Research Notes

December 9, 2008

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Research Notes are a brief description of the insider trading, accounting, or governance behaviors that we have been investigating for possible inclusion in standard 3DA reports, and may also include other information of general interest to 3DA subscribers. The ⬆ symbol indicates that we have observed management behavior that suggests a bullish sentiment.

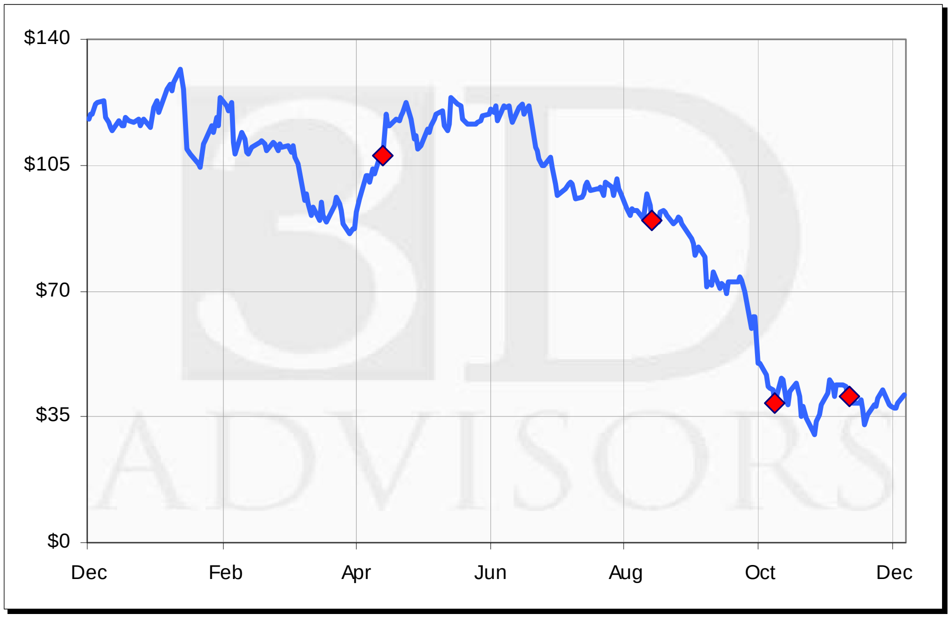
Companies in this Research Notes

3DAdvisors Research Notes

Bunge Limited (NYSE: BG)

- Bunge shares have continued to trade in a narrow range, closing yesterday virtually unchanged from the closing price on the day of our last update report on 11/13/08. Our interest in the name has not waned; we still think the Company is exposed to the possibility of a serious liquidity crisis considering several overarching factors, including: continuing weak to non-existent generation of cash from operations, possible further weakening of the quality of receivables from Brazilian soybean farmers, multiple questions concerning soybean inventory valuations, and low cash balances. Combine these issues with still difficult conditions in the corporate credit markets, which have forced the Company to rely on an ongoing patch work of short-term financing facilities in order to keep operating, and we think liquidity related risks remain high. In the past month, there has been some incremental new information, including further evidence of deteriorating conditions for Brazilian farmers that could materially degrade the quality of its receivables.

Figure 1. BG Daily Closing Prices, 12/03/07 through 12/08/08. Red diamonds are the dates of the last 4 3DA update reports. Source: Reuters and 3DAdvisors, LLC.



- Though we had expressed doubts about the Company's ability to negotiate a new revolver to replace the one that was expiring in November, it was announced in an SEC Form 8-K that a new $850 million unsecured revolving credit facility was entered into on 11/18/08 with a group of banks that included Citibank N.A. as the syndicate agent, BNP Paribus as a documentation agent, J.P. Morgan Chase Bank N.A. as administrative agent, and "certain other lenders". We do note, however, that this facility, which matures in one year, is just another short-term facility that only partially replaces a similar (and cheaper) $1 billion facility, and there is slightly less net cash available under the new facility. We suspect that if the Company were able to, it would prefer to have a larger, longer-term borrowing vehicle in place to meet its ongoing cash needs. We also note there is a total of 20 lenders involved in this revolver, with no one bank committing more than $70 million, even though the covenants keep a fairly tight leash on BG that favor the lenders.

- Of more significance, there have been more media accounts recently, confirmed by our own direct sources, offering further evidence that economic conditions for debt burdened soybean farmers in Brazil may be reaching a critical stage. An article published in *The Wall Street Journal* on 11/29/08[1] describes how credit to Brazilian soybean farmers has been cut drastically by the large agricultural companies, including Bunge, who historically have provided up to 40% of the credit used by these farmers to pay for seed, fertilizer and other crop inputs each planting season. BG has reduced its own lending to farmers by 70%. The catch-22 that BG finds itself in is that the farmers are already in hock to the Company to the tune of $1.6 billion, and those debts are repaid in soybeans, and the farmers are now having difficulty financing the next cycle of planting in order to pay off old debts. But it gets even

[1] Etter, Lauren, "In Brazil, Credit to Farmers Dries Up", November 29, 2008. Wall Street Journal Online, http://online.wsj.com/article/SB122792036438265797.html?mod=wsjcrmain

worse for the farmers, as input prices have escalated dramatically in the past year, while the price of soybeans has plummeted. According to *The Wall Street Journal* article, the cost to produce soybeans, corn and wheat is expected to be 42% higher this year than last year in Mato Grosso, Brazil's top soybean producing state. Meanwhile, soybean prices have remained depressed, with the January contract for soybeans closing at just $8.20 a bushel in Chicago yesterday. That's compared to over $15/bushel in late June.

Figure 2. CBOT Soybean Futures January Contract, Daily Closing Price, Cents/Bushel. Source: CME Group Inc.

