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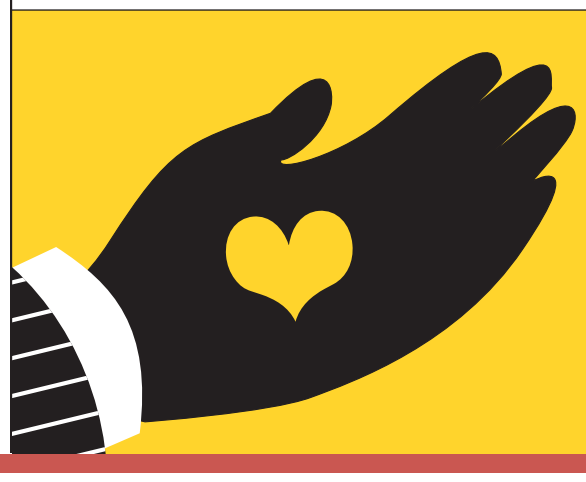
■ RAY DURHAM, MARQUIS GRISSOM JOIN TEAM ■ SECOND BASEMAN KENT OFFERED SALARY ARBITRATION



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DECEMBER 8, 2002 | SUNDAY
THE NEWSPAPER OF SILICON VALLEY

THE INSIDERS

RICH MAN, POOR COMPANY

HOW SOME SILICON VALLEY EXECUTIVES MADE FORTUNES WHILE THE VALUE OF THEIR COMPANIES PLUNGED

(AND IT'S ALL PERFECTLY LEGAL)

A Mercury News analysis shows insiders at **40 companies** took home **$3.4 billion** from selling their stock. Meanwhile, their company's value fell at least **99.5 percent** from what it was at the height of the boom.

COMPANY	EXECUTIVES	1997-2002	MARCH 31, 2000 – SEPT. 30, 2002
PORTAL. Billing software firm is based in Cupertino.	21 insiders	Sold stock worth $704 million	Company's change in value -99.5%
Inktomi develops network optimization software and is based in Foster City.	15 insiders	Sold stock worth $600 million	Company's change in value -99.8%
Exodus Communications, a Santa Clara Web-hosting firm, filed for bankruptcy.	26 insiders	Sold stock worth $549 million	Company's change in value -100%
Redback NETWORKS Telecommunications equipment company is in San Jose.	19 insiders	Sold stock worth $441 million	Company's change in value -99.7%
Clarent, a Redwood City firm, specializes in communications products.	10 insiders	Sold stock worth $356 million	Company's change in value -100%
Excite@Home Redwood City broadband company filed for bankruptcy.	21 insiders	Sold stock worth $269 million	Company's change in value -100%
BROADVISION Software firm is based in Redwood City.	13 insiders	Sold stock worth $129 million	Company's change in value -99.6%
Adaptive Broadband, a Sunnyvale company, filed for bankruptcy.	8 insiders	Sold stock worth $73 million	Company's change in value -100%
Gadzoox, a storage area network firm, is based in San Jose.	18 insiders	Sold stock worth $59 million	Company's change in value -99.9%
egghead The Menlo Park software retailer filed for bankruptcy.	12 insiders	Sold stock worth $40 million	Company's change in value -100%

FOUR WINNERS AND THEIR LOSERS

Dennis Barsema,
Former CEO of Redback Networks

HOW MUCH HE SOLD
1.8 million shares for **$138 million**

COMPANY'S VALUE
Has fallen 99.7 percent

K. B. Chandrasekhar
Founder and former CEO of Exodus Communications

HOW MUCH HE SOLD
6.8 million shares for **$135 million**

COMPANY'S VALUE
Has fallen 100 percent

David Peterschmidt
CEO of Inktomi

HOW MUCH HE SOLD
1.6 million shares for **$90 million**

COMPANY'S VALUE
Has fallen 99.8 percent

Thomas Jermoluk
Former CEO of Excite@Home

HOW MUCH HE SOLD
1.9 million shares for **$50 million**

COMPANY'S VALUE
Has fallen 100 percent

A MERCURY NEWS SPECIAL REPORT

Public investors are the big losers

By Chris O'Brien and Jack Davis
Mercury News

Running companies that became almost worthless didn't stop dozens of Silicon Valley insiders from pocketing billions of dollars by selling their stock during the tech boom and bust.

