This 3DAdvisors Report Covers:
✓ **Insider Trading**: Insider Trading Behavior
Accounting: Quality of Earnings Issues
Governance: Corporate Governance Issues

Insider Research Bulletin

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Insider Research Bulletin describes significant insider trading behavior that we have identified at the following companies and is a summary of the first step in our research process. The next step is that these same companies will undergo a review of accounting and governance behavior, and if we identify indicative behavior in one or both areas, then a "full 3DA research report" will be published on that company. Note: Inclusion of a company in this report by itself does not necessarily mean a full research report will be published. The ⬆ symbol indicates that we have observed trading behavior that suggests a bullish sentiment.

Insider Research Bulletin is published periodically and exclusively for 3DA Research subscribers.

Companies in this Bulletin

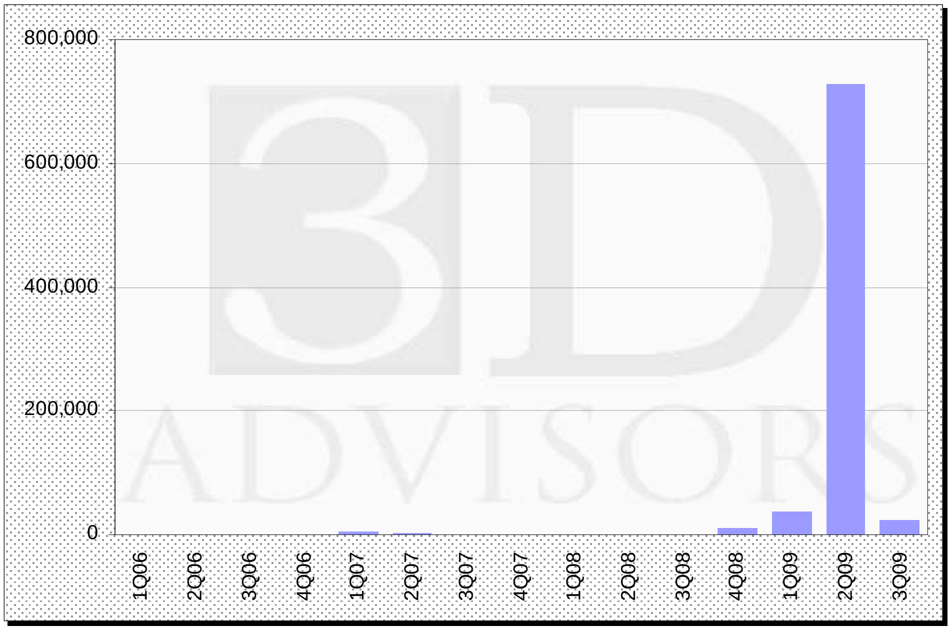
- Emergency Medical Services Corp. (NYSE: EMS)
- F5 Networks Inc. (NASDAQ: FFIV)
- Ross Stores Inc. (NASDAQ: ROST)

Discussion of 3DAdvisors Findings

Emergency Medical Services Corp. (NYSE: EMS)

Emergency Medical Services Corp. (EMSC) came to our attention for the first time when the insider selling volume spiked from just 18,000 shares total in 2007 and 2008 to 775,000 shares in 2009, with most of the shares coming out in the second quarter (see Figure 1 below). While this year's uncharacteristic activity would become the initial focal point of our analysis, we were just as interested to find out why there had been little previous trading in the nearly four years since the Company's IPO back in December 2005. Such inactivity appeared odd considering the issue had appreciated 150% above its $16 initial offering price by mid-2007 and, despite giving back some of the gains, still traded around $35 by the end of 2008. But in order to understand management's ownership profile and to put the recent trading behavior in context, it is useful to start at the beginning, when the Company was initially formed by Toronto-based conglomerate Onex Corp.

Figure 1. Number of Shares Sold Quarterly by EMS Insiders, 1Q06 through 3Q09 (3Q09 is through July 22 only). Source: EMS SEC Filings.



Investment firm Onex Corp., Canada's second largest employer with businesses that generate annual revenues of $37 billion, purchased two U.S. healthcare services firms, American Medical Response Inc. and EmCare Holdings, from Laidlaw International Inc. in January 2005. Onex formed a holding company, Emergency Medical Services L.P., for the two business units and in December 2005 reorganized the subsidiary, forming EMSC. At the same time it spun off about 20% of the Company in a December 21, 2005 IPO. When Onex initially acquired the two companies they let it be known EMSC management, which is currently made up of continuing American Medical Response and EmCare executives, would also be investors and owners. We first saw evidence of this when employment agreements were provided to most of the officers in early 2005 that included the following provision [text taken from the agreement of General Counsel **Todd Zimmerman**, bolding is ours]:

> **The Executive has agreed to co-invest in the Company on the Effective Date, by purchasing the same securities purchased by the initial equity investors at the per Partnership Unit price paid by the initial equity investors, in the amount of $100,000, or such greater amount determined by the Executive in his sole discretion. Concurrently with this co-investment by the Executive, and pursuant to an equity option plan (the "Plan") the Company will adopt, the Company will grant to the Executive options to purchase four-tenths of one percent (0.4%) of the Partnership Units outstanding on the Effective Date (the "Zimmerman Options"). For the avoidance of doubt, if the agreed-upon co-investment is not made on the Effective Date, then the Company shall have no obligation to grant the Zimmerman Options.**