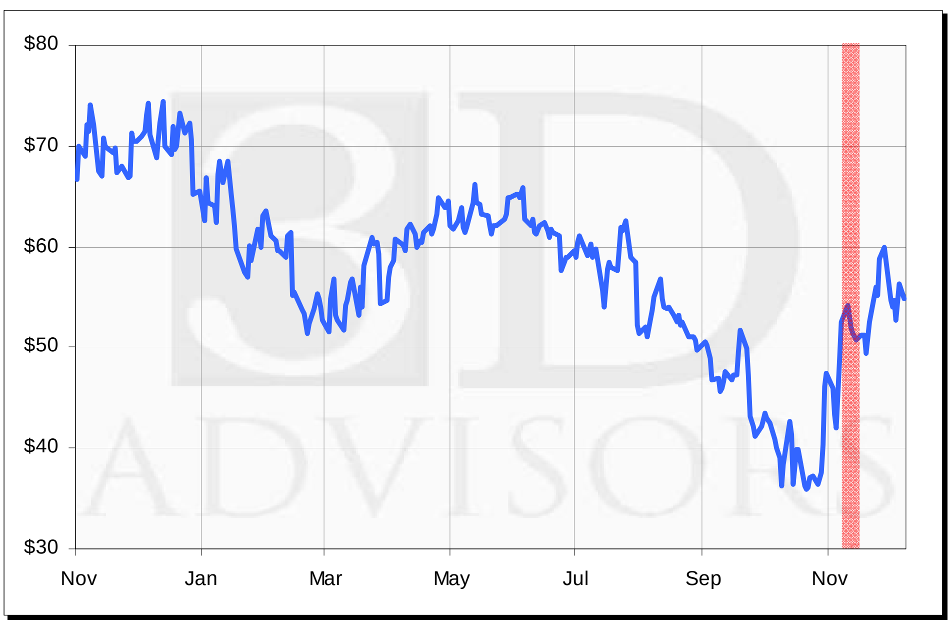
- The local media accounts we have received from our contacts in Brazil have been even grimmer. It is reported that in Mato Grosso, 70% of the farmers are delinquent on their debt payments, planted acreage has been drastically reduced in some areas and that layoffs of farm workers and repossession of tractors and harvesters is becoming common and widespread. Farmers are coping by trying to reduce costs by any number of means; as mentioned above they are reducing planted acreage, laying off workers, and reducing the amount of fertilizer they use -- which does help reduce costs but also diminishes crop yields. The reduced demand for high-priced fertilizer was the principal reason sited by a Merrill Lynch analyst on 12/05/08 when she downgraded BG from Neutral to Underperform. But since farmers pay their debts back to BG in soybeans, the declining profitability of soybeans that is leading to reduced planting and lower crop yields is increasingly likely to impact the quality of the Company's already shaky receivables. That has much more draconian implications for the Company's liquidity position which we have covered in detail in updates on 08/15/08 and 10/10/08.

Capella Education Co. and Strayer Education Inc. (NASDAQ: CPLA, STRA)

- In the current quarter we have issued comprehensive reports on two for-profit educators, Apollo Group Inc. (10/15/08) and ITT Educational Services Inc. (11/24/08). Amid the current market downturn, shares of the education companies have thrived (relatively speaking) as investors have bet that more students and workers will enroll in classes as the economy weakens, just as they have in prior downturns. But judging from the evasiveness of industry managers on the latest conference calls and the increasing costs associated with finding and retaining students, we suspect the fundamentals in the group do not support the current valuations. As we discussed in both the APOL and ESI reports, the education insiders have been relatively quiet of late, a change of tact from their past aggressive trading tendencies. It is our belief that insiders are holding back more because of the intense regulatory and shareholder scrutiny that has been directed at this group in the past few years than a belief the current tailwind behind the industry will continue to lift the shares. For this reason, we are closely looking for subtle trades, some of which we identified in our ESI report, and we have now found others at Capella Education Co. and Strayer Education Inc.

- Like many of its peers, Capella reported strong third quarter sales and earnings on 11/06/08, in addition to an 18% enrollment increase over the year ago period. Even though the Company's Q4 earnings guidance of a 17% to 18% increase fell just short of analysts' expectations, the shares skyrocketed 25% over the next two sessions. But the recent momentum has only resurrected the shares to July levels, which were still nearly 20% below where the stock opened the year ($70). This did not deter four insiders from taking profits on 15,000 shares between 11/10/08 and 11/17/08 at an average price of $53. And don't let the light volume fool you as they are quite substantial when taking into account the actionable holdings of the respective individuals. Take for example named executive officer **Michael Offerman** (61), Vice Chairman of External University Initiatives, who averaged down from $62 to $50 over multiple sales this year, first under a predetermined 10b5-1 plan through July, and more recently with trades outside of his trading plan. Offerman cleared out his remaining 5,046 shares of common stock in November and has now monetized 55% of his actionable holdings on the year.

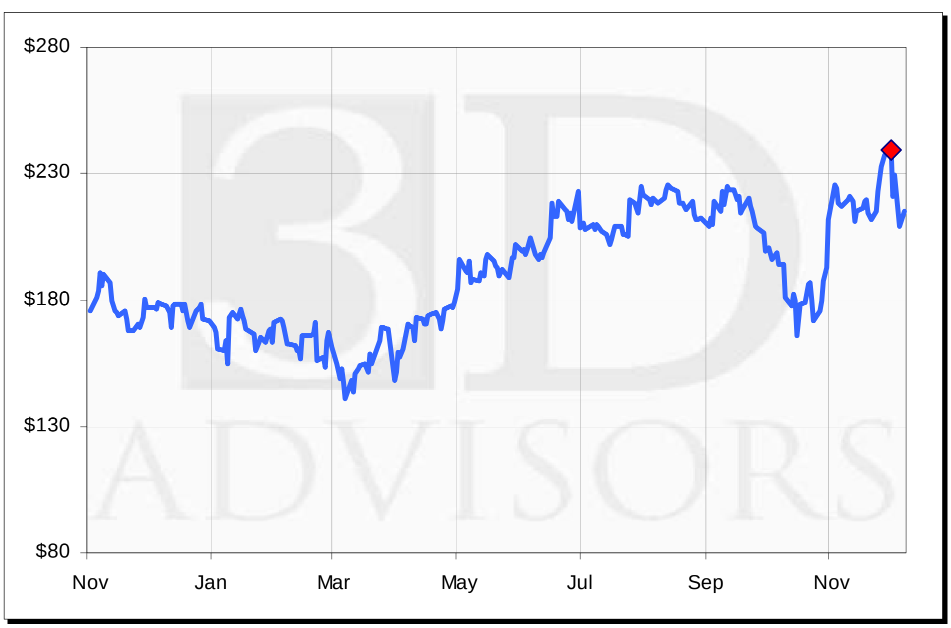
Figure 3. CPLA Daily Closing Price, 11/01/07 through 12/08/08. Red shaded area is where 4 insiders sold 15,000 shares. Source: Reuters and CPLA SEC Filings.



- Controller **Amy Ronneberg** (formerly Amy Drifkin) is another seller of interest as she closed out 2007 selling under a 10b5-1 plan at prices of $70 and has executed four sales this year, each at successively lower prices until her last trades in November came at $53 then $51. On 11/11/08 and 11/21/08 Ronneberg cleared out the last of her 3,350 common shares, leaving just exercisable options in her cache. Then there is **Christopher Cassirer**, President and Director of Capella University, who monetized his only actionable equity, 363 vested options with an August 2014 expiration, on 11/10/08. This small trade resulted in a 100% reduction of his holdings, which is most interesting to us because Capella has trading guidelines that prohibit an executive at his level from selling more than 20% of his actionable ownership (common stock plus vested options) in any quarter. It would seem the board granted him an exemption from the policy.