The Mercury News examined the stock sales record of insiders at 40 companies in Silicon Valley that have lost virtually all their value since the stock market peaked in March 2000. The executives, board members and venture capitalists at these companies walked off with $3.41 billion, while their companies' total market value plunged 99.8 percent to a mere $229.5 million at the end of September.

It represented a remarkable transfer of wealth from the pockets of thousands of anonymous investors — from day traders to pension funds — into the wallets of executives and directors who turned out to be winners even when their companies became some of Silicon Valley's biggest losers.

Coming at a time of public discontent with corporate ethics, the disconnect between the performance of these companies and the executives' fantastic rewards is symptomatic of the problems that have ignited calls to reform executive compensation and corporate governance.

"The people who bought the stock they sold are the victims here," said Charles Elson, director of the Center for Corporate Governance at the University of Delaware. "This money was taken from investors who didn't have the same information as these insiders and lost their money."

The Mercury News compiled a list of local companies whose stock price dropped at least 99.5 percent from March 2000, when the Nasdaq peaked, to Sept. 30, 2002. Those companies were then ranked by the amount of stock sold by insiders — roughly 300 — since the beginning of 1997.

This means the list leaves off some spectacular flameouts where executives

See **INSIDERS**, *Page 18A*

First in a three-part series

COMING TOMORROW
How insiders can reap enormous rewards even when their companies tank.

Iraq delivers weapons report

12,000-PAGE DOCUMENT ISSUED WITH A THREAT

Mercury News Wire Services

BAGHDAD, Iraq — Iraqi President Saddam Hussein made a grand gesture of cooperation with the United Nations on Saturday, turning over a 12,000-page inventory of materials he possesses that could be used for weapons, but he then turned his open hand into a fist.

Iraqi officials said the released documents confirmed, in rebuttal of U.S. and British claims, that Saddam Hussein's government had no weapons of mass destruction and no current programs to develop them.

Saddam also chose Saturday to deliver a statement on Kuwait, offering an apology to God if Iraq had unknowingly harmed the desert kingdom with its invasion in 1990. But he coupled that muted retreat with an appeal to Islamist militants in Kuwait — a diverse group with at least some past links to Al-Qaida — to join him

See **IRAQ**, *Back Page*

WHAT'S NEXT

■ The cargo of documents, CD-ROMs and filing folders will arrive in New York today and be delivered straight to the offices of the U.N. Monitoring, Verification and Inspection Commission (UNMOVIC), the agency set up to ensure the disarmament of Iraq.

■ The next crucial stage will come when the documents are handed over to the United States and other member states of the Security Council, a step that could take several days.

■ The CIA and the national laboratories will analyze the report as soon as they obtain a copy, comparing it with intelligence information about Saddam's known weapons projects before inspectors were withdrawn in 1998.

KAITLYN'S SPIRIT INSPIRES KINDNESS

Offers of benefit CD, money given to girl with rare disease

By Linda Goldston
Mercury News

Inspired by an 8-year-old Saratoga girl's brave fight against a debilitating disease, a music promoter hopes to turn her poem — "I Am the Same Inside" — into a song, record it on a CD and unveil it at a benefit concert in February.

The CD and concert are the most unusual offers of help for Kaitlyn Langstaff, whose illness has left her unable to see, speak or eat everyday food. But she also has received more than 150 letters with donations from $1 to $1,000 since her poem and her story were published in the Mercury News on Thanksgiving Day. And total strangers have offered to repair her family's damaged van and leaking roof.

"We are shell-shocked, just overwhelmed by the response," said Kait-

See **KAITLYN**, *Page 14A*

Weather High: 62-66 Low: 42-46 Rain possible. Complete forecast, **16B**

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RICH MAN, POOR COMPANY | A MERCURY NEWS SPECIAL REPORT

INSIDERS | Executives scored big while company values plunged

Continued from Page 1A

weren't shy about selling stock. For instance, JDS Uniphase missed the cut, with a 97.1 percent drop, even though executives sold $1.17 billion in stock between May 1997 and November 2002, even as the optical components company was firing two-thirds of its employees. Also absent is software company Ariba, whose stock dropped 98.7 percent and where insiders sold $1.26 billion between October 1999 and November 2002.