This provision sheds light on the origination of the common stock and options initially reported on the Form 3 filings (Initial Statement of Ownership) for those executives who were with the Company at the time of the IPO. As we will describe further below, this equity is key to understanding the recent trading behavior. Keeping in mind Onex wanted management to be owners in the business, these pre-IPO shares and options came with restrictions that we have seen in only a few other instances. An Equityholder Agreement was put in place that limited the sale of the pre-IPO equity held by the executives. The terms of the agreement are described in the following text [bolding is ours]:

> **On February 10, 2005, we entered into an investor equityholders agreement with certain of our equityholders, including each of the named executive officers. Under this agreement, as amended, until the fifth anniversary of the closing of the initial public offering of the Company's common stock, the right of these equityholders to sell common stock owned immediately prior to the initial public offering, and any shares acquired upon the exercise of options held immediately prior to the initial public offering, is limited. Such equityholder may sell up to 12.5% of those shares (including the shares subject to those options, which are now vested and exercisable) in the first year following the offering, increasing 12.5% each year up to a maximum of 50% of such shares (or, if greater, the percentage of its shares sold by Onex Partners), plus the number of shares required to pay any income taxes on the exercise of options.**

So, while insiders did hold actionable shares and vested in-the-money options when the 180 day lock-up period expired in May 2006, their ability to sell was hindered by this restrictive Equityholder Agreement. For example, General Counsel Zimmerman held 18,750 shares and 37,000 vested options when the lock-up period ended. Yet, the terms of the Agreement permitted the sale of only 7,000 shares at the time. Come 2008 he could sell up to 48,000 shares despite holding a total of 130,000 shares and vested options. There was even one additional provision attached to the pre-IPO option grants, which relates to the exercisability of the options. While 50% of the options would vest ratably over four years starting on the first anniversary of the grant date, the other half would only become exercisable once Onex realized a 15% internal rate of return on its investment. The exact specifics of the ROI requirement are a little unclear, but this condition had no bearing on their trading since the ROI target was attained before the options even fully vested.

While the Agreement limited the shares allowed to be sold in recent years, it did not ban profit taking entirely. Here is our take on why the floodgates opened in the second quarter. We found an amendment (Amendment No. 2) to the Equityholder Agreement in an exhibit filed with the Company's 2008 SEC Form 10-K. This amendment was not disclosed in any other corporate filings or press releases. On February 28, 2008 Onex amended the Agreement to 'unlock' all shares acquired from the exercise of pre-IPO options from the sale restrictions. In effect, they gave the insiders a green light to monetize all such options; the only remaining restriction is that the executives are required to hold 50% of their initial pre-IPO shares until their separation from EMSC. With this being the case, we became curious as to why the executives did not begin taking profits back in early 2008 when the amendment was signed. The answer to this came in an SEC Form 8-K filed on March 12, 2009. The following disclosure was buried in an 'other events' section at the very end of the release that was essentially filed to disclose annual compensation information [bolding is ours]:

On March 12, 2009, Amendment No. 2 to the Investor Equityholders Agreement (the "Equityholders Agreement"), dated February 10, 2005, among EMS LP, Onex Partners, LP and the equityholders signatory thereto, became effective. The amendment provides that shares of class A common stock of EMSC issuable upon the exercise of options held by an employee at the time of EMSC's initial public offering are included as owned by that employee for purposes of determining the number of shares such employee can transfer free of the restrictions contained in the Equityholders Agreement.

Thus far we cannot establish why the amendment did not take effect for a full year after it was signed. There is no explanation in the amendment or in any other SEC filings and there is no mention of the amendment in the applicable section in the subsequent Proxy filed on April 22nd. We have posed this question along with others to Investor Relations but have yet to receive a response to date. Nevertheless, the pre-IPO options grants issued to the execs, which were quite sizeable (1.4 million options issued to Chairman, CEO **William Sanger**), became freely tradable for the first time in nearly four years. Apparently the executives were informed of the amendment effective date before the Company made the information public as Sanger, Zimmerman and CFO **Randel Owen** each opened a 10b5-1 sales plan more than one week before the 8-K was filed. The disclosure of the plans' details was sparse as EMSC withheld key information such as the plans' commencement and expiration dates and how many shares each executive intended to sell. It was reported that they would be selling a 'minority' of their respective holdings, which could potentially include pre-IPO shares and options. Their diversification efforts became clearer once the trades started crossing the transom.

Here are the details of the recent noteworthy trading behavior. Note that the holdings reductions figures do not take into account the common stock executives are required to hold until their separation from the Company:

- **William Sanger (58)*** – Chairman, Chief Executive Officer. Sanger opened a 10b5-1 sales plan on March 3rd to carry out his first sales to date. Before the plan even commenced, he sold 100,000 shares between April 3rd and April 9th from his directly held common position (pre-IPO shares). He then sold another 475,000 shares through the plan between April 21st and June 29th, 350,000 of which were acquired from the exercise of his pre-IPO option series with a February 2015 expiration date. So, not only did he monetize the options, he also cashed in exactly 225,000 of his 450,000 pre-IPO common shares; the maximum he was permitted to sell according to the terms of the Equityholder Agreement. **The shares accounted for 35% of his actionable holdings,** which excludes the 225,000 shares of common he is obligated to hold. Over the course of the next 19 months he will vest in just 12,500 shares and 9,375 options (see Appendix A).

- **Randel Owen (50)*** – Executive V.P., Chief Financial Officer. Owen entered into a sales plan of his own on March 4th and like Sanger, sold 8,750 shares of common between April 3rd and April 9th in between the plan adoption and commencement dates. He would then distribute 108,125 shares in plan between April 21st and July 6th at prices from $32 to $38. Of these shares, 100,000 came from his pre-IPO option series, which means he too sold the maximum number of pre-IPO common allowed (16,875 shares). Owen filed Form 144s that show he intends to sell a total of 160,949 shares, so we anticipate seeing further sales from him in the near-term covering another 44,000 shares. **Once all registered shares are sold, Owen will have distributed nearly 40% of his actionable holdings**. He will have just 6,250 shares and 4,687 options becoming actionable next March, which will be the last equity to vest until 2011 (see Appendix A).

