



This 3DAdvisors Report Covers:

- ✓ **Insider Trading:** Insider Trading Behavior
- Accounting:** Quality of Earnings Issues
- Governance:** Corporate Governance Issues

Insider Research Bulletin

November 18, 2008

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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

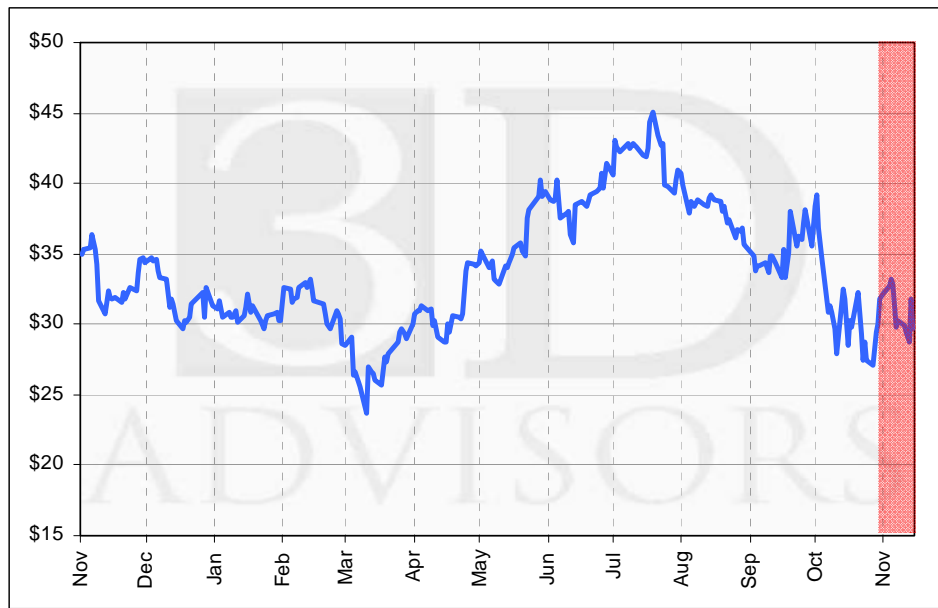
- ▶ FLIR Systems Inc. (NASDAQ: FLIR)
- ▶ People's United Financial Inc. (NASDAQ: PBCT)
- ▶ Quality Systems Inc. (NASDAQ: QSII)

Discussion of 3DAdvisors Findings

FLIR Systems Inc. (NASDAQ: FLIR)

Our first thought when insider sales at thermal imaging and infrared camera manufacturer FLIR Systems crossed our radar was ‘here we go again’. We have monitored their chronic selling here for years without ever issuing coverage on the Company due to the frequency and consistency of their activity while the shares maintained an upward trajectory during the unfettered defense spending of the Bush administration in recent years. But the recent sales do not fall under the same umbrella; as FLIR shares have fallen victim to the overall market downturn and lost as much as 40% of their value since July, insiders have continued to sell. And now, with the approaching change in the White House, there is little doubt defense spending will come under new scrutiny by the incoming administration. So when five insiders began selling after the 3Q08 earnings release on 10/23/08 and continued their sales after the election, only now at a larger and faster clip and considerably lower prices, our interest was immediately piqued.

Figure 1. FLIR Daily Closing Price, 11/01/07 through 11/14/08. Red shaded area is where 5 insiders sold 385,000 shares. Source: Reuters and FLIR SEC Filings.



If the economy's turbulence is affecting FLIR Systems, you would not know it judging by the Company's third quarter earnings. Revenues increased 45% to a record \$276 million, while earnings per share jumped 59% (to \$0.35) from the same quarter last year, topping the consensus estimate by almost 10%. Sales and profits continue to be driven by the Government Systems division, which as the name implies, includes high-end thermal imaging systems used by the military and local police forces. It is the other two key divisions, however, Thermography and Commercial Vision Systems (CVS), which give rise to several concerns in the current economic environment. Thermography, which accounted for 32% of the Company's revenues through the first three quarters of the year, has now reported flat or declining sequential sales over the last three quarters. Earnings were up 10% from the second to third quarter, but the division's profits are still well below what we saw in the second half of 2007.

