

Harley Transactions Puzzle Observer

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WASHINGTON—Trying to assess the motives of insiders who buy company stock often is a bit like trying to read minds. Even more than usual, though, transactions by two executives at Harley-Davidson Inc. have left observers wondering: What were they thinking?

The two executives exposed themselves to risk and large, immediate tax bills when they acquired nearly 100,000 company shares last week through options exercises.



INSIDE TRACK

“That’s kind of weird,” said Michael Gray, a certified public accountant who is co-founder of the Employee Stock Option Advisors Association LLC, a San Jose, Calif., company that provides tax guidance related to stock options.

Two other insiders at the Milwaukee motorcycle maker made more typical stock purchases during the past two weeks, buying 6,000 shares on the open market for about \$244,539, or an average of \$40.76 a share. In 4 p.m. New York Stock Exchange composite trading, Harley-Davidson shares fell 88 cents to \$40.25.

Observers of insider filings typically interpret such open-market purchases as a signal that the buyers expect the stock to rise. Michael Painchaud, research director for Market Profile Theorems, said recent activity has led his company to give Harley-Davidson a rating of “10” on its 1-to-10 scale of insider-stock rankings.

Mr. Painchaud particularly noted the Jan. 23 open-market purchase of 1,000 shares at \$42.17 each by director Richard I. Beattie. Mr. Painchaud called Mr. Beattie “a very, very good timer,” whose past purchases have preceded upward moves for the company’s stock.

Unlike the open-market purchases,

however, options exercises perplex observers of insider transactions because, unless the options are about to expire, the economic motive for such transactions isn’t clear.

The two executives who exercised options—James L. Ziemer, chief financial officer, and Gail A. Lione, general counsel—paid \$6.09 a share to \$13.49 a share, and are obligated to pay taxes on their gains. None of the options involved were near their expiration dates. According to Securities and Exchange Commission filings, the nearest expiration was in February 2004 and the most distant in 2007.

Mr. Ziemer and Ms. Lione didn’t return calls seeking comment. Harley-Davidson’s director of corporate communications, Joe Hice, said he wasn’t able to speak for the executives on their motives for their transactions. “I do know that both of them have the intention to hold on to the shares,” Mr. Hice said.

Mr. Gray, of the Employee Stock Option Advisors Association, said the consequences provide a powerful incentive to the early exercise of options.

Mr. Ziemer, for example, exercised options to acquire stock valued at \$621,320 on the day of the transaction, resulting in a paper gain of \$3.24 million. Such gains are recognized immediately as additional wages, Mr. Gray said, and a 27% tax is typically withheld, with a maximum federal tax rate of 38.6%.

“Usually, when I have client in this position, I suggest they’re better off going ahead and selling the stock,” Mr. Gray said.

Bernie Fulk, an officer with insider data provider Washington Service, said such advice is heeded in many cases.

“We know for a fact that the vast majority of transactions where people exercise options on stock, they turn around and sell it,” Mr. Fulk said. “It’s almost the exception to the rule that somebody doesn’t do that.”