- **Todd Zimmerman (43)*** – Executive V.P., General Counsel. Zimmerman began selling on April 3rd and sold a total of 19,375 shares by April 9th. Roughly half of the shares (again, the maximum allowed) came from pre-IPO shares with the other half coming from the pre-IPO options. Then on April 29th he commenced selling under a sales plan opened on March 3rd and sold another 23,300 shares (all from options) by June 24th. **The 42,675 shares sold during this period depleted his actionable holdings by 25%**. He will have just 13,000 shares and 4,687 options becoming actionable through the end of 2010 (see Appendix A).

- **Kim Norman (age not disclosed)** – Senior V.P. of Human Resources. Norman is one of only two Section 16 officers to take profits before this year. Last November she exercised the maximum number of pre-IPO options allowed at that time (10,406 which is exactly 37.5% of her initial 27,750 grant) and sold the shares, plus all of her common stock, effectively clearing out all equity at her disposal. She repeated the process once again when additional shares were released by the Equityholder Amendment, clearing out all of her pre-IPO options (17,344) on May 1st and May 4th under an undisclosed 10b5-1 plan. **These May trades resulted in a 100% holdings reduction**; an intriguing move considering she has only 833 shares and 625 options scheduled to vest through the end of 2010 (see Appendix A). It is unclear to us how Norman managed to monetize her entire position unless she was not party to the Equityholder Agreement, but the fact stands she opted for cash in hand now while foregoing any future profit taking opportunities.

- **Joseph Taylor (age not disclosed)** – Executive V.P. of National Sales and Marketing. We are not 100% confident in the following information, but here is what we can piece together. Taylor filed his initial Form 3 (Statement of Ownership) at the same time as executives mentioned above (December 2005). Since then he has not filed any subsequent Section 16 filings and the last Company filing that included his name was the Proxy filed in April 2006. He is also not listed on the executive bio page of the corporate website. But on April 13th Taylor filed a Form 144 showing his intent to sell 61,263 shares, which **equates to 70% of his actionable holdings** (according to holdings reported on the Form 3). We suspect Taylor is still employed by EMSC but no longer has Section 16 filer status, which also seems to be the case for Chief Information Officer **William Tara**.

- **Steven Murphy (age not disclosed)** – Senior V.P. of Government and National Services. After having monetized the maximum number of pre-IPO options (6,937) in March and May of 2007, Murphy sold another 22,688 shares between March 12th and March 31st. These sales, which began on the very day the Equityholder Agreement amendment took effect, **liquidated his entire actionable position**. The only equity he has remaining are the 1,875 shares he is obligated to hold. The March trades are also interesting to us because he did not start selling when the trading window opened after the release of 4Q08 earnings in February, when the issue traded at $35, but waited until the shares sold off to prices below $30. Murphy will have just 1,458 options and shares become actionable in 2010 (see Appendix A).

- **Steven Ratton (age not disclosed)** – Senior V.P., Treasurer. Ratton sold 16,000 shares between March 5th and March 17th, which **amounts to roughly 36% of his actionable holdings** at the time. Like Murphy, he did not begin selling in February when the issue traded at $35 but waited a few weeks at which time the issue was down 14%. We wonder if there were any material non-public events that forced the Company to delay the opening of the trading window until the beginning of March. Ratton will have just 3,600 shares and options become actionable next March (see Appendix A).

* Indicates that the individual is a Named Executive in the Company's most recent Proxy.

What we have here is akin to a (prolonged) lock-up expiration situation, whereas EMSC executives had selling limitations for nearly four years and began aggressively dumping shares as soon as the restrictions were lifted. In this case, the Equityholder Agreement tempered (but did not prohibit) the monetization of their pre-IPO shares and options, which embodied their only current vested and tradable equity. But the two big questions we still cannot answer are why Onex amended the agreement in the first place and why it was kept quiet for nearly a full year before it took effect. Though we are not accustomed to seeing trading restrictions that last for such a long period, the amendment, the timing of its effective date, and certainly all of the heavy selling that transpired immediately after the restrictions caused our radar to sound an alert.