- Insiders at Strayer Education, which in many circles is considered one of the higher-quality names in the group, had actually been off our radar for the most part until Chairman and CEO **Robert Silberman** (51) surfaced with a rather uncharacteristic sale. Although Silberman took profits earlier this year, the trades were, most likely, motivated by the impending expiration of certain long-held options. In fact, his sales have been scarce since he joined the Company in March 2001 despite the issue's having returned 650% over the course of his tenure. On 12/01/08 Silberman sold 131,478 of common for a profit of $30 million and, taking into account the earlier sales, has now received $65 million from his shares in 2008 before paying the IRS. The real catch, however, is that the shares sold came from a performance based restricted stock award he was granted in February 2006. According to Company documentation, the performance criteria were "confidential". The grant vested in full on the date he sold the entirety of the award shares, resulting in a 95% reduction in his actionable ownership.

Figure 4. STRA Daily Closing Price, 11/01/07 through 12/08/08. Red diamond is the date that CEO Silberman sold 131,478 shares. Source: Reuters and STRA SEC Filings.



- This sale is significant to us on a number of fronts. For one, Strayer has what it calls "Stock Ownership and Retention Guidelines" for its executives. They used to have the same policy for board members but it appears this was cancelled between 2007 and 2008. Under the guidelines it is 'recommended' that senior officers purchase shares in the open market and hold throughout their employment period a "meaningful number of common shares" although there do not appear to be any formal targets in place for the number of shares they should own. It is also 'recommended' that senior officers hold 75% of any granted stock options without exercise for the entire life of the option award. Since these guidelines were introduced a few years back, Silberman and Chief Financial Officer **Mark Brown** are the only two named officers who have not purchased a single share. Secondly, after monetizing all of his vested options earlier in the year, Silberman's actionable holdings include just 6,303 shares of common stock with a market value of $1.3 million. Silberman has passed up a number of opportunities this year to increase his exposure at no personal cost, either through cashless exercises of his expiring stock options or retaining part of the recently-vested stock award. After serving the Company for eight years, for which he has been granted 700,000 shares and options and received cash compensation amounting to $7 million, we find it quite curious that his current stake in the Company is this low.

- It does not seem to be a coincidence that the Compensation Committee, which is responsible for monitoring the effectiveness of the ownership guidelines and even cancelled the guidelines for the directors, is headed by veteran **J. David Wargo**, who has the least number of shares (683) of any board member. It is also interesting to us that another veteran Committee member, **Todd Milano** (56), sold 80% of his ownership (9,675 shares) on 11/18/08 and 11/19/08 for $2.1 million. He now has the third lowest exposure to STRA shares of the nine independent board members despite having been a buyer over the years, including his last purchase just one year earlier at $180. Even following the recent price declines, as the shares now trade at $215 after reaching an all-time high of $240 in late November, STRA still trades at a forward price-to-earnings multiple of 30, making it the most richly valued stock in a group whose average forward P/E is one of the highest out there.

- On a final note, our clients might have seen that we included DeVry Inc. (NYSE: DV) in our last posted Watch List (12/01/08). Although there were some sizeable dispositions this quarter, we currently would rank the trading profile near the bottom of those names we have covered recently. Since the beginning of 2007, Director Emeritus **Dennis Keller** (67) and Director (former CEO) **Ronald Taylor** (65), who collectively controls 13% of the outstanding shares, accounted for 85% of the selling volume. Though Keller's 150,000 share sale on 10/30/08 was his largest on record, it covered only 2% of his actionable holdings and that takes into account the 2 million shares he pledged to secure "various personal lines of credit". Plus, he resigned from the board last month after holding the chairman title since 1973 and now serves as just an advisor.

- Another DeVry seller, Director **Frederick Krehbiel** (67), the Co-Chairman of Molex Inc. (NASDAQ: MOLX) sold 45% of his holdings on 10/29/08 before he too resigned from the board at the shareholders' meeting. Apparently Krehbiel needed the cash as he was forced to sell 2 million MOLX shares back to Molex at a discount to market on the 10/31/08 transaction date to "repay personal indebtedness under a collateralized loan obligation". The one lone seller of note is Audit Committee member **David Brown** (67), a 21 year veteran of the board who cleared out all 36,000 shares held in a family trust on 10/28/08 at $50. The sale, which was his largest since 2002, erased 65% of his holdings. We would need to see more activity here before we would give the name further consideration.

FLIR Systems Inc. (NASDAQ: FLIR)

- As management downplayed effects of the economic slowdown in its Q3 release we became quite curious when key individuals proceeded to sell large chunks of their holdings at discounted prices (*Insider Research Bulletin* on 11/18/08). Not lost on us was the fact that the incoming Obama administration is expected to scrutinize carefully U.S. Iraq-related defense spending. Making matters more interesting, FLIR is the only company in its peer group whose insiders have converged to sell in Q4 like this. To date, key Company insiders are showing significant short and long-term holdings reductions which include CFO **Stephen Bailey** (35%), President of Thermography **Arne Almerfors** (40%), Government Systems President **William Sundermeier** (75%) and CEO **Earl Lewis** (23%).

- The Government market represents 49% of the Company's revenues and produces margins of 42% (as of Q3), which are much higher than its peer group. Currently, some cracks have developed indicating potential negative impact for FLIR as defense spending finds itself under closer scrutiny: First, FLIR was not selected for the Army's BOS (Battlefield Operating Systems) program. Then, in October, 2008, the Army cancelled its Armed Reconnaissance Helicopter (ARH) program, citing cost overruns. The Company's disclosures fail to provide detail on whether any related systems were built by the Company and whether there will be any major inventory write-downs as cautioned in the risk section of the Company's 2007 SEC Form 10-K: *"Any significant shortfall of sales may result in us carrying higher levels of inventories of finished goods, components and raw materials thereby increasing our risk of inventory obsolescence and corresponding inventory write-downs and write-offs."*

- Though the Company does engage in some POC (percentage of completion) revenue recognition, it fails to quantify either the extent of its use or its levels of billed vs. unbilled revenues. Raytheon, on the other hand, provides much more disclosure on revenue recognition used under different types of contracts and how changes in such contracts are accounted for.

- It is difficult for us to understand how FLIR can continue to sustain its high margins. Looking at both L-3 Communications (LLL) and Raytheon (RTN), which derive 74% and 86%, respectively, of total revenues from the U.S. government, one sees that operating margins are much lower. In fact, RTN and LLL have been consistently reporting operating margins of 8% to 11%, respectively, since 2005. As such, one wonders if margins will fall as FLIR increases its dependence on the government. Furthermore, RTN discloses in its risk section that a large percentage of its contracts are fixed-price contracts and therefore are subject to greater margin risk due to potential cost overruns. Again, one assumes that the government, which most assume will be watching its purse strings more closely, will be utilizing more fixed-price contracts. FLIR does say that the majority of its revenue is recognized upon shipment of the product to the customer at a fixed or determinable price. Interestingly, FLIR does not specifically mention the use of fixed-price contracts, nor does it provide disclosure on billed versus unbilled contracts. FLIR states only that, "The Company also has a limited number of design and development contracts, principally with governmental customers for which revenues and related costs are recognized using the percentage-of-completion method."