The survey also excludes some of the valley's household names. Not included are John Chambers, who between August 1997 and February 2000 sold $296.2 million in Cisco stock; Larry Ellison, who in January 2001 sold $894.8 million in Oracle stock; and Scott McNealy, who from May 1997 to July 2002 sold $107.9 million in Sun Microsystems stock. These corporate giants generally are older and remain strong competitors even as their stock prices have tanked.

Supposed good bets

The 40 companies on the Mercury News list are primarily software, hardware and telecommunications companies — the infrastructure providers that were supposed to be good bets rather than flighty dot-coms.

These companies are a seriously wounded bunch. While not true of every company, as a group, they have a variety of problems. Most had major restructurings that led to mass firings. Fifteen went bankrupt. Several more are running out of cash.

Almost half the companies face lawsuits from angry shareholders. Five of the Top 15 companies had to restate earnings, some from periods when insiders were selling stock. And a handful of the companies have been cited in investigations by Congress and the Securities and Exchange Commission into investment banks accused of manipulating IPOs.

Though option grants usually get the most attention, much of the stock sold by insiders at these companies were shares they gained from being founders or early-stage venture investors prior to IPOs. Once their standard 180-day lock-up periods ended, many of these insiders began selling their stock like there was no tomorrow.

For some of their companies, there isn't much of a tomorrow:

■ **John Little, founder and CEO of Portal Software,** sold $127.5 million of stock in Portal, which is on the verge of being delisted by Nasdaq. Portal, which sells billing software, topped the Mercury News list with insiders selling $704 million in stock — more than its total revenue since the May 1999 IPO.

■ **David Peterschmidt, CEO of Inktomi,** sold $90.5 million of stock at the No. 2 company on the list. Inktomi, once a promising Internet search engine company, in November sold off a major division to raise cash it needs to survive.

■ **K.B. Chandrasekhar, founder and former CEO of the former Exodus Communications,** cashed out $135.1 million in stock at the Web hosting company before it went bankrupt. Chandrasekhar is now founder and CEO of Jamcracker. Exodus was bought out of bankruptcy by Cable & Wireless, which recently announced more layoffs at the hosting division.

■ **Dennis Barsema, former CEO of Redback Networks,** sold $138.4 million in stock before he left in July 2000 after 2½ years at the helm. Barsema later became CEO at Onetta, another networking start-up. He donated $20 million in stock to his alma mater, Northern Illinois University. Meanwhile, Redback announced another round of layoffs Nov. 14 and says it may have to raise more financing to stay afloat.

■ **Jerry Shaw-Yau Chang, former CEO of Clarent,** sold a measly $16.5 million, though insiders at his telecom company dumped $355.8 million. Mired in accounting irregularities, the company has restated financial statements for 2000 and part of 2001, and been unable to report earnings for most of 2002.

■ **Thomas Jermoluk, former CEO of At Home,** sold $50.3 million before the cable broadband giant filed for bankruptcy. The company, known as Excite@Home, once boasted a market value of $13 billion before vaporizing following squabbles with its main shareholder and partner, AT&T. Jermoluk is now a venture partner at Kleiner Perkins Caufield & Byers.

Executives at every company contacted either did not return phone calls or declined to comment, in many cases citing pending litigation. The one exception was Frederick D. Lawrence, former CEO of Adaptive Broadband, who agreed — after speaking with his lawyer — to discuss executive compensation though not the specifics of his company.

He pointed out that executive pay plans are publicly available and that most investors never bother to read them. And when insiders sell stock, they must also publicly disclose the sales in filings to the SEC.

"People really work hard in these industries," Lawrence said. "They spend hours away from friends and family. Although that's not an excuse for any poor behavior."

No surprise

However, Nell Minow, editor of the Corporate Library, a research center that focuses on corporate governance, said the heavy insider stock sales are no surprise. Minow is a leading critic of allowing insiders to sell their stock because it creates the temptation to push the envelope on things like accounting.

"They sell the stock and then they restate the earnings," Minow said. "That brings it one step closer to being a Ponzi scheme."

The increasing use of stock and options to compensate executives over the past decade grew out of a broader shareholder value movement. The idea was to align the interests of executives with the stockholders who, in theory, are more important than employees or managers.

But the practice has come under fire from critics who say stock grants have forced executives to become too focused on short-term results and doing whatever it takes to boost the stock price. That in turn can lead to everything from laying off employees after a bad quarter to feeling pressure to bend or break accounting rules to make the numbers.