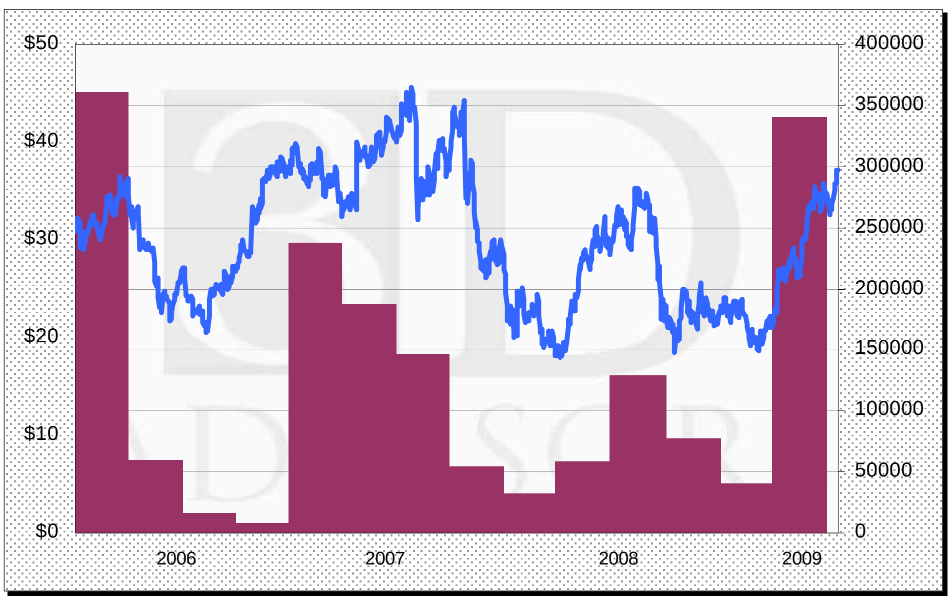
We would not expect to see such a sequence of events occur immediately before a quarterly earnings meltdown and they would in fact go on to report first quarter earnings on May 5th that beat the sell-side consensus by 12%, though revenues of $613 million came in just shy of expectations. What we will be very interested to see is if they can live up to their own fiscal 2009 diluted EPS guidance in the range of $2.05 and $2.15 which is considerably higher than analysts were looking for ($2.03). When one analyst asked on the 1Q09 conference call why there was no mention of guidance in their prepared opening remarks, CEO Sanger claimed they do not comment on guidance this early in the year. That was news to us since they reaffirmed guidance on the 1Q08 conference call and even raised EPS guidance on the 1Q07 call. The trading profile has prompted us to commence a thorough investigation of the name, a process currently underway.

<u>F5 Networks Inc. (NASDAQ: FFIV)</u>

More than four years ago we were drawn to application delivery networking firm F5 Networks when we spotted aggressive 10b5-1 plan trading activity by nearly the entire management team and rampant profit taking by the rank-and-file employees. Further analysis revealed a host of trading, governance and earnings quality risks including, to name a few, unusual options grant practices, accretive changes in revenue recognition, manipulation of allowances and key operating executive defections. We could classify F5 Networks as one of our more closely followed companies at the time due to the persistence of certain trading and accounting behaviors. Between April 2005 and July 2006 we posted a total of six reports on the name. From our perspective, the story took a predictable turn when the SEC and Justice Department opened investigations into the Company's option grant history in May 2006; investigations that are presently ongoing. Even though the Company had set up a Special Committee to perform its own internal review of its equity grant process and ultimately restated five years of financials, moves that typically trigger a trading blackout period for all employees, insiders continued selling without interruption under their ongoing 10b5-1 plans, settling for prices as low as $22 after the issue had traded at $36 just a few months earlier. Now, nearly three years after our last report, we find ourselves again inexorably drawn to the Company due to an observable acceleration of sales under insiders' ongoing 10b5-1 trading plans which are reminiscent of their timely activity in early 2006.

We would offer that the task of sizing up the trading behavior of F5 insiders has changed in recent years since the Company began granting time-vested restricted stock (and later performance stock) rather than stock options in 2005; a move that occurred before the Company even received notice from the SEC and DOJ of their options investigations. Granted, there is a difference between the monthly vesting of previously-granted options and the current quarterly schedule of the more recent restricted share grants. Interestingly, such adjustments have not altered the executives' selling patterns as they continue to monetize restricted stock immediately upon vesting, which now occurs nearly every two months due to the variable grant dates. And despite holding considerably fewer shares than they did before draining their sizeable ownership positions back in 2005 and 2006, there are three high-ranking officers who have executed their largest sales on record during the second quarter. In total, all eight of the Company's Section 16 executives collectively sold 340,000 shares through 10b5-1 plans between May 1st and June 11th at increasing prices from $27 to $35.

Figure 2. FFIV Daily Closing Price 01/03/06 through 07/21/09 (Blue Line and Left Scale) and Quarterly Shares Sold by Insiders (Red Bars and Right Scale). Source: Reuters and FFIV SEC Filings.



The current spike in last quarter's volume of insider sales is the fundamental reason we are now highlighting the F5 trading profile; this driven by the fact that certain key insiders are selling at unprecedented levels. The first large sale came from

President, CEO **John McAdam**, who dropped half of his holdings (180,000 shares) on May 21st, the day after the shares rallied 7% on his keynote speech given at the annual Interlop IT conference in Las Vegas. Our experience has shown that there are few insider behaviors as significant as the one where a key executive sells into a rally sparked by his own optimistic statements. Adding fuel to this fire, six additional executives moved to cash in shares on this management-induced rally as well. Since the conference did not fall on or near a date their restricted stock vested, it left us wondering how so many individuals managed to pull off simultaneous trades through their separate *pre-arranged* sales plans on this particular rally.