- It seems that the risk of margin compression remains high in the Company's non-government segments, Thermography (34% of 2007 revenues) and Commercial Vision Systems (17% of revenues). During the Q3 conference call, management said nothing about slowdown in growth. Q4, however, may be a different story. Lewis himself essentially said during the Q3 conference call that unit volume was up but average selling price was down, suggesting they would make it up with volume. This strategy certainly doesn't imply that margins will remain where there are, though at the moment they seem to be defying logic.

- Another interesting point to consider with regard to Thermography and understanding where growth rates are headed is the fact that management has been very keen to increase the channels of distribution for this segment. It has been our experience that when a Company experiences slowing growth and turns to expanded distribution as a remedy, its time to pay attention. We thought the following exchange from the Q3 conference call was interesting:

  Analyst: If you think about how much product in Thermography is going to their distribution channels right now, can you give us a sense as to what it is right now? And it sounds like, Arne, you're looking at continuing to open more channels, including internationally, what it could be, say a year from now?

  Arne Almerfors, President Thermography: I can only say that as an effect of the introduction of this high volume i5 product, yes we are also looking for new distribution channels, as we mentioned, catalogue, web and even, as we say, sometimes wholesalers. I mean, these new distributions, they are new distribution channels to us and they are just on its buildup and that's what we're going to see so much more of in the year 2009. To answer on the relation, I'm not prepared to do.

  Based on Almerfors' answer, achieving growth through expansion of distribution channels might lead to suspicions of channel stuffing. When asked about the international distribution channels management does confirm that there is actual demand pull-through. However, there is no discussion on the development of distribution channels in the U.S. CEO Lewis is proud of the fact, however, that FLIR recently signed on with the Grainger catalog. Again, the potential for filling this channel of distribution comes to mind.

- Growth through acquisition makes organic progress hard to pin down. In Q1, management said organic growth was 35% year-over-year but has not mentioned it since. Arne Almerfors, Head of Termography, and one of the recent sellers did disclose that organic growth in his division has been slowing through 2008 dropping from the 16% to 17% range year-over-year to 7% in Q3.

- The Commercial Vision Segment, as the name implies, seems to have more exposure to the economic risks of today's environment. Interestingly, the economic risks may have somewhat caught FLIR by surprise. In the 1Q08 conference call, management is very adamant that they did not see any negative implications due to the weak economic environment. This seemed odd to us in that there are three industries that FLIR is exposed to that one would expect to feel the effects of the current economic environment; recreational boating, automotive (FLIR has had a relationship with Autoliv since 2005) and the high-end motor home market (a new market for FLIR night vision products). However, there is little disclosure to reveal what percent of the total CVS segment each of these end markets represents. In the opening remarks of the 1Q08 conference call, Head of Commercial Vision **Andy Teich** says, "We expect solid growth in CVS for the rest of 2008. We have yet to see any adverse effects from the US economy and feel our markets are strong as ever."

That sentiment continues into the 2Q08 when Teich says, "we continue to market aggressively into this market (referring to the maritime market), and product awareness continues to increase rapidly. This will position us for continued strong growth throughout the boating season." However, by the 3Q08 Teich admits that, "maritime has been impacted the most by the weak economy." Later in the call Teich confirms the softness of the boating market but also says, "But that's not that big in the segment for us." Although there is no real disclosure on what percentage the maritime and automotive markets represent for CVS, with revenues and backlog down by 6% on a sequential basis, one wonders if the exposure was larger than implied.

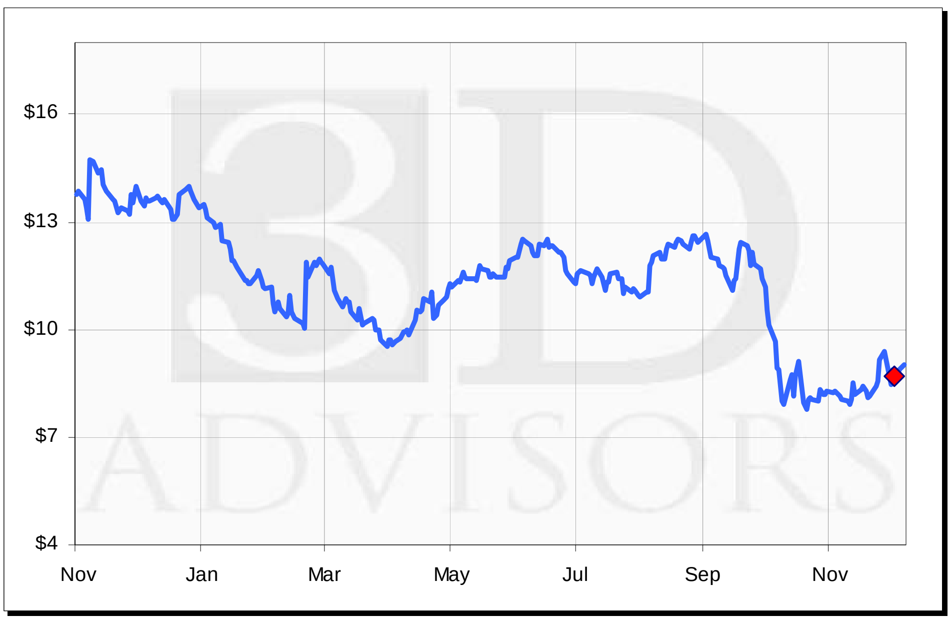
HLTH Corp. (NASDAQ: HLTH)

- Health information services provider HLTH Corp. quickly gets elevated from *Watch List* (10/01/08) to *Research Notes* status on the heels of some pretty brazen corporate behavior. We recently indicated that we were monitoring the Company after four insiders surfaced between 11/21/08 and 11/25/08 to sell 260,088 shares at $8, prices more than 40% off the 52-week high. Not only did management execute the trades after the failed merger with its own majority-owned subsidiary, WebMD Health Corp. (NASDAQ: WBMD) and cancelled buyout of privately-owned Marketing Technology Solutions (both attributed to woes in the credit market) but also after the Company completed a $700 million share tender to buy back more than 40% of its outstanding shares.

