

Freeport-McMoRan Director Plays Copper

By CATHERINE SHU

A DIRECTOR HAS LOADED UP his piggy bank with \$26.7 million in **Freeport-McMoRan Copper & Gold** shares ahead of approval for the company to buy Phelps Dodge, a deal that would turn the combined entity into the world's largest publicly traded copper producer

Robert Day purchased 377,000 Freeport shares on the open market for about \$53 each on Jan. 22, and another 123,000 shares for about \$54.47 each on Jan. 23. Day, who is the founder of Trust Company of the West, or TCW, has been on Freeport's board of directors since 1995. This week's shopping spree is Day's first reported purchase of Freeport stock on the open market in the 12 years he has sat on the board. Day built the rest of his Freeport stake of 632,000 shares, or 3.2% of Freeport's 196.9 million outstanding shares, through stock-option exercises.

Ben Silverman, director of research at InsiderScore.com, says that Day's big buy is a "bullish bet on copper prices," which have fallen steadily since hitting a record high of \$4.16 a pound last May. Analysts are mixed on what direction the price of the metal is headed in.

Michael Painchaud, managing director of research at Market Profile Theorems, calls Day's purchase an "actionable buy signal." The size of the purchase has boosted Market Profile Theorem's score on insider sentiment at Freeport to an eight, very bullish, up from six, or a neutral rating, for the company. (A 10 is the most bullish signal, while a one is the most bearish).

As an example of prescient buying in the past by company insiders, Painchaud notes that Freeport's stock price soared from about \$36 at the beginning of May 2005, after director Robert J. Allison purchased \$360,600 worth of shares, to about \$68 in March 2006, when other insiders began selling off Freeport stock.

After Day's purchases, "we would expect the share price to rise from here, and not only that, but it should rise faster than the average stock," says Painchaud.

Day's purchases also come as Freeport awaits the completion of its deal to purchase fellow copper producer Phelps Dodge. A shareholder vote on the acquisition, which was announced in late November and has the support of Phelps Dodge's largest shareholder, Atticus Capital, is expected in March.

Atticus Capital, which owns about 10% of Phelps Dodge shares, also disclosed a 5.41% stake, or 10.7 million shares, in Freeport stock on Jan. 18. Atticus did not own Freeport shares at the end of the third quarter of 2006.

Under the terms of the deal, Freeport will acquire Phelps Dodge for \$25.9 billion in cash and stock. The deal values each Phelps Dodge share at \$88 in cash and 0.67 of a Freeport share.

The Freeport-Phelps Dodge combination faced some early opposition from Freeport shareholder SAC Capital, which doubled its stake in the company to 5.1% on Dec. 11 after signaling that it would vote against the deal. SAC Capital cut back its stake to 4.1% on Jan. 22, however, which Silverman says means it is unlikely that SAC Capital will continue to stand against the acquisition.

Barclays Capital also increased its stake in Freeport last week to 5.5%, or 10.9 million shares, from the 4.1%, or 7.8 million shares, it reported owning at the end of the third quarter. The buying by Barclay is also an "incremental positive" for the stock, says Silverman, noting that Barclay purchased the shares during the fourth quarter, when the deal with Phelps Dodge was announced.

While the combination of the purchases by Day, Atticus and Barclay sends out a bullish signal, Joshua Hong, director of research at OwnershipAnalyzer.com, warns investors not to read too much into Atticus' ownership stake.

Noting that Freeport warned about higher-than-expected production costs in 2007 on Jan. 17, Hong says that Atticus may decide to sell Freeport shares after the deal is completed. A sale by Atticus may put some pressure on the combined company's stock price, since Atticus holds 5.4% of Freeport's shares and a 10% stake of Phelps Dodge.

"There is no clear signal here," says Hong.