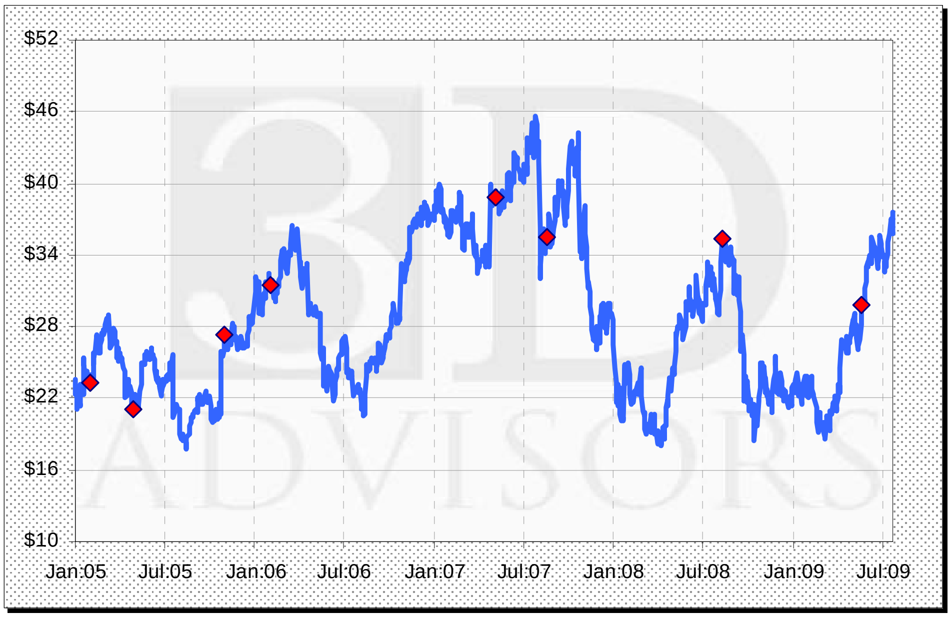
The next notable trade came from Chief Accounting Officer **John Rodriquez**, whose title is somewhat misleading as his scope of responsibility seems more like that of the typical CFO. It includes worldwide accounting operations, financial, accounting and SEC reporting and the overseeing of the Company's human resources department and corporate facilities. It is Rodriguez, not CFO **Andy Reinland**, who signs off on F5's certifications of financials with CEO McAdam and is considered to be the 'principal financial officer'. Rodriguez sold in each of the last four quarters either immediately upon the vesting of restricted shares or shortly after, typically disposing fewer shares than he acquired. The consistent pattern came to an end when he traded out of sequence on June 1st, cashing in 30,319 shares and depleting his holdings by 55%. This was his largest trade (by a wide margin) since becoming a registered seller four years earlier.

Another seller of interest is **Mark Anderson**, Senior V.P. of Worldwide Sales, who in similar fashion to Rodriguez's behavior, stepped outside of his normal 10b5-1 selling pattern to unload 60,000 shares on June 11th. Not only did he monetize the last of his stock options, which otherwise would not have expired for another five years, but he also cleared out all of his common stock except the few shares purchased through the Employee Stock Purchase Plan (ESPP) two months earlier. This lone trade covered more shares than all ten of his prior dispositions combined, wiping out 98% of his ownership. Lastly, V.P. of Business Operations **Edward Eames** no longer has any exposure to F5 after clearing out shares that became unrestricted on May 1st and also 'flipping' the shares he purchased through the ESPP on the previous day. It is quite an impressive feat that Eames has monetized every share and option awarded to him during his nine year career, not to mention the 15,000 shares he has purchased through the ESPP.

Here are the details on the noteworthy recent trading behavior:

- **John McAdam (57)*** – President, Chief Executive Officer, Director. McAdam sold 180,000 of his directly held common shares through an undisclosed sales plan on 05/21/09. This was his largest trade in terms of volume in more than three years and the lowest prices at which he has sold ($30) since November 2005. McAdam has an interesting trading history. He has exclusively traded through 10b5-1 plans since 2002 but the Company has never provided any details on his plans and the trades themselves have been lumpy and sporadic in their recurrence. Yet, they have typically come after earnings surprises or significant price increases and routinely preceded momentum reversals. A trend we are seeing now is that after owning more than 1 million options and shares as recently as 2004, he continues to sell down his ownership each year and currently has just 177,000 shares. This is no insignificant amount, but well below the levels we are accustomed to seeing him hold. **His May sale erased 50% of his ownership** and with just 13,000 new shares vesting per quarter due to the Company's declining revenues, it will take more than one year, barring any further sales, for him to replace the shares recently sold.

Figure 3. FFIV Daily Closing Price 01/03/05 through 07/23/09. Red diamonds are the dates where CEO McAdam sold shares. Source: Reuters and FFIV SEC Filings.



- **John Rodriguez (48)*** – Senior V.P., Chief Accounting Officer. Rodriguez has traded solely with 10b5-1 plans since becoming a registered Section 16 filer in October 2005. We know little about the adoption and expiration dates of his plans, but Rodriguez has typically sold once per quarter upon the vesting of his restricted stock awards. Nearly each quarter Rodriguez has sold fewer shares than he had vest, which contributed to his holdings growing tenfold between 2008 and 2009. The trend changed when he executed his largest sale on record, selling 30,319 shares on 06/01/09 at $33. This sale covered more stock than he vested in over the last six months and **set his ownership back by 55%**. Since none of Rodriguez's past 10b5-1 activity ever covered this many shares in a single trade, we suspect he may have opened a new plan before the Company released FY 2Q earnings.

- **Mark Anderson (46)** – Senior V.P. of Worldwide Sales. Anderson registered as a Section 16 filer in October 2007 and first began trading under a 10b5-1 plan in May 2008, selling each quarter since then upon the vesting of his restricted stock awards. In the past year he slowly increased his direct stock holdings having vested in 38,000 shares and selling just 29,000. As we have seen with a number of his peers, Anderson's behavior changed course in the second quarter when he monetized all 43,751 of his remaining stock options (October 2014 expiration) on 06/01/09 and also sold 16,000 shares of his common. **The sale immediately wiped out 98% of his actionable ownership**, by far his most impressive move to date. With just 7,000 shares becoming actionable each quarter, it will take years for him to replace the equity just diversified.

- **Edward Eames (50)*** – Senior V.P. of Business Operations. Eames has a different trading and ownership profile than his counterparts, having sold down his holdings to nearly zero in late 2007 and consistently selling all shares that become actionable on a quarterly basis. Not only has he disposed of newly-vested stock, but Eames also 'flips' shares purchased through the Company's Employee Stock Purchase Plan (ESPP). For example, he bought 350 shares through the ESPP on 04/30/09 and then vested in 3,938 shares on 05/01/09. That same day he sold all 4,288 shares at $27, **trading in every single share at his disposal; Eames has now maintained a zero ownership balance for the last five months**.