- Before we provide some color on the November sellers, here is what occurred after we published the *Watch List*: On 12/05/08, Form 4s crossed the wire showing three insiders sold a total of 895,000 shares valued at $7.8 million into the recent tender. The fact insiders planned to sell into the buyback came as news to us since the Company never disclosed their intent. Leading the activity was Chairman and Chief Executive **Martin Wygood** (68), who tendered 643,586 shares, his first dispositions since he sold 1.4 million shares in November and December of 2006 at 36% higher prices. Wygood's sale raises plenty of questions since he is a member of the special committee of the board authorized to implement the Company's stock repurchase program. It seems quite a conflict of interest that the person responsible for "returning value to shareholders" and advising the Company on rewarding investment decisions is the very person taking his money out.

- Also selling shares back to the Company was General Counsel and Secretary **Charles Mele** (52), the individual responsible for administering the tender. Since becoming a registered filer back in 2000, his only prior sale in November 2006 came at 30% higher prices than what he just accepted for his stock. And lastly, veteran board member **Herman Sarkowsky** (82), who had just sold 25,000 shares in May at $11.43, sold back 30% of his actionable holdings, or 195,026 shares, for considerably less per share. This sale covered more shares than he had sold in total over the last eight years. We should point out that these sales were properly filed using the "D" transaction code on the respective Form 4s, identifying them as shares sold back to the issuer. This represents a nice camouflage since the trades do not show up on insider data reporting websites as sales, instead having the appearance that they could be any number of less relevant transactions such as tax-related dispositions. The Company did not attempt to mask these sales, but it should have been made known weeks earlier that insiders intended to tender their shares.

Figure 5. HLTH Daily Closing Price, 11/01/07 through 12/08/08. Red diamond is where 3 insiders sold 895,000 shares back to the Company in a tender. Source: Reuters and HLTH SEC Filings.



- While HLTH did manage to meet the low end of its guidance for third quarter earnings and sales reported on 10/30/08, management did not paint a rosy picture for the fourth quarter. WebMD warned that revenues might come in 5% lighter than previously reported due to the "current environment" despite having said prior that it was not experiencing the same weakness in online sales that have been reported by others. It was also disclosed that the anticipated sale of the Porex division, which accounts for 26% of the Company's 2008 sales, has been held up because a leading buyer could not secure the financing. Meanwhile, the head of WebMD, **Wayne Gattinella** (56), distributed 46,588 shares at $8 shortly after breaking the bad news, the lowest prices he has ever sold at. And Porex head **William Midgette** (52) cleared out all 13,500 of his HLTH shares on 11/25/08 similarly at lowest-ever prices. Directors **Kevin Cameron** (42) and **Paul Brooke** (62) each sold 100,000 shares, marking Brooke's first sale during his eight years with the Company which resulted in a 40% reduction of his actionable holdings, and Cameron's largest personal disposition. Even though HLTH might not represent an effective short candidate at these prices, those of our clients contemplating a long position at this time should be aware of the current trading profile.

Hudson City Bancorp Inc. (NASDAQ: HCBK)

- With its shares currently trading 25% off their 52-week high at roughly $15, New Jersey based thrift Hudson City might not appear to be the most compelling short idea. But these are nearly the same prices where the Company's insiders have been taking profits, including Chairman and Chief Executive **Ronald Hermance** (61), who recently monetized a significant portion of his holdings at an unprecedented clip. We initially included Hudson City in an 11/03/08 *Watch List*, highlighting the earliest trades that came to our attention following the Company's Q3 earnings release in mid-October. We were initially drawn to the sentiment reversal of Director **William Bardel** (69), a buyer back in early 2008 when the shares traded at $15, who would sell the shares nine months later for a paltry 7% profit. While the initial round of late October sales was not compelling enough for us to sound the alarm, the more recent activity by CEO Hermance has certainly gotten our attention.

- On 11/20/08 Hermance, who continues to contend HCBK has not been affected by the conditions in the marketplace, surfaced with his first sale in six years, exercising 500,000 options not set to expire until January 2010 and immediately sold the shares at an average price $16.43. Clearly a sizable trade such as this would get our attention, especially since we had been closely monitoring the name, but we became even more intrigued by a footnote on the filing that only served to elevate our suspicions [bolding is ours].

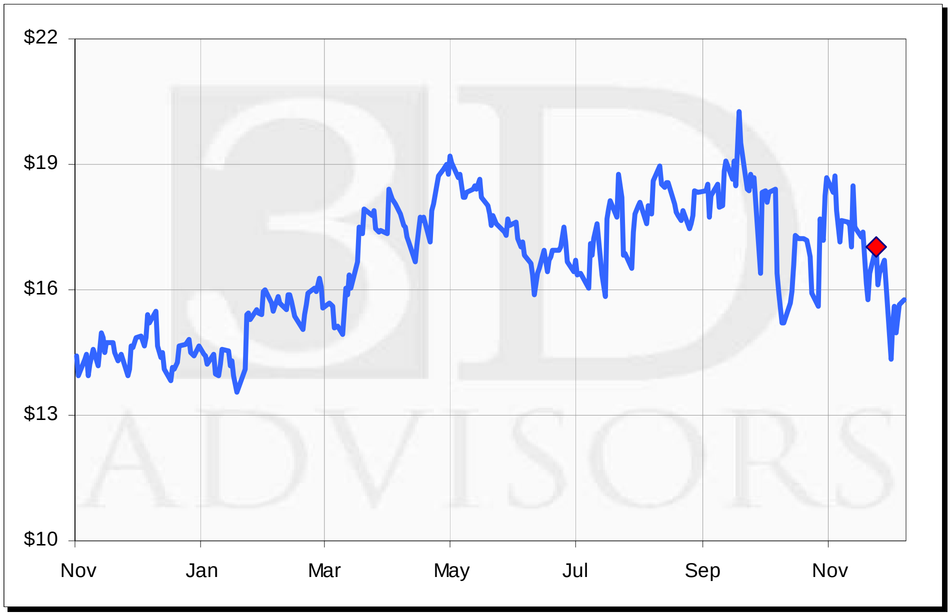
  > **The shares sold in this tax-motivated transaction timed to take advantage of the current federal income tax regime represent shares acquired through the exercise of stock options. These options expire in January 2010 and, therefore, must be exercised or forfeited within the next 14 months.**

  This same footnote accompanied Hermance's next trade a few days later, when he sold another 2,173,847 shares on 11/24/08 also at $16. This sale, which involved the exercise of the remainder of his January 2010 option series plus the balance of those from a September 2011 series, occurred just one day before he campaigned for the Company with a presentation at the 2008 FBR Capital Markets Fall Investor Conference. Over the years, we have witnessed plenty of tax-motivated sales at year-end, mostly those which serve to offset capital gains, but never before have we seen an insider dump half of his holdings in anticipation of potential capital gains tax rate changes. Needless to say, we are not buying the justification.