"Their decisions are distorted," said Neelam Jain, assistant professor at Jones Graduate School of Management at Rice University. "What the managers are trying to do is maximize their own profits and not the firm's profits."

Graef Crystal, a leading compensation expert in Las Vegas, believes the problem has been overblown. He points out that while many executives sold their stock, many of them could have sold far more, which they elected to keep and which eventually became worthless.

Did they know?

"The fact that they left huge amounts of money on the table does not suggest they knew something was coming," Crystal said.

But the criticism of these insider stock sales continues to grow. That backlash increased in November, when the Conference Board released an annual survey of 2,841 companies in 14 industries that showed executive pay and perks continued to rise in 2001 even as the stock market and economy slumped.

At the same time executive compensation has exploded, bankruptcies have soared and publicly traded companies are facing record numbers of shareholder lawsuits. According to the Securities Class Action Clearinghouse at Stanford Law School, the number of shareholder suits rose from 213 in 2000 to 488 in 2001 — despite a law passed in 1996 by Congress to discourage such litigation.

While many companies dismiss such litigation as a nuisance, observers say many corporate insiders still underestimate the anger of investors who lost big sums during the boom and bust and are still feeling burned.

"This is not a victimless crime," said Charlie Cray, director of Citizen Works' Campaign for Corporate Reform. "The argument is that they're taking risks. But they're taking risks with other people's money.

"This is really a question of fairness."

Contact Chris O'Brien at cobrien@sjmercury.com or (415) 477-2504. Contact Jack Davis at jdavis@sjmercury.com or (408) 271-3788.

INSIDER SALES AT VALLEY COMPANIES THAT LOST VIRTUALLY ALL THEIR VALUE

These 40 Silicon Valley companies lost at least 99.5 percent of their value from the end of the first quarter of 2000, when the Nasdaq market peaked, through the end of the third quarter of this year. (The percentage change listed is rounded to the nearest tenth of a percent.) The Mercury News examined insider sales from 1997 to the present. Sales figures include shares sold by directors, venture capitalists and other major investors, as well as those executives deemed to be "insiders." (Companies have leeway in identifying insiders, so the figures vary by company.) Some transactions on behalf of trusts have been included. The companies are ranked by the value of insider sales. Market values have been rounded to the nearest $100,000.

	MARKET VALUE March 31, 2000	MARKET VALUE Sept. 30, 2002	PERCENT CHANGE	INSIDER SALES SINCE 1997	NO. OF SELLERS
Portal Software	$9.0 billion	$42.4 million	-99.5%	$703.9 million	21
Inktomi	$21.4 billion	$36.6 million	-99.8%	$600.2 million	15
Exodus Commun.[1]	$29.0 billion	$0.0	-100.0%	$548.7 million	26
Redback Networks	$21.8 billion	$54.9 million	-99.7%	$440.6 million	19
Clarent	$2.9 billion	$1.2 million	-100.0%	$355.8 million	10
Excite@Home[1]	$13.0 billion	$1.0 million	-100.0%	$269.0 million	21
BroadVision	$11.2 billion	$39.6 million	-99.6%	$128.8 million	13
Adaptive Broadband[1]	$2.0 billion	$100,000	-100.0%	$72.6 million	8
Gadzoox	$1.3 billion	$900,000	-99.9%	$59.4 million	18
Egghead[1]	$283 million	$100,000	-100.0%	$40.3 million	12
Kana Commun.	$6.1 billion	$18.3 million	-99.7%	$39.7 million	15
Nexprise	$2.6 billion	$8.1 million	-99.7%	$31.0 million	4
P-Com	$1.4 billion	$6.4 million	-99.6%	$22.4 million	9
Accrue Software	$1.2 billion	$2.0 million	-99.8%	$20.9 million	12
3DFX Interactive	$292 million	$200,000	-99.9%	$19.6 million	22
Metricom[1]	$1.4 billion	$100,000	-100.0%	$12.5 million	12
Webvan[1]	$2.5 billion	$100,000	-100.0%	$9.3 million	5
Com21	$1.0 billion	$3.7million	-99.6%	$7.2 million	14
Mbrane[1]	$403 million	$0.0	-100.0%	$5.0 million	13
PixTech	$193 million	$800,000	-99.6%	$4.5 million	7
Viador	$840 million	$2.1 million	-99.8%	$3.3 million	3
Sunrise Technologies	$327 million	$100,000	-100.0%	$2.6 million	3
Keravision[1]	$114 million	$100,000	-99.9%	$2.3 million	8
Hybrid Networks	$192 million	$0.0	-100.0%	$1.5 million	3
SSE Telecom[1]	$54.4 million	$0.0	-99.9%	$1.4 million	4
General Magic	$458 million	$0.0	-100.0%	$1.1 million	3
Quintus[1]	$994 million	$3.2 million	-99.7%	$1.1 million	1
Audiohighway.com[1]	$33.9 million	$0.0	-100.0%	$700,000	3
Preview Systems	$795 million	$600,000	-99.9%	$500,000	3
Natural Wonders[1]	$10.1 million	$0.0	-100.0%	$400,000	7
ATG[1]	$58.2 million	$0.0	-100.0%	$100,000	1
eGain	$1.2 billion	$4.8 million	-99.6%	$100,000	3
@Comm[1]	$155 million	$0.0	-100.0%	$35,000	3
Solopoint	$11 million	$0.0	-99.5%	$27,000	1
Innovacom	$43 million	$0.0	-100.0%	#	#
Netobjects	$700 million	$200,000	-100.0%	#	#
Enlighten Software[1]	$28.6 million	$0.0	-99.9%	#	#
iPrint.com	$576.2 million	$1.1 million	-99.8%	#	#
LiveWorld	$151.5 million	$500,000	-99.7%	#	#
Euphonix	$45.6 million	$200,000	-99.7%	#	#
Total	**$136 billion**	**$230 million**	**-99.8%**	**$3.4 billion**	**315***