- **Jeffrey Christianson (51)** – Senior V.P., General Counsel. Christianson executed a total of three sales covering 11,000 shares between December 2006, when he became a Section 16 filer, and February 2009. From 05/01/09 to 06/11/09 he sold 25,000 shares with five different transactions at increasing prices from $27 to $35. All trades appear to have come through the same predetermined sales plan. T**he sales covered roughly 40% of his actionable ownership**, which still remainsat historically high levels, but more important is the noticeable pickup in his trade frequency. Christianson is one of a number of F5 execs who have uncharacteristically executed multiple transactions since the release of FY 2Q earnings.

* Indicates that the individual is a Named Executive in the Company's most recent Proxy.

Ross Stores Inc. (NASDAQ: ROST)

Judging from the performance of apparel retailer stocks in the last six months some may surmise the current recession has bottomed and clear skies lie ahead. Our take on the retail environment, given the numerous companies we have analyzed in recent months, paints a different picture. We suspect that investors are basically turning a blind eye to declining sales trends and instead focusing on bottom lines which have largely benefitted from intense cost cutting measures. This of course does not apply to every segment of retail as consumers seeking out bargain-basement prices have flocked to dollar stores and those retailers offering steep markdowns. The biggest challenges are faced by mid-to-high price apparel retailers who have been either late to the markdown game or have avoided it altogether, such as J.Crew Group Inc., which we covered in a 06/29/09 issue of *Insider Research Bulletin*. It should come as no surprise that industry insiders have been very active this year, as the DJ US Retail Apparel Index has gained an impressive 40% YTD, outpacing the S&P by 33%. The shares of a number of the retailers we have covered in 3DA reports this year pushed to new 52-week highs as results managed to surpass previously lowered expectations. The swelling insider profit taking indicates to us that these management teams are not as comfortable with current share valuations and retail conditions as they would like us to believe. Such is the case at off-price retailer Ross Stores Inc., where insiders have diversified more stock in the last three months than in any equivalent period since late 2002, appreciably reducing their exposure to the shares despite having professed their confidence in the second half of the year.

Ross Stores is not entirely a new name for us as the executives have been fairly steady sellers over the years. Between 2004 and 2008, insiders had executed 128 sale transactions with an average selling volume of 895,000 shares per annum. We began keeping close tabs on Ross Stores a few months back when Chairman and Chief Executive **Michael Balmuth** monetized nearly all of his actionable holdings between April 13th and April 15th just weeks before the close of its first quarter (period ending May 2nd). We found this sale particularly interesting in the context of not just his past trade timing, which has been opportune to say the least, but in the equity grant approach the Company has employed for Balmuth. Unlike the stock and option awards issued to other top executives on an annual basis, Balmuth's equity grants have been made in conjunction with the renewal of his employment agreement, which occurs every two years. The equity does not begin vesting until the third anniversary of the grant date (vests in full on the fourth anniversary) which, according to the Company, is intended to "enhance the retentive value of the award".

It is hard to see any "retention value" of this approach when Balmuth monetizes every single option immediately upon vesting dates and does the same with his restricted stock awards. Between 2007 and 2009 he vested in 280,000 shares and more than 600,000 in-the-money options and yet owned only 6,000 shares outright and 47,000 vested options following his April dispositions. There is plenty of irony in the Company's disclosure that it does not enforce any stock ownership guidelines because of its belief Company executives have enough of their net worth tied up in unvested derivative equity. To us it appears that little of their respective net worth is in ROST shares after having successfully converted much of their actionable holdings to cash. It should also be noted that the current Proxy reports Balmuth had an open 10b5-1 trading plan at the time of his April sales. Though these sales were not executed through the plan, it is likely he set up the plan to divest some of the equity that has since become actionable and we may see new sales from him very soon.

Between April 15th and July 15th six insiders, including four of the five named executive officers, sold 670,000 shares at prices from $38 to $42. Of this total, 222,000 shares were sold after May 21st when the Company reported first quarter earnings that topped analysts' expectations and raised its full-year guidance by 14%, though management admitted they were up against easier comparisons. In the opening remarks of the first quarter conference call, CEO Balmuth sounded quite optimistic when he added, "Looking ahead, we believe that the turmoil in the retail world today will remain an opportunity for us as we expect consumers to continue to seek out bargains and value retailers like ourselves." That said, three executives surfaced with sales covering 197,000 shares in mid-July immediately after the Company announced a 1% June comp sales increase that did beat expectations of 0.6% but trailed the 6% and 4% comp increases in April and May, respectively. The Company would go on to increase its July comp guidance from declines of 1% or 2% to no change while also raising its second quarter earnings forecast. The question we have is why the issue is deserving of a higher valuation than it had at the same time last year when sales growth was stronger and the results were not being measured against lowered expectations on account of the now full-fledged recession. It is possible the executives share the same concerns based on their recent activity.

The first to act in July was Chief Operations Officer **Gary Cribb**, who monetized all of his vested options on July 14th after already having cleared out his common stock in May. His lone July trade covered more shares than he had previously sold over the last three years combined. Next up was Executive V.P. of Merchandising **Lisa Panattoni**. She monetized half of her vested stock options (40,000) on July 15th after already having sold off all of her common stock in the first and second quarters. Her year-to-date sales erased 65% of her actionable ownership. Despite the healthy stock awards issued to ROST execs over the years, Cribb and Panattoni no longer have any direct exposure to the shares.