Sales in the CVS division had likewise been reporting steady sequential increases of at least 10% since 4Q07 until the latest quarter, when they dropped 6%. Earnings fared no better, sequentially declining 3% and 34% over the last two periods. On the Q3 conference call management downplayed the effects of the economy, saying that it would slow growth of high-end products, but claimed the Company's diverse product offerings and customer markets would alleviate any significant weakness in its combined operations. These statements were issued *prior* to insiders selling at the discounted prices, making us wonder whether FLIR's current valuation is warranted in light of the slowing growth rates in the Thermography and CVS divisions.

Using forward price to earnings as the benchmark, FLIR is currently the most expensive stock (P/E: 20) in the defense industry. The shares have historically traded at a premium to the industry average, but that seemed more fitting when the Company's growth rates were higher. One subtle clue that a broader earnings deceleration may be

in store lies in the full-year guidance issued alongside 3Q08 earnings. Although the Company did tighten the guidance range, there was no increase to the upper end of the target. This is a divergence from the past two years when earnings guidance was increased in October. It speaks volumes to us that with the DJ Defense Industry index down 34% since January, the only company where there has been a convergence of profit takers in the fourth quarter is FLIR. Included in this group are the two highest ranking officers, Chairman, President and Chief Executive **Earl Lewis** and Chief Financial Officer **Stephen Bailey**. It has been over a year since either officer accepted prices this low for his shares. And while their recent sales did not erase a significant percentage of their holdings, their persistent profit taking certainly has. The table below shows the year-over-year holdings erosion for the management hierarchy.

Insider	Position	01/01/06	01/01/07	01/01/08	11/18/08
E. Lewis	CB, Pres, CEO	4,150,714	4,260,038	3,522,110	2,730,625
S. Bailey	CFO	909,402	961,748	928,406	626,183
A. Teich	Div. Pres.	821,524	612,216	553,134	548,282
A. Almerfors	Div. Pres.	664,960	713,960	504,693	303,926
W. Sundermeier	Div. Pres.	466,450	518,318	458,954	117,597
J. Hart	Director	124,000	126,000	86,000	41,200

The figures above clearly reveal a two-year downtrend and the degradation is not insignificant. While the key operating officers still have plenty of actionable shares and options at their disposal, their 2007 and 2008 sales have erased a substantial amount of their exposure to the shares, drawing down their holdings to the lowest levels in years. If they continue at the current selling pace, it is feasible their positions will be cut in half by the end of next year. As we have discussed in so many reports before, we closely analyze the amount of derivative equity insiders have scheduled to become actionable downstream in order to put their holdings diversification in context. In this case, as the table below indicates, they continue to sell between two and four times the amount of shares that will be replaced the following year. The reduced ownership results from this exaggerated holdings burn rate which will only be compounded as the holdings levels decrease further. The new development of insider selling at steeply discounted prices obviously begs the question whether their intent for retaining shares and/or restoring their holdings has waned.

Insider	Shares Sold In 2008	Options/Shares Vesting in 2009
E. Lewis	813,742	258,096
S. Bailey	298,472	91,074
A. Almerfors	200,000	89,830
W. Sundermeier	352,944	89,130
J. Hart	58,000	833

Lastly, we have examined management's governance and compensation practices and can report that we did not find any significant red flags. We do think it is interesting, however, that comparatively large base salary increases are written into CEO Lewis' employment agreement. He received a 10% salary increase from 2007 to 2008 and a 15% increase from 2008 to 2009, which are considerably higher than the salary increases for other named executive officers during this period. It would seem Lewis and CFO Bailey receive special considerations with regard to compensation and benefits that others are not entitled to, including travel expenses for their wives that amounted to \$17,000 in the last two years. The two also have severance agreements that extend beyond change of control situations and would pay 18 months of salary for involuntary terminations. But again, these are relatively minor considerations.