[1] Filed for bankruptcy # No insider sales activity found * Insiders who sold at more than one of these companies were counted once.

SOURCE: THOMPSON FINANCIAL, BLOOMBERG FINANCIAL MARKETS, SECURITIES AND EXCHANGE COMMISSION

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RICH MAN, POOR COMPANY | A MERCURY NEWS SPECIAL REPORT

Sampling of 40 biggest losers is only tip of insider iceberg

DOZENS OF IMPRESSIVE UNDERACHIEVERS IN VALLEY BARELY MISSED THE CUT

By Chris O'Brien
Mercury News

The 40 Silicon Valley companies featured in these stories offer just a glimpse of the much larger rush of insider stock sales that have funneled billions of dollars into the hands of executives, directors and major investors despite the miserable performance of their companies.

To make the cut, a company's stock had to lose at least 99.5 percent of its value between March 2000 and September 2002.

Overall, there were 319 publicly traded companies in the valley during that period.

Had the cutoff been set at a stock decline of 90 percent, the number of companies would leap to 146. In fact, half the publicly traded companies in the valley have lost at least 87 percent of their stock value since the Nasdaq peaked in March 2000.

In many cases, insiders at this next group of underachievers received far larger windfalls for company track records that were only marginally better than the 40 worst performing companies:

■ Yahoo's stock fell 94.4 percent while insiders sold $2.3 billion (former Chief Executive Timothy Koogle alone sold $191 million worth of Yahoo stock).

■ Foundry Networks stock fell 95.7 percent while insiders sold $831 million.

■ Juniper Networks fell 96.4 percent while insiders sold $604 million.

■ Network Appliance fell 91.1 percent while insiders sold $571 million.

> Overall, what numbers are publicly available probably understate the size of insiders' haul.

The list also didn't extend to San Francisco, home to many of the dot-coms, or much of the East Bay. So it didn't look at wounded ducklings like San Francisco's CNet, where the stock dropped 97.8 percent and insiders sold $303 million. Also left out was Pleasanton's Commerce One, which fell 99.6 percent even as insiders sold $588 million.

Some of the companies where the heaviest selling occurred remain established players with solid prospects and reputations even if their stock prices are down sharply. That includes Cisco Systems, Sun Microsystems and Yahoo.

And of course, not all this money ended up in the hands of executives. The Packard Foundation sold $1.34 billion worth of Hewlett-Packard stock over a two-year period. HP CEO Carly Fiorina only cashed out $8.8 million in August 2000.

But overall, what numbers are publicly available probably understate the size of insiders' haul because many executives left their companies with millions of unsold shares. Once they stop being insiders, they are no longer required to report sales of those shares.

Adaptive insiders enjoyed the ride

$73 MILLION CASHED IN 6-WEEK PERIOD

By Chris O'Brien
Mercury News

Adaptive Broadband had a tumultuous ride from start to finish. But that didn't stop insiders from cashing out stock worth $72.6 million during a six-week period in 2000.

