03/01/09, 03/01/10, 03/01/11
Robert Selander, President, Chief Executive Officer, Director. Common stock holdings: 130,000 shares								
05/26/06	Options	192,300	$39.00	05/25/07	05/25/16	192,300	144,225	05/27/08, 05/27/09, 05/27/10
05/26/06	R. Stock	64,103	N/A	01/31/10	01/31/10	64,103	64,103	01/31/10
05/26/06	R. Stock	126,154	N/A	12/31/07	12/31/09	25,231	25,231	12/31/09
05/26/06	R. Stock	34,062	N/A	12/31/08	12/31/08	34,062	34,062	12/31/08
03/01/07	Options	63,020	$106.29	03/01/08	03/01/17	63,020	47,265	03/01/09, 03/01/10, 03/01/11
03/01/08	Options	35,016	$190.00	03/01/09	03/01/18	35,016	35,016	03/01/09, 03/01/10, 03/01/11, 03/01/12