- Over the past few years Hermance had been steadily increasing his ownership with open market purchases and option exercises. Going back even further, he contributed shares to a Grantor Retained Annuity Trust (GRAT) in May 2004 and added more shares to the GRAT in June 2005, subtle but clearly bullish maneuvers that have paid off handsomely for his beneficiaries (spouse and children) due to the issue's ensuing gains. Between July 2007 and July 2008, Hermance and his wife acquired shares through purchases or option exercises at prices between $12.22

and $14.77, so the recent selling suggests to us more of a sentiment change on his part, as opposed to forward-looking tax planning.

Figure 6. HCBK Daily Closing Price, 11/01/07 through 12/08/08. Red diamond is the date that CEO Hermance sold 2, 173,847 shares. Source: Reuters and HCBK SEC Filings.



- We also note that Hudson City's 2007 Proxy filed on 03/20/08 shows Hermance has 2.1 million of his 3.2 million common shares "held in a brokerage account with margin provisions". While this disclosure falls short of verifying the shares are in fact pledged to secure margin debt, we have found the more ambiguous disclosures are typically indicative of shares being used to secure some type of personal debt. Although the 2.6 million of his shares sold represents a significant percentage of his actionable ownership, Hermance does stand to add a large number of shares to his position over the next year from the vesting of stock options. In July 2006 he was awarded 2.25 million options with a strike price of $12.76. One million of these options are time vested and will become exercisable in July 2009. The remainder are performance based options which will vest at the end of 2008 if certain average efficiency ratio and average credit quality (measured by the ratio of non-performing assets to total assets) milestones are reached. Without the actual targets or vesting percentages, we cannot predict how many of these will vest later this month. However, we do know that with just one unreported quarter remaining, the ratio of non-performing loans has increased 375% since the performance period began.

- As we mentioned above, Director Bardel, a board member since 2003 and Chairman of the Audit Committee, is another seller of interest. Bardel was the former associate headmaster at the Lawrenceville prep school in New Jersey where Hermance's children attended. Early this year (01/28/08) he was buying HCBK shares when the issue traded at $15.89, picking up 10,000 shares on the open market. He cashed out the same 10,000 shares on 10/20/08 at $16.97 for a less-than-modest profit and then would sell another 15,000 shares three days later for $16.61 per share. The shares accounted for a very small percentage (6%) of his actionable holdings, but the sentiment reversal and negligible profit involved leads us to believe he sees little upside above the current prices. One of his Audit Committee member peers, **William Cosgrove** (76), reported his wife sold 50,000 shares on 10/22/08 as well. Both board members disclose having shares held in margin accounts, but we do not believe their sales were related to margin calls.

- Some of our clients might be aware that we recently covered another Northeast regional bank, People's United Financial Inc. (NASDAQ: PBCT) in a recent *Insider Research Bulletin* issued on 11/18/08. People's United insiders across the board unloaded shares purchased in 2007 at a loss before they started clearing out stock and options that became actionable in 2008. In addition to the two above names, we are also currently doing work on BB&T Corp. (NYSE: BBT) and expect to release our findings shortly. We are confident the bearish trading profiles of insiders across the regional banking sector since Q3, which has been largely ignored by the sell-side community, provides possible clues there might be more Q4 and early 2009 earnings instability in the group than is suggested by current price levels. While the insider activity in the regional bank group has been widespread, we have included the most interesting situations in the table below.

Company	# of Sellers Last 90 Days	Shares Sold Last 90 Days	Avg. Selling Volume Last 12 Qtrs	Notes
BB&T Corp. (BBT)	5	120,799	37,944	With most of their derivative equity under water, insiders monetize their only in-the-money options; EVP Greene clears out 52% of his actionable holdings.
FNB Corp. (FNB)	7	427,098	48,068	Director Mortensen clears out entire position while VC Gurgovits sells 35% with largest ever sale.
Home Bancshares (HOMB)	11	641,097	8,000 [1]	Insiders reverse 2007 and 2008 purchases. Director Cauley violates short-swing rule after buying shares in May. Insiders sell shares held for their kids.
People's United Financial (PBCT)	7	433,773	194,861 [2]	CEO Sherringham makes largest sale to date and at lowest prices yet; EVP Dreyer sells 80% of holdings; DIR Carter sells shares for 16% loss.

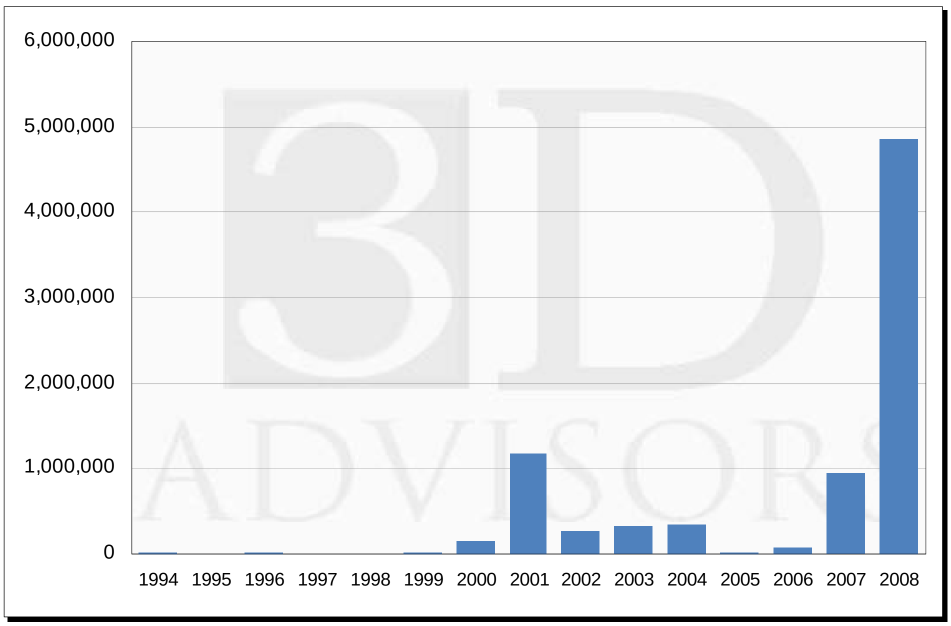
[1] Home Bancshares held its IPO in June 2006, so the average selling volume includes the last seven quarters since lock-up expiration.

[2] The Company was converted from a state-chartered bank to a federal thrift in April 2007. The average volume figure includes the average of the last three quarters since the lock-up expiration.