Adaptive began life as California Microwave, a Sunnyvale company that made satellite and microwave radio equipment. Its chief executive was Frederick D. Lawrence. He had spent 12 years at Sprint, helping to oversee the building of its fiber optic network.

In October 1998, California Microwave purchased a British start-up called Adaptive Broadband for $11 million in cash. Adaptive's product allowed high-speed Internet access through a wireless connection.

Name changed

California Microwave changed its name to Adaptive Broadband and divested most divisions except wireless broadband.

The divestitures included selling its government business unit to defense giant Northrop Grumman for $98 million in cash.

In July 1999, Northrop sued Adaptive, claiming it had been misled about the status of the unit's major government contracts. Adaptive denied the claim.

Nonetheless, Adaptive's stock raced up — from as low as $8.75 in January 1999 to $207.44 on March 10, 2000.

Between Feb. 2 and March 8, 2000, eight insiders sold $72.5 million in stock — just before the stock peaked on March 10. They were led by Lawrence, who sold $47.8 million of stock.

The timing was good for Lawrence, who on May 25 bought a $6 million, six-bedroom house in Rancho Santa Fe on 2.4 acres. About 30 miles north of San Diego, Rancho Santa Fe is the richest community in the United States, according to U.S. Census data.

By mid-2000, the Nasdaq had started its crash and so had Adaptive's stock. On Nov. 13, 2000, Adaptive announced it was being acquired by another local wireless broadband company called Western Multiplex of Sunnyvale for $645 million in stock.

Merger called off

In January 2001, Western called off the merger when Adaptive's quarterly revenue came in at $8 million — far lower than the $31 million projected by the company. At the same time, Lawrence announced his intention to retire.

The new CEO took over and in March 2001 reported that the company had to restate earnings for the quarter ended June 2000 from $17.1 million to $13.1 million.

Four months later, in July 2001, Adaptive filed for bankruptcy.

Lawrence and Donna Birks, the former chief financial officer who cashed out $9 million in stock, have been sued by shareholders.

In addition, the bankruptcy attorney liquidating Adaptive's assets has indicated in SEC filings that he may sue to get Lawrence and Birks to repay interest-free loans of $150,000 and $500,000, respectively, that the company made for "among other things, purchase of personal residences."

No comment

Lawrence is retired and working part time as a venture capitalist. He declined to discuss specific events at Adaptive because of pending litigation.

But he did say that people have forgotten how hard companies had to compete to retain executives during the bubble days.

He said there probably needs to be some changes to the way executives are compensated, though he's not sure exactly what.

"It's right that people should worry about this," Lawrence said. "If there's the perception that someone won and lost, then nobody is going to be happy. I'm not smart enough to know how you change that."

"On the surface it looked like it was in decent shape. But it was a money pit."

— ARCHITECT GARY KOHLSAAT TALKING ABOUT THE HAYFIELD HOUSE IN SARATOGA, WHICH HE HELPED INKTOMI'S CHIEF EXECUTIVE RENOVATE. DAVID PETERSCHMIDT AND HIS WIFE BOUGHT THE MANSION FOR $4.7 MILLION IN 1999.

EUGENE H. LOUIE — MERCURY NEWS

Inktomi CEO David Peterschmidt and his wife bought this six-bedroom mansion, designed by Julia Morgan, for $4.7 million. They also own two adjacent properties.

AS INKTOMI SINKS, CEO RESTORES HOME

He sold $90.5 million in stock by early '01

By Chris O'Brien
Mercury News

For David C. Peterschmidt, chief executive of Inktomi, things went wrong from the start. Not with the search engine company, but with the six-bedroom Saratoga mansion he bought.

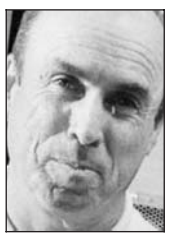
The Hayfield House, which has historic landmark designation, was designed by legendary architect Julia Morgan. Peterschmidt and his wife, Roxanne, bought the house in June 1999 for $4.7 million. It needed restoration, so they hired architect Gary Kohlsaat.

Three years later, the work is still not done.

"On the surface it looked like it was in decent shape," Kohlsaat said. "But it was a money pit."

