

Caterpillar Director Loads Up the Truck

By NAUREEN S. MALIK

A LONGTIME DIRECTOR at Caterpillar bought more than a shovel-load of shares days after the heavy-machinery maker posted record second-quarter results.

Juan Gallardo doled out \$7.7 million to buy 110,000 shares (\$70.17 each) in the open-market Thursday boosting his direct holdings to 204,109 shares (or more than 350,000 including options), Securities and Exchange Commission filings show.

Gallardo, a Caterpillar director since 1998 and chairman of Mexican bottler Grupo Embotelladoras Unidas, has made his personal largest purchase ever as a director at either Caterpillar or the Mexico Fund, a closed-end fund that invests in companies listed on the Mexican stock exchange.

The dollar value of Gallardo's purchase was the most any Caterpillar insider spent to acquire shares at one time, based on records dating back to 1986, notes Mark LoPresti, senior quantitative analyst at Thomson Financial. Peter Magowan, another longtime Caterpillar director, had purchased more shares at a fraction of the price last fall. (See Inside Scoop, "Insider Preps for Caterpillar's Flight," Oct. 31, 2005.)

Caterpillar shares have gained 34% over the past 12 months, closing at \$71.21 Friday, to outperform big-cap peers and the broader market. The Dow Jones Industrial Average has risen 5.4% from a year ago, and the Standard & Poor's 500 index is up 3.6%.

Gallardo's transaction Thursday was his first open-market buy since October 2000 (and third ever at Caterpillar), when he acquired 45,518 shares for \$821,000. He has never sold Caterpillar shares.

"This is a big standout," LoPresti says, because Gallardo has tended to make small transactions of 7,000 shares or less at a time. His only other large insider transaction took place in October 2000, which preceded a 34% gain six months thereafter.

LoPresti says, "Let's not forget Caterpillar is going to be one of the premier firms to capitalize on globalization" through industrial and commercial building.

Caterpillar spokesman Rusty Dunn says that "from a company perspective it's a good thing when people invest in Caterpillar by buying stock."

Between the purchases made by Gallardo and Magowan, favorable insider sentiment has been bolstered by a slew of insiders acquiring shares through options, says Michael Painchaud, managing director of research at Market Profile Theorems.

So far this year, 28 executives and directors exercised options to acquire more than 894,000 shares for nearly \$24.5 million, according to Thomson Financial data. Among them, 21 insiders sold about 454,000 shares for \$30 million.

Joshua Smith, a director since 1993, made the most recent transaction on Thursday. He spent nearly \$300,000 to acquire 12,000 shares through options (priced from \$22.76 to \$26.03) before selling them for a total of \$846,500.

Smith's only other open-market transaction was in February 2005, when he sold 3,115 shares outright for about \$283,000. SEC filings show he has never purchased shares in the open market. Chairman and managing partner of consulting firm Coaching Group, Smith holds about 42,900 shares, including options.

Caterpillar spokesman Dunn says "it's not unusual" for executives and directors to exercise options given they are allowed only four trading windows a year to do so.

Weighing the buying versus the selling at Caterpillar, Painchaud says, "If I were a portfolio manager, I would be looking for any price weakness to be a buyer of more shares."

In reporting record sales and profits in the second-quarter release last Friday, management projected a six- to eight-year cycle for global recovery that is currently in the fourth year.

Despite concern whether Caterpillar will be able to maintain a robust growth, Credit Suisse analyst Jamie Cook wrote in a July 24 research report that "the company has additional room for growth," citing industrialization in economies such as China, India and the Middle East.