- **Stephen Bailey (59)*** – Senior V.P. of Finance, Chief Financial Officer. This quarter marks the first in Bailey's trading history that he sold shares at lower prices than his prior activity. After selling 103,000 shares in the third quarter at prices as high as \$39, Bailey surfaced less than two weeks after the Q3 earnings release with a 75,000 share sale at \$31, which represents a 16% decrease to his last exit price. The shares sold were acquired when he exercised options on the same day that had three years remaining before expiration. While his trading thus far does not exceed any prior quarterly selling volume records, it was his largest single session sale in nearly four years. Bailey has now sold 300,000 shares on the year which **accounted for 35% of his actionable holdings**. His holdings are now at their lowest level since he first joined the Company back in 2000, and with just 91,000 options and shares scheduled to vest in 2009 (see Appendix A), the likelihood of his rebuilding his holdings anytime soon seems quite low.
- **Arne Almerfors (62)*** – Executive V.P., President of Thermography. Almerfors sold 40,000 shares on 11/06/08 at \$31 followed by another 40,000 on 11/13/08 at \$27, which are the lowest prices he has accepted for his stock in seven quarters. This also marks an increase in his quarterly selling volume (he sold 60,000 shares in each of the last two quarters), but it resonates more with us that his November trades were executed at prices 42% below those associated with his August dispositions. His 2008 sales, which collectively covered 200,000 shares, **erased 40% of his holdings**. Looking back even further, his ownership is now down more than 50% in the past two years and the 89,000 options and shares that will become actionable throughout 2009 will replace only the equity he diversified between July and November (see Appendix A).
- **William Sundermeier (44)*** – President of Government Systems. Sundermeier has not sold yet in the fourth quarter, but we include him in this section because of the aggressive nature of his activity in the second and third calendar quarters. Between 04/29/08 and 07/01/08 he cleared out three different option series with expiration dates between February 2009 and February 2015 en route to selling 353,000 shares valued at \$13 million. He distributed more shares in this three month period than he had in any full year dating back to 1999 when he became a registered insider. The shares **accounted for 75% of his actionable holdings** and covered four times the amount of stock and options he will gain access to next year through the vesting of additional options (see Appendix A). It is possible we might still see him take profits this quarter, but with his holdings now at the lowest level of all named officers, he might wait until early next year to resume trading.