There were leaks and sagging stucco. Then the guest home had to be moved and a new garage built. The mansion — with a wraparound porch, several gables and an ornate front gate — should be done sometime this month.

When completed, it will go nicely with the two adjacent properties the Peterschmidts bought for $2.1 million and $5.4 million. And the Peterschmidts can always escape to the three-bedroom vacation house in Palm Desert they bought in September 2000 for $3.5 million.



Peterschmidt

Don't worry. Peterschmidt can afford the pricey real estate. He sold $90.5 million in Inktomi stock between November 1998 and February 2001. From 1999 to 2001, he also collected a total of $1.76 million in salary and bonus, plus options for 2.1 million shares. The company let him exchange options for 1.47 million shares for ones at lower prices as Inktomi's stock fell.

Inktomi also extended 10 loans to Peterschmidt between Dec. 10, 2001, and May 14 totaling $7.6 million to cover what the company described in SEC filings as his "short-term cash needs." The company made the loans so Peterschmidt wouldn't sell more Inktomi stock, which could have had "negative inferences," Inktomi said in a filing. The company added that by making the loans, it hoped its CEO would "focus on growing the company."

Peterschmidt also served as a director at Portal Software, where he sold $7.3 million in stock since 1999. Inktomi happened to be a customer of Portal's and bought $90,246 in software and consulting services in the 2001 fiscal year.

Peterschmidt, through an Inktomi spokeswoman, declined to comment.

He became CEO of Inktomi in July 1996, just a few months after being ousted as chief operating officer at Sybase when the software company reported a first quarter loss.

Inktomi's future is uncertain. Its stock traded at $241.50 on March 24, 2000, but now hovers around $1. The company recently sold its software division for $25 million to raise cash. The number of employees stands at 140, down by more than 600 from its peak.

Clarent deals too good to be true

PANEL FINDS OVERSTATED REVENUE; BEFORE LEAVING, CEO SOLD $16.5 MILLION IN STOCK

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Through 2000 and the first half of 2001, sales ballooned at a scrappy telecom start-up named Clarent in Redwood City. Customers seemed to be buying its revolutionary new services at a pace that seemed too good to be true.

It was.

In August 2001, Clarent's board formed a committee to investigate a series of accounting and financial irregularities. According to Clarent's SEC filings, the committee discovered that revenue had been overstated by 47 percent — $129.4 million — for 2000 and the first half of 2001 because of numerous shenanigans in its Asian division.

In an SEC filing in May, the company disclosed that in one case a marketing director in Asia had funneled Clarent money to entities he controlled, which then used that same cash to buy Clarent products.

Clarent uses Internet technologies to deliver telecommunications services.

Jerry Chang, who had been CEO since the company's founding in July 1996, was also implicated. According to an SEC filing, the committee's report said that Chang may have had an "indirect financial interest" in an Asian company named Articula, which received cash from Clarent to buy Clarent products.

Clarent announced in September 2001 that it had laid off two executives and had accepted the resignation of Chang, who had previously been placed on administrative leave.

Trading in the company's stock was halted that month and only resumed last January. Nasdaq delisted the stock in February.

Before Chang left, he sold $16.5 million in company stock, part of the total $355.8 million sold by 10 insiders between November 1999 and July 2001.

Chang and his wife live in a $7 million, three-bedroom Los Altos home they bought in August 2000, complete with a three-car garage, a multi-level fountain in the driveway and a brown facade topped with a minaret.

Chang

Chang and his family referred questions to his attorney, Mike Diamond, who said he had no comment. In court filings, Chang has denied any wrongdoing and denied that he had any interest in Articula.

A Clarent spokesman said the company was unable to comment because of pending litigation.

The two other biggest stock sales were made by Clarent board members whose venture capital funds had been major investors in the company. Critics of insider stock sales argue that granting shares to board members compromises their independence.

Clarent board member Wen Chang Ko, chairman of the Taiwan-based WK Technology Funds, sold $211.5 million of stock controlled by him and his funds before leaving the board in April 2001. Board member Shirley Lin, a Goldman Sachs managing director, sold $36 million of stock on behalf of Goldman Sachs before she left Clarent's board in August 2000.

More than a year after Clarent's board moved to shake up the company, Clarent has not been able to file earnings statements for 2002. Since July 2001, Clarent has fired 82 percent of its employees, leaving it with about 180. And the company faces several class action lawsuits from shareholders.