Perrigo Co. (NASDAQ: PRGO)

- Shares of consumer healthcare and generic drug manufacturer Perrigo have managed to retain their value throughout the market meltdown, trading flat since the beginning of the year while outpacing the Dow Jones by 25%. But the past year has not always been so gratifying for PRGO shareholders. The issue traded to an all-time high of $42 in May before the Company issued guidance for FY 2008 (period ending 06/28/08) earnings that were below analysts' expectations. The shares lost 21% of their value on the news and, for the most part, have remained close to the post-guidance release price since. Despite the setbacks, which also include FY 1Q09 earnings missing the mark, executives and board members were not deterred from carrying out the most prolific selling spree in Company history, involving a total of 3.8 million shares that came out in the third and fourth quarters.

Figure 7. Annual Sales Reported by PRGO Insiders (2008 through 12/08/08 only). Source: PRGO SEC Filings.



- We first began monitoring activity at the Company in early 2008 when insiders became abnormally active in late 2007 and extended the profit taking into this year. We incorporated these trades in a *Watch List* posted on 02/22/08, with a focus on a few high-ranking officers, such as Executive V.P., Chief Financial Officer **Judy Brown** (41), who shed significant percentages of their ownership. Then, with the exception of Director **David Gibbons** (66) who led PRGO from 2000 to 2006, the broader selling completely ceased until late August and since then, there has been no letup, with 3.7 million shares being disposed by 14 insiders between 08/19/08 and 12/03/08 at a weighted average price of $35.22. The reason we have not issued more comprehensive coverage of this spirited trading prior to this report is because the third quarter activity was dominated by board members, Gibbons, **Michael Jandernoa** (59) and **Moshe "Mori" Arkin** (56), three former officers of the Company who seem to be unwinding their positions (30% to 75% reductions) in the latter stages of their PRGO careers. But in the fourth quarter it became apparent that midto-high level officers, some who traded in the third quarter, were diversifying significant percentages of their holdings as well and were willing to do so at even lower prices than their earlier trades.

- CFO Brown, who joined the Company in 2004 and was appointed to her current role in 2006, only first began trading in February 2008. After selling 18,364 shares on 02/08/08 at $35.29, she then cleared out the remainder of her vested stock options on 12/03/08 at 7% lower prices, erasing 80% of her ownership in the process. Her latest trade is interesting on another front because Brown has not met her stock ownership target (owns 10,000 shares and must get to 30,000 by 2009) and according to the plan, any officer not in compliance must retain 50% of the shares acquired in stock option transactions. It is disclosed in Perrigo's corporate governance guidelines that the Compensation Committee can give approval for an individual to sell in excess of the allowable amount while under the required ownership level, so it would seem the board granted Brown an exception to trade beyond the constraints of the policy. Another seller of note is **Refael Lebel** (52), who has managed the Company's Israel operations since 2005. After three years with Perrigo he finally commenced his profit taking in 2008 and thus far executed a total of three sales that erased 60% of his actionable holdings. The latest trade on 11/12/08 was not only his largest at 16,000 shares, but also came at the lowest prices of any trade this year ($33).

- Other sellers noticeable to us: Chief Information Officer **Thomas Farrington** (100% reduction), Executive V.P. of U.S. Generics **Susan Kochan** (65% reduction), Senior V.P. of Consumer Healthcare Sales **James Tomshack** (50%), and General Counsel **Todd Kingma** (40%). The average percentage of holdings sold for the 14 sellers since Q3 stands at 45%. Our clients familiar with the Company might notice we have yet to mention Chairman, President, and CEO **Joseph Papa** (54). In a move we are unaccustomed to seeing, one sell-side analyst asked Perrigo's senior managers about the heavy selling on the 11/06/08 FY 1Q09 conference call. Below is CEO Papa's cagey reply [bolding is ours]:

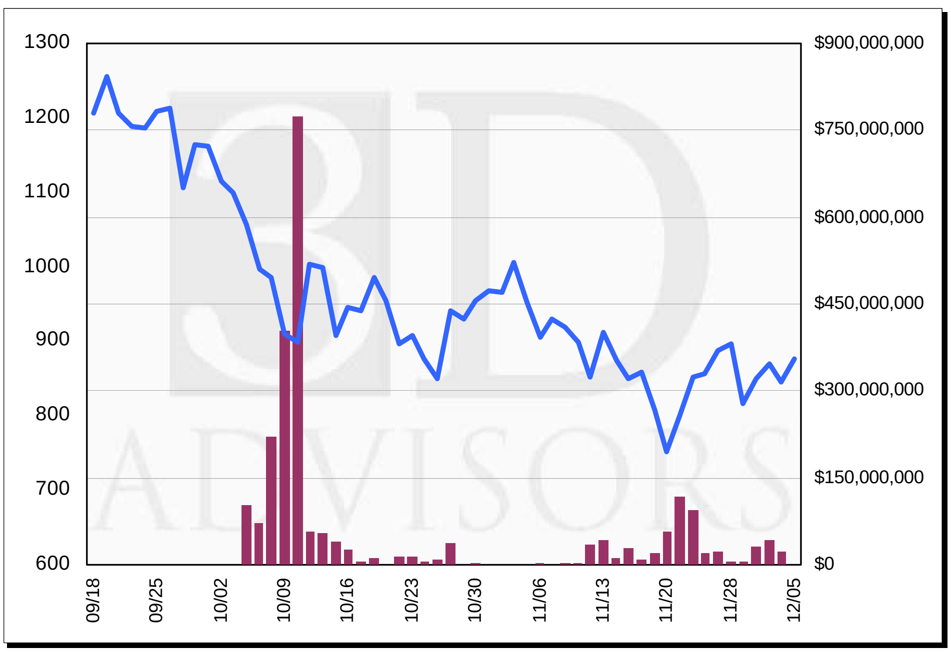
  > **Yes, I will start. Judy I don't know if you want to add anything further. But we clearly are aware of some of the decisions of past individuals that have been members of the Perrigo management team. Some of them have obviously retired but are still members of our Board of Directors. I think clearly the question you're asking is, it's a question about an individual. And I think in many cases individuals are diversifying their positions post-retirement. But to be clear, many of the individuals that are still holding very sizable positions and are still active on our Board. And they are still obviously is one particular individual still continues to consult with us beyond his Board membership. I don't know if anything...**

- As can be expected when pressed with a trading question, Papa did not provide any meaningful feedback and actually sounded quite uncomfortable discussing the topic. And CFO Brown opted out of commenting further once his comment trailed off. But along with Brown, Papa surfaced with his own sales not long after the conference call, selling 20% of his ownership at prices 21% off the 52-week high. And since Papa is not in compliance with the stock guidelines either, it would seem the board also granted him a reprieve from the retention rules to sell all options he exercised in December. We suspect the execs are reluctant to discuss these sales not because they have occurred, but possibly because the Compensation Committee, which is headed by former Perrigo chief executive Michael Jandernoa, an active seller himself, has granted the officers exemptions from the ownership and retention rules.