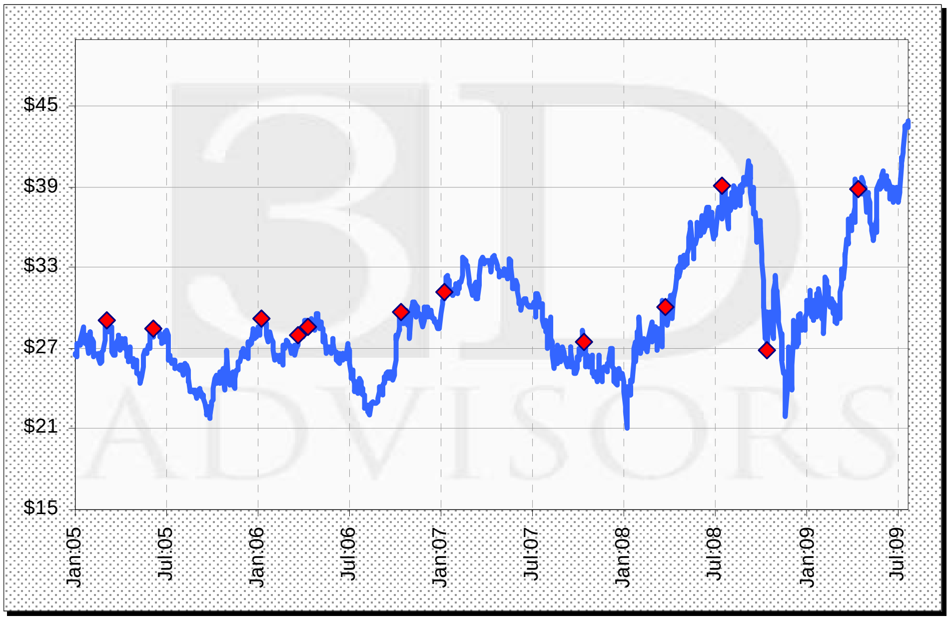
Lastly, **Barbara Rentler**, one of many merchandising executives employed by the Company and a named executive officer, monetized 58,000 options on July 15th, representing the largest of her last 17 sales going back to early 2002. Like Panattoni, she too trimmed her common stock holdings earlier in the year and her 2009 sales have now covered 60% of the equity she had at her disposal. Since the start of the fourth quarter we can report four top executives have diversified away 60% to 99.7% of their actionable ownership, effectively depleting their holdings to levels last seen in the earliest stages of their respective employment with the Company. Bear in mind, these sales have not only occurred when management has seemed the most confident in the Company's operations, but during a period the Company has been aggressively buying back stock under a $600 million repurchase program approved in January 2008 and report they are on pace to spend the remaining $233 million by year-end.

Cases of significant holdings reductions carry high significance when those selling will not see replenishment of shares through new vesting of equity awards within a couple of quarters. Such is the case with Ross Stores. With the exception of CEO Balmuth, half of the restricted stock (the executives do not hold any un-exercisable options) currently held by the top officers is not scheduled to vest until 2012 to 2014. All of the selling officers sold more shares this year than they will gain access to in the next 12 months, with most distributing at least three times as many shares recently as will vest in the coming year. They have effectively depleted their ownership in the absence of any significant near-term vesting of additional stock to replenish their holdings; a situation we find highly significant since the current ownership of each of the recent sellers is now at a five-year low.

- **Michael Balmuth (58)*** – Vice Chairman, President, Chief Executive Officer. Historically, CEO Balmuth's past sales have proven to be quite prescient. Between 2005 and 2008 he carried out 11 separate rounds of sales (we count trades over successive sessions as one round) that covered 185,000 shares on average. Rarely does he trade in low denominations and as the graph below illustrates, more often than not he has managed to unload shares ahead of significant downward price swings. His behavior has taken an interesting turn since late last year when he monetized all 168,000 shares from a restricted stock award on October 15th that vested that day, doing so *after* the issue traded from a September high of $41 down to $28. Although the issue would rebound to $32 later in the month, the shares would collapse to four-year low prices ($22) by November.

  Fast forward to April, one month after Balmuth vested in 335,000 options. Between April 13th and April 15th he unwound every last option at his disposal, 400,000 in all, which came from a series not set to expire until March 2015. **The sales wiped out 90% of his actionable ownership, leaving him with little exposure to his Company's shares.** Since, he has vested in additional options, but his holdings still remain at their lowest level in five years. Over the next 52 weeks he stands to gain access to 342,000 shares and options (see appendix B), but from his recent behavior, we anticipate his acting on the newly-vested equity sooner rather than later.

Figure 4. ROST Daily Closing Price 01/03/05 through 07/23/09. Red diamonds are the dates where CEO Balmuth sold shares. Source: Reuters and ROST SEC Filings.



- **Gary Cribb (44)** – Executive V.P., Chief Operations Officer. Cribb joined the Company in 2002 after serving in an executive role at Staples for four years. After many of his last nine sales were executed concurrently with the vesting of his restricted stock awards, we were quite intrigued when after clearing out all 16,500 shares of his common on May 26th he then monetized every last option he held early in the third quarter. On July 14th Cribb exercised 99,057 options, clearing out each of his options series with expiration dates between March 2013 and March 2016. He immediately sold the underlying shares which **erased 99.7% of his actionable position**, leaving untouched only the 291 shares just purchased through the ESOP. The sale was his largest on record and came just three sessions after the Company released June sales figures. Considering he will vest in just 13,811 shares (no options) through the end of 2010 (see Appendix B), his two dispositions since May have severely limited his ability to benefit from any share gains for years to come.

