

# CP Ships action enabled share sale

## Accelerated vesting of options allowed chairman to cash in before price dive

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**CP Ships Ltd.** said yesterday that it had accelerated chairman Ray Miles' vesting of stock options by five months, allowing him to sell those options shortly after he relinquished his duties as chief executive officer in May, months before the stock plunged.

The exercise and sale of 110,667 shares on May 19 proved to be good timing because CP Ships shares tumbled 22 per cent in August, when the container shipping company announced that it had overstated its profit.

Speeding up the options vesting "was part of the transition and it is generally normal for a chairman to hold fewer shares than a chief executive would. That was part of the transition process," CP Ships spokeswoman Elizabeth Canna said in an interview.

Mr. Miles, whose options originally had been slated to vest in October, stepped down as CEO after 16 years, taking over as chairman on May 4. He returned to the helm and became the shipper's interim CEO last Wednesday, replacing Frank Halliwell, who resigned after just seven months as CEO after a dispute with the board of directors over the company's future strategy.

CP Ships said Friday that Mr. Miles inadvertently broke company rules in May when he improperly traded shares with advance knowledge of undisclosed inside information.

In August, the London-based company had mentioned the May vesting of 110,667 options in footnote No. 9 to its second-quarter financial results. But at the time it didn't identify which official or officials held the options.

Insider trading reports indicate that Mr. Miles on May 19 exercised the options at \$7.80 (U.S.) apiece and sold them that same day at \$23.20 (Canadian) each, for a total profit of about \$1.4-million. He also sold a total of 91,671 shares, stemming from a long-term incentive plan (LTIP), on May 19 and May 25, for a \$2.1-million gain.

**Anthony Scilipoti**, an analyst with **Veritas Investment Research Corp.**, said Mr. Miles' restricted LTIP shares had previously been scheduled to vest this month.

CP Ships began trading on the Toronto Stock Exchange in October, 2001, after being spun off from conglomerate Canadian Pacific Ltd. Yesterday the shares fell 11 cents to \$14.52 -- a 53-per-cent drop from their record high in September, 2003.

On Friday, a four-member special committee of CP Ships' independent directors, headed by Toronto-based lawyer Peter Dey, said trading by Mr. Miles and three other company officials "was done openly and with required internal approvals."

While the shipper said there was "no intent" to breach any corporate rules or securities laws, it asked Mr. Miles and the others to repay to the company their profits from May and June trades.

On Aug. 9, CP Ships warned that it had uncovered "accounting deficiencies" and would need to restate its financial results, triggering a 22-per-cent drop to \$17.07 in its stock price.

On Aug. 16, it revealed that its stated profit needed to be lowered by \$41-million (U.S.) for a nine-quarter period from 2002 through the first quarter of 2004. That represented a 29-per-cent reduction, to a \$101-million profit for that period.

In a research report to its clients in late August, **Veritas** noted that Mr. Miles had 166,000 performance-based options and 36,889 restricted shares that were cancelled on July 29. Ms. Canna declined to comment yesterday on the cancellation of options and shares, but stressed that "if you go back to August when we announced our restatement, at that time we explained that Mr. Miles' share transactions were related to his transition."

The Ontario Securities Commission is looking into the May and June trading activity at CP Ships.

CP Ships' board of directors, including the special committee, met yesterday to discuss the company's plans for 2005 and beyond, Ms. Canna confirmed.

The company, under pressure as its performance lags the booming shipping industry, has been criticized for failing to anticipate China's trade bonanza. In the third quarter, it moved 306,000 containers known as TEUs (20-foot equivalent units) on its Atlantic lanes, or 53 per cent of its overall volume. That compares with 131,000 TEUs on Asian routes, or 22 per cent. Australia, Latin America and other markets accounted for the rest.

"We expect that CP Ships' strategy will be to stay the course in the near term as the company begins the process of hiring a new CEO," CIBC World Markets Inc. analyst Jacqueline Boland said in a research note.