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Do Insiders Know 'Something' Or Are They Just Profit Taking?

Airline Executives Are Selling More Stock Than They Are Buying

It is no secret that the airline industry is in trouble. Those who know the industry best – airline executives – are not investing their own money in the industry. In fact, airline insiders as a whole are selling off their company shares.

Market watchers who closely follow insider stock transactions are not taking comfort in the trend that airline stock sales from insiders far surpass buys, including those discounted option buys.

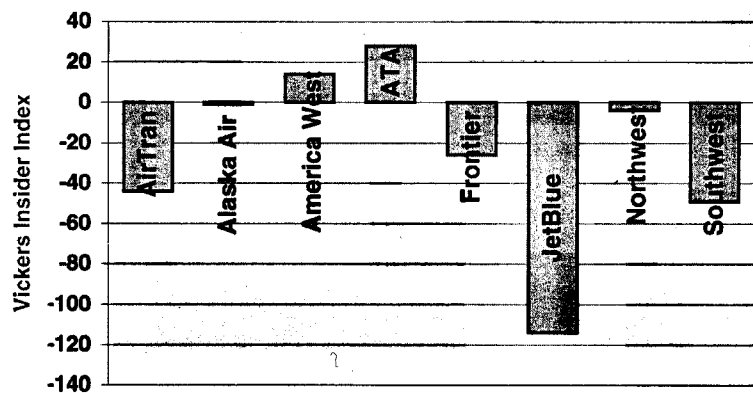
"Based on [airline insiders'] selling activity relative to their buying activity, one would conclude that one should not be an owner of airlines at this time," said Michael Painchaud, research director at Seattle-based **Market Profile Theorems**. These insiders are saying the risk of holding onto company stock is now greater than it was in the beginning of the year. Their message: "We don't want to participate in this risk."

"It is really the lack of buying that sticks out," said Lon Gerder, director of insider research at **Thomson Financial**. "We are seeing a real hesitation to add shares, which is not a positive sign. It is not a vote of confidence."

Thomson tracks the open market purchases and selling activity for a number of sectors. In the airline sector, the collective value of insider sales in August topped \$19 million – the largest amount since \$36 million worth of stock was sold in February 2002. On the other hand, most months saw less than \$200,000 worth of open market stock buys by executives. In fact, twice during the last two years there were months with no insider buys. And only once, in November 2002, did the buys cross the \$1 million mark.

Painchaud subjects his data to a number of time-tested measures. He noticed that the airline executives and Wall Street analysts have flip-flopped their positions this year. Company insiders were very bullish in February, March, April and May. The analysts were very bearish in that same time period. "One thing that is driving the price per share of these airlines is the upper revisions by the analysts who have become gradually more bullish. However, the ones that have identified the value first were the insiders." Painchaud noted that "this is a very typical pattern."

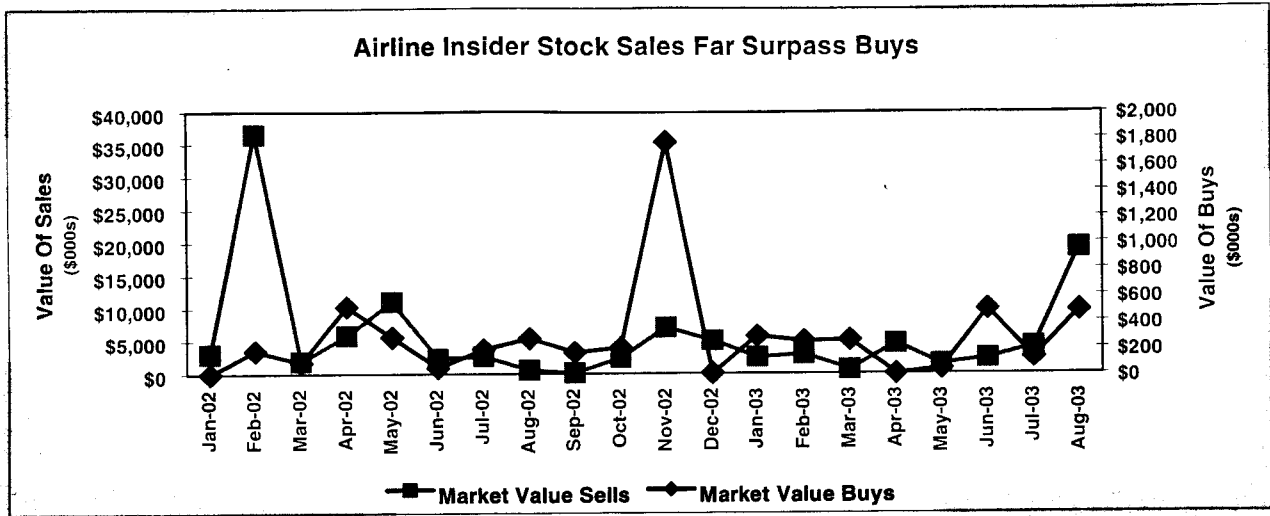
More Airline Insiders Are Selling Than Buying



The Vickers Insider Index rates each firm's insider transactions for the past six months. The ratings are weighted. A high plus denotes higher insider buying and a high negative reflect heavy insider selling.