- **Lisa Panattoni (46)*** – Executive V.P. of Merchandising. It is unclear to us exactly what Panattoni's role is considering there are three other execs with her same title and many of the same listed responsibilities. But she has been a named executive for the last five years and is unquestionably a key insider to monitor. After gaining access to 40,000 previously-restricted shares in January, Panattoni immediately cleared out the stock two days after the vesting date and then on April 15th would sell another 5,200 shares that had vested the prior month. She would then resurface on July 15th to monetize 40,000 options from her January 2015 series, which made up roughly half of her vested derivative holdings. All said Panattoni **traded in 65% of her accessible holdings this year**, depleting her common entirely for the first time and reducing her total actionable ownership to its lowest level since 2006. Already this year she has sold nearly three times as many shares as the 27,000 options she will have vest over the next 12 months (see Appendix B).

- **Barbara Rentler (51)*** – Executive V.P. of Merchandising. In a span of three months Rentler sold nearly as many shares as she had in any of the prior eight years since becoming a Section 16 filer. After selling 16,295 shares on April 21st, which amounted to nearly half of her common holdings, she would then monetize all 58,557 options from her February 2015 series on July 15th, selling the underlying stock on the same session at $42. **The two sales wiped out more than 60% of her beneficial ownership** which now stands at its lowest amount in more than five years. Rentler and Panattoni each sold on July 15th marking the first time the two merchandising execs sold together on the same date. The 25,000 shares Rentler will have vest over the next 12 months will replace less than one-third of the equity she sold since April (see Appendix B).

  * Indicates that the individual is a Named Executive in the Company's most recent Proxy.

On a final note, insiders at Ross Stores' rival TJX Companies have also been sellers in recent months, distributing a total of 315,000 shares since May 19th when the Company reported an 8% increase in fiscal first quarter profits. Unlike the Ross activity, there were no material holdings reductions that resulted from their sales. TJX management admitted on its conference call that it was not as encouraged with their results as they benefited from lowered expectations and even warned that second quarter results would come in flat, below prior guidance and sell-side expectations. The two camps seem to be at odds on the current state of the retail environment and we have to wonder why Ross Stores insiders, who have shown the most enthusiasm of the two, are the ones selling significant percentages of their ownership.

Appendix A

Common Stock and Option Holdings for Selected Emergency Medical Services Corp. Insiders

Name	Actionable Position as of 07/24/09:			Derivative Equity Expected to Vest in Next 12 Months			
	Common	Options [1]	Total [2]	Grant Date	Strike Price [3]	Vesting Dates	# Vesting
Steven Murphy	0	0	**0**	03/12/09	$29.65	03/12/10	625
SVP of Govt. and National Svcs.				03/12/09	N/A	03/12/10	833
							1,458
Kim Norman	0	0	**0**	03/12/09	$29.65	03/12/10	625
SVP of Human Resources				03/12/09	N/A	03/12/10	833
							1,458
Randel Owen	0	270,542	**270,542**	03/12/09	$29.65	03/12/10	4,688
CFO				03/12/09	N/A	03/12/10	6,250
							10,938
Steven Ratton	1,500	27,500	**29,000**	03/12/09	$29.65	03/12/10	1,563
Treasurer				03/12/09	N/A	03/12/10	2,083
							3,646
William Sanger	0	1,132,168	**1,132,168**	03/12/09	$29.65	03/12/10	9,375
Chairman, CEO				03/12/09	N/A	03/12/10	12,500
							21,875
Todd Zimmerman	20,000	114,917	**134,917**	03/12/09	$29.65	03/12/10	9,375
General Counsel				03/12/09	N/A	03/12/10	12,500
				06/14/07	N/A	06/14/10	6,664
							28,539

[1] Total number of vested, in-the-money options.

[2] Total actionable position includes common stock plus vested in-the-money options.

[3] Strike Price N/A indicates the series is restricted stock, not options.

Appendix B

Common Stock and Option Holdings for Selected Ross Stores Inc. (ROST) Insiders

Name	Actionable Position as of 07/24/09:			Derivative Equity Expected to Vest in Next 12 Months			
	Common	Options [1]	Total [2]	Grant Date	Strike Price [3]	Vesting Dates [4]	# Vesting
Michael Balmuth	6,399	104,742	**111,141**	03/22/07	$34.37	08/22/09 - 07/22/09	249,768
VC, President, CEO				03/22/07	N/A	01/29/10	93,105
							342,873
John Call	10,150	128,000	**138,150**	03/31/08	N/A	03/31/10	1,035
CFO				03/31/09	N/A	03/31/10	1,257
							2,292
Gary Cribb	291	0	**291**	03/16/06	N/A	03/16/10	5,394
COO				03/31/08	N/A	03/31/10	2,584
				03/31/09	N/A	03/31/10	5,833
							13,811
Lisa Panattoni	395	40,263	**40,658**	01/02/07	N/A	03/31/10	17,065
EVP of Merchandising				03/31/08	N/A	03/31/10	3,618
				03/31/09	N/A	03/31/10	7,178
							27,861
Barbara Rentler	18,238	33,000	**51,238**	03/16/06	N/A	03/16/10	14,384
EVP of Merchandising				03/31/08	N/A	03/31/10	3,618
				03/31/09	N/A	03/31/10	7,178
							25,180

[1] Total number of vested, in-the-money options.

[2] Total actionable position includes common stock plus vested in-the-money options.

[3] Strike Price N/A indicates the series is restricted stock, not options.

[4] A range of dates indicates the options vest equally on a monthly basis. The total provided is the cumultive amount of equity scheduled to vest during the date range.