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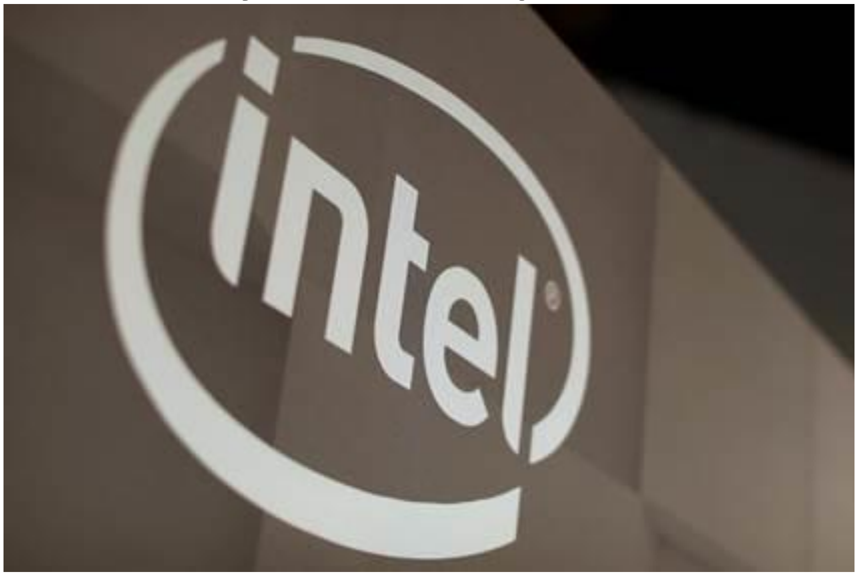
Intel CEO's Stock Sale Called Unusual by Private Securities Specialists
Some question timing of sale, as the company was handling concerns about security flaws in its chips



Intel and other computer-chip and software makers are dealing with the fallout following the disclosure of two widespread hardware vulnerabilities found by cybersecurity experts. PHOTO: MIKE BLAKE/REUTERS

By Ted Greenwald

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The sale of Intel Corp. INTC +0.29% stock by Chief Executive Brian Krzanich while the company was handling concerns about security flaws in its chips was a highly unusual move that risked attracting regulatory scrutiny, according to lawyers and analysts who follow executive stock sales.

The trade took place on Nov. 29, nearly six months after Intel was informed about the vulnerabilities, which could enable hackers to access user data in chips made by Intel and others. Mr. Krzanich sold shares and exercised stock options valued at a total of $39 million, netting him nearly $25 million, according to regulatory filings made at the time.

Word of the security flaws didn't become public until last week, sending Intel's shares down.

The timing of Mr. Krzanich's sale "is really odd," said Dan O'Connor, an attorney specializing in securities with the law firm Ropes & Gray. "The timing, the size, the unusual nature compared to prior sales—that's going to get this a lot of scrutiny."

The trade took place under a U.S. Securities and Exchange Commission rule that allows officers and directors of public companies to prearrange sales of specific numbers of shares at particular times. The rule prohibits insiders from setting up such transactions while possessing undisclosed information that might affect the stock price, Mr. O'Connor and other securities experts said.

Intel Chief Executive Brian Krzanich netted nearly $25 million in the stock transaction. PHOTO: GETTY IMAGES

A spokesman for Intel said Mr. Krzanich's divestiture was unrelated to the chip-security issue and the sale was based on a prearranged trading program. The company declined to make Mr. Krzanich available for an interview.

Regulatory filings show that Mr. Krzanich established the divestiture plan about a month before the trade, on Oct. 30, long after Intel learned of the chip vulnerabilities in June.

Intel hasn't said when Mr. Krzanich was informed of the issue. The company declined to provide further comment.

Intel's stock was up about 20% year-to-date when Mr. Krzanich put the trading plan in place, with almost all of those gains occurring in the prior two months.

Mr. Krzanich's trade stands out because it deviated from the CEO's previous pattern of incremental sales of Intel stock, according to Ben Silverman, a researcher at InsiderScore LLC, a clearinghouse for information about trades made by corporate and institutional insiders. Using the same SEC rule for trades by company officials, the CEO had exercised options and sold shares generally at monthly or quarterly intervals in the prior two years, involving no more than 80,000 shares in any given transaction, according to Mr. Silverman's analysis.

On Nov. 29, Mr. Krzanich sold more than 245,000 shares, nearly 50% of his unrestricted stock, reducing his unrestricted holding to 250,000 shares, the minimum set by Intel's executive-stock-ownership guidelines, according to the company's most recent proxy statement. That was an unusual move by a CEO, Mr. Silverman said. Moreover, Mr. Krzanich liquidated all his options, more than 644,000 shares valued at more than $28 million in total.

"It's not just that he sold stock knowing about the security issue," he said. "The size and selling behavior were unusual. Put those two elements together, and certainly on the surface it doesn't look good."

Mr. Silverman and other securities experts said they would expect U.S. regulators to examine Mr. Krzanich's trade to see if it violated insider-trading regulations, although such cases are difficult to win. A spokesman for the SEC declined to comment.

For an insider trade to violate the rule, the information held by Mr. Krzanich about the security vulnerabilities in Intel chips at the time he made the trade would have to be deemed material to Intel's business, the securities experts said. Intel said last week that it didn't expect the issue to have any material impact on its business.

That might be reasonable, said Doug Chia, who oversees governance issues at The Conference Board, a nonprofit business advisory group. Tech companies frequently discover security flaws, many of which are insignificant or easily fixed, he said.

Even so, other securities specialists say companies generally would want to be careful in communicating with investors about a CEO's stock sale in such circumstances.

"At first glance, it's a very unusual type of thing that shareholders and directors would want a fairly tight explanation about," said David Larcker, a professor of securities law at Stanford University. "It may be fine, but it's the kind of thing you'd want to really understand and be transparent with shareholders about."

At the time of Mr. Krzanich's sale, Intel was working with chip rivals and software partners to patch the security flaws, which were built into a variety of chips including virtually all Intel processors going back more than a decade. Intel was by far the company most affected by the problem, because it has dominant market share in chips used for servers and personal computers.

The companies had planned to announce the problem and their fixes on Jan. 9, but news of the security flaws leaked earlier. Intel shares then fell over 5% total on Wednesday and Thursday. The stock rose less than 1% on Friday and closed flat at $44.74 Monday.

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