Source: Vickers Stock Research, www.vickers-stock.com

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Source: Thomson Financial

Taking a contrarian view, Parker French, the chief investment strategist at **Brinker Capital Holdings**, said insiders are simply profit taking. "We went through this tremendous upheaval over the last three years, they became psychologically beaten up just as everybody else. Their stock prices have dropped dramatically so the selling that has been taking place in this rally was really an opportunity to lighten their exposure to their company's stock. It is a good idea to diversify and many of these people are not diversified. It is not specific to any particular industry."

French noted that with the many stock option plans available today, very few executives purchase shares on the open market.

One pattern is apparent after examining the **Securities and Exchange Commission** records of insider transactions for both network and low-fare carriers – most activity has been with the profitable low-fare carriers. "Why sell your stock at this awful price that is so low," French reasoned. And in some companies, it is an unwritten rule of the CEO that the executives need to be invested in the company.

The only network carrier to report any measurable activity this year was **Delta Air Lines** [NYSE: DAL]. The airline executives did not make open market purchases. Instead, the officers exercised no-cost options and then turned around and sold a portion of the new shares that same day. CEO Leo Mullin received 10,000 shares and then sold 4,245 shares at \$12.18 a share to net \$51,704 in an August deal.

It was a much different story at the profitable low-fare airlines.

Painchaud examined the records for **Southwest Airlines** [NYSE: LUV] and found they scored the

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most poorly because of insider activity. "I am surprised since Southwest is often held up as the poster child for the industry," he said.

Southwest Chairman Herbert Kelleher purchased 900,000 shares – all at extremely low option prices – for \$2.8 million since June. Taking advantage of the higher stock prices, Kelleher then sold 477,656 shares in a three-week period grossing \$8.2 million. Kelleher still holds more than 4 million Southwest shares.

French said sales like Kelleher should not be too closely scrutinized since as a retired CEO it could simply be part of his estate planning process.

Easily the most actively sold stock has been **JetBlue Airways** [Nasdaq: JBLU]. Two company executives, CFO John Owen and Thomas E. Kelly, an executive vice president, last fall established an automated sales program. Each week Owen sells 3,150 shares and Kelly sells 1,500 shares. Both obtained the stock as grants and neither has made open market buys. Since January, Owen has sold 108,000 shares to net \$3.8 million. He still has 454,000 JetBlue shares. Kelly has sold 45,000 shares to earn \$1.5 million and he still holds 306,000 shares.

The automated sales programs are increasingly common, Gerber said. The plans make it tough to do analysis. "It is actually a good defense because you are selling over and over."

"The view of insiders to own their own company can be expressed by their willingness to hold their own shares," Painchaud said. The automated sales send a mixed message. Furthermore, the analysis of JetBlue is "muddied" by director Joy Covey's open market purchases of more than 25,000 shares at market prices over the summer. She has spent more than \$1 million on the three transactions. No other executive or director has purchased JetBlue shares on the open market this year. "I have a mixed picture [of] JetBlue," he said.

Painchaud, who sells his services to money managers, said his modeling correctly predicts the long-term movement of a stock 57 percent of the time.

French views the sales by Owen and Kelly as "dollar-cost averaging out of the market. It is a prudent thing."

James Parker, a JetBlue analyst with **Raymond James** in Atlanta, said the pair have much of their personal wealth tied up in JetBlue and they are simply diversifying. "Keep in mind they also took a very big gamble in coming to this company as a start-up. This is part of the pay-off." →

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After A Good August, September Is Holding Its Own

A \$10 decision that each airline must make this month could well shape the flow of millions in travel dollars for the remainder of the year. The decision: Should ticket prices be raised to compensate for the federal security fee?

"It will be interesting to see what the carriers do as far as fares for Oct. 1," said John Heimlich, director of economic and market research at the **Air Transport Association**. "When the security fees come back will they lower the base fares or will they try to pass some of it through. The decision will be partly based on what they think the market will bear and what the competition is market-by-market."

In an effort to help the struggling airline industry, Congress last spring suspended the \$5-each-way federal security tax until Oct. 1. Instead of dropping the final round-trip ticket prices by \$10, the airlines maintained their price structure so that the consumer paid the same as before the June 1 suspension.

Since June the airlines – both the network carriers and the low-fare carriers – have been flying fuller planes and edging closer to profitable operations.

After reviewing early September flight reports, Heimlich believes the airlines will do better in September than they did in August. In a September-to-September comparison, he said the gap is narrowing to a 1 percent traffic decline. In the August-to-August comparison, the traffic decline was 2 to 3 percent from last's levels.

While the collective volume of traffic for the industry is below 2002 levels, the airlines are flying fewer planes thus increasing the load factor to more than 80 percent for most airlines.

It is hard to say if a fare hike will dampen business. Not one airline has announced its October fare plans. Heimlich suggested the airlines will need to make the decision soon to get advertising in place.

Continental Airlines [NYSE: CAL] in a letter to investors predicts that the September load factor will be 3 points better than last year and the October load factor will be 2 percent better than the same month in 2002. (Continued on next page.)