Pledged Shares Update (PHM, FOSL, CVA, PSA)

- With the market continuing to flounder below 9,000, there has been a steady stream of stock activity related to insider pledged ownership since our last *Special Report* on the topic issued on 10/31/08. We are pleased to report there have been a number of companies that have adopted a full disclosure approach to inform Wall Street and shareholders of their insiders' activities, issuing press releases immediately at the time of the transactions. There are also those companies, however, that maintain a cloak of secrecy on the subject of pledged holdings and margin call activity, which only serves to fuel our interest as we believe insider pledged holdings continues to be a serious threat to shareholders with prices at already depressed levels.

Figure 8. Dollar Value of Shares Sold to Meet Margin Calls (Red Bars and Right Scale) and S&P 500 Index (Blue Line and Left Scale), 09/18/08 through 12/05/08. Source: Reuters and Respective Company SEC Filings.



- Pulte Homes Inc. (NYSE: PHM) is one such company that has kept investors informed of its Founder and Chairman, **William Pulte's** (75), ongoing struggle with his sizable debt burden. We covered the pledged stock overhang at the Company in a *Special Report* dated 10/08/08, spelling out the 30 million shares, equal to 30% of PHM's outstanding shares, which William Pulte pledged to secure personal loans for him and his family. Chairman Pulte first sold 760,000 shares in late October to cover margin calls that came after the shares declined from a September high of $17 to $8, which prompted the Company to issue a press release[2]. But his misfortune did not end there. On 12/03/08 PHM issued a second press release[3] revealing that Chairman Pulte entered into a prepaid variable forward contract (read: forward sale) to sell 5 million shares to an undisclosed third party. What the Company has inadequately conveyed is that there is still potential for Pulte to have to monetize more of his position to satisfy the collateral agreements of his loans. We estimated that his borrowings were in the range of $350 million to $400 million based on the size and timing of his pledging activities. Thus far he has generated enough cash to pay off roughly $45 million of that from the two latest transactions.

- Another company that has been forthright with margin call disclosure is Fossil Corp. (NASDAQ: FOSL), where CEO **Kosta Kartsotis** (56) announced his intent in an an SEC Form 8-K (no press release) to sell 2.15 million of his 9.5 million shares to "reduce debt" in his margin accounts. But the question remains if this will be enough as he put up 8.8 million shares as collateral for the brokerage account. Plus, his brother, Chairman **Tom Kartsotis** (49), also has 30% of his 12 million share position pledged for similar purposes, so we could be seeing a lot more selling in the near term if Fossil's fortunes do not reverse course. We find this story a little ironic because the Kartsotis brothers were acclaimed by the investor community and media back in late 2005 and 2006 when the two collectively spent $22 million to purchase FOSL shares using 10b5-1 *buying* plans. The transactions were so garish that we were never able to get excited about them even though the trades made the brothers a ton of money on paper. The irony in this is that Kosta Kartsotis is now using a 10b5-1 *selling* plan to unwind these purchases and repay the money. And finally, we cannot give the Company credit for always having been compliant with the insiders' pledged stock activity. The Proxy Statement filed on 10/10/07 failed to indicate either Kartsotis had pledged holdings even though the filing came after they leveraged their holdings to buy more stock one to two years earlier. Whether this was an oversight, or possibly a maneuver to preserve the good press from their stock purchases, might never become known.

- One possible margin call situation that has received little attention in part because of the Company's lack of disclosure is self-storage facility REIT Public Storage (NYSE: PSA). The Company discloses in the 2007 Proxy Statement filed on 03/26/08 that Chairman **B. Wayne Hughes** (75) and his son, Trustee **B. Wayne Hughes, Jr.** (46) collectively "pledged as security" 12.7 million of their combined 21.8 million shares. What is still not known by the public at this time due to the limited amount of information provided by PSA and the Hughes family is if the Company's largest shareholder, **Tamara Hughes Gustavson** (47), the daughter of Chairman Hughes who was added to the Board of Trustees on 11/25/08, has pledged any of her immediate family's 22 million shares. We suspect that she has and, as a result of the issue's 50% sell-off since October, the entire Hughes family might have fallen victim to margin calls. Between 11/12/08 and 12/08/08 the family collectively sold 6 million shares at an average price of $64, well off the YTD high. Included in this total are the 780,000 shares Hughes Gustavson distributed shortly after her board appointment (she has been a Section 16 filer for more than 15 years due to her 10%-plus position). Chairman Hughes has now sold 25% of his ownership while Hughes

[2] "Pulte Homes, Inc. Comments on Chairman's Recent Stock Transactions", PRNewswire-FirstCall, October 28, 2008.
[3] "Pulte Homes Chairman Files Form 144", PRNewswire-FirstCall, December 3, 2008.

Jr. sold more than 30% of his. Just to put these sales into perspective, the family had sold a total of 687,000 shares going back to 1990. That these are margin calls is pure speculation on our part since neither the individual Form 4 filings nor Hughes Family Schedule 13D filed on 11/25/08 designate them as such. But we cannot imagine another scenario, with all of the shares they have pledged, for them to liquidate $400 million worth of stock at these prices.

- The margin call phenomenon has opened Wall Street's eyes to the realization that the highest net worth insiders are just as susceptible to receive margin calls as the average insider and probably even more likely to have leveraged their concentrated stock holdings to finance other investments and personal capital needs. We have now seen a number of industry moguls from a diverse cross-section of corporate America forced to sell equity to cover their personal borrowings, including **Sumner Redstone**, **John Malone**, and **John Abele**. We might have another name to add to this exclusive list, real estate and now media tycoon **Sam Zell** (67). Zell has borrowed against his existing stock holdings in a number of companies (see table below) to expand his empire and the strategy has not been a resounding success, particularly with regards to his latest acquisition of freshly bankrupted Tribune Co. In the first signs that his pledged holdings might be at risk, Zell, through his personal investment arm SZ Investments, sold 3.1 million shares of waste disposal and energy services company Covanta Holding Corp. (NYSE: CVA) between 11/21/08 and 11/25/08. The sales were executed at roughly $18 per share, nearly 35% below where he sold 3.5 million CVA shares in July. While it is possible these sales have nothing to do with his significant pledge position in CVA, it does not seem unreasonable that some of Zell's assets secured with stock now require additional collateral. We believe Zell's actions need to be monitored very closely at this point.

  Sam Zell's Pledged Shares:

	Shares Initially Pledged	% of Holdings	YTD Stock Return
Equity Residential (EQR)	4,531,930	55%	- 7.4%
Covanta Holding (CVA)	19,500,900	99%	- 38.7%
Anixter International (AXE)	4,702,734	95%	- 56.7%
Equity Lifestyle Properties (ELS)	[1]	[1]	- 23.0%

[1] Equity Lifestyle Properties only discloses that a "portion" of Zell's 3.7 million shares have been pledged. We suspect it is a significant portion.