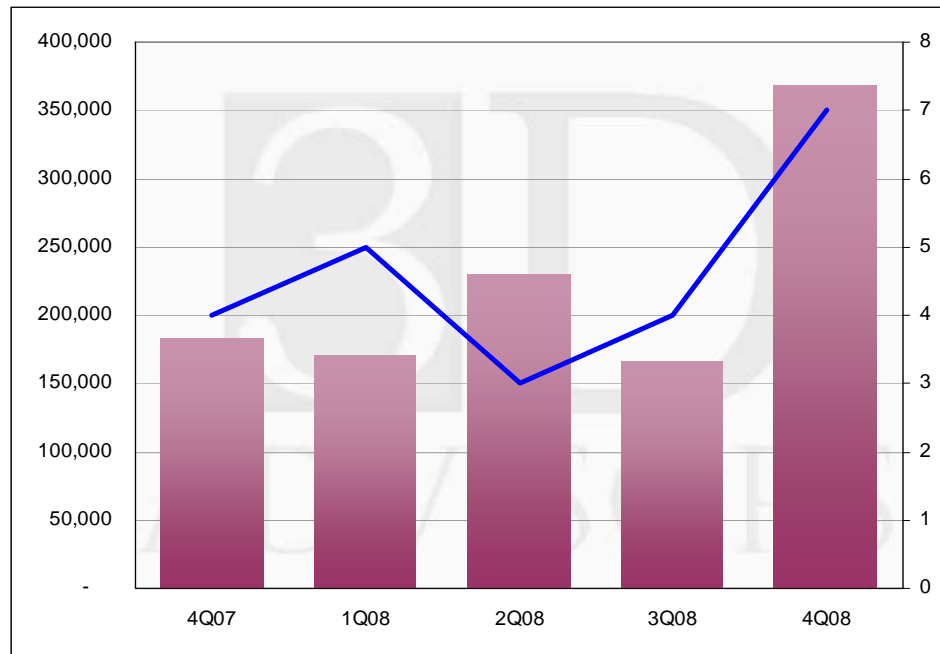
- **Earl Lewis (64)*** – Chairman, President, Chief Executive Officer. At first it looked as though Lewis' fourth quarter sales were the result of long-held options that he needed to act on before their February 2009 expiration. But this proved to be only half the situation as Lewis traded on twelve consecutive sessions from 10/29/08 to 11/14/08, selling 210,000 shares, less than half of which came from the expiring series. The remainder involved the monetization of options with expiration dates three and seven years out. While this was not the heaviest volume we have seen from him this year, and his total year-to-date volume trails 2007, the fact stands he sold at prices this quarter 12% below his last sales in May. The 814,000 shares sold in 2008 **represented 23% of his actionable holdings**, which are now down to their lowest level since late 2002. He will add another 258,000 options and shares to his holdings next year, all in the first two quarters, but this will hardly make him whole after the equity diversified away this year (see Appendix A).
- **John Hart (74)** – Director. Hart has served on the FLIR board longer than any other board member by 12 years. Typically we would discount the activity of an insider who is approaching retirement age but Hart has been granted an exception to the Company's governance rules so that he could serve an eighth three-year term, holding his seat beyond the mandatory retirement age of 75. He is obviously a significant director and a member of the Audit Committee and Corporate Governance Committee. This year he has sold 58,000 shares, including the 6,000 sold on 11/04/08 at \$32. But what stands out to us, similar to the above-mentioned selling execs, is that this sale came at 20% lower prices than his last sale of 8,000 shares on 07/31/08. His **ownership is now down 50% since January** and there is no chance, short of open-market buying, of its being restocked since he has just 833 shares on tap to vest in 2009 (see Appendix A). We should also add here that Director **John Carter (62)** monetized 48,000 non-expiring options on 08/08/08, setting his holdings back by more than 30%. This was his first sale since joining the board in 2003.

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

People's United Financial Inc. (NASDAQ: PBCT)

For more than a year now we have been closely watching the management team at People's United Financial, a 2007 thrift conversion and holding company of People's United Bank. We were initially drawn to the name when key operating officers and board members who bought into the Company's subscription offering in April 2007 began selling the stock at a loss immediately after their six month short swing period expired. We highlighted the first round of sales in *Research Notes* on [02/27/08](#). But the profit taking has persisted despite the financial sector's meltdown and at this point we feel the trading profile warrants further coverage. On 10/16/08 PBCT issued third quarter earnings of \$0.14 per share, which met Wall Street's expectations but were 30% below year ago levels. Insiders began taking profits on the first day the post-earnings trading window opened on 10/20/08, and by 11/05/08, seven of them had sold a total of 368,275 shares at an average price of \$17.03. This marks record quarterly highs in both the number of trading insiders and selling volume (see Figure 2 below).

Figure 2. PBCT Quarterly Shares Sold by Insiders (Red Bars and Left Scale) and Number of Insiders Selling (Blue Line and Right Scale). Source: PBCT SEC Filings.



As we mentioned in our earlier coverage, People's United poses a situation rarely seen: a strong convergence of insiders selling their shares at a loss. And not just any shares, but stock purchased in an initial subscription offering that symbolized their approval of the conversion as well as their confidence in the Company's long-term success. After initially spending a total of \$8.1 million to acquire 408,000 shares (\$20 per share) in the initial offering, they have since sold 1,038,981 shares for \$17.8 million (weighted average price of \$17.17). After selling all of the shares bought in April 2007, they quickly began selling converted stock and options, as well as burning through equity that has vested in the past year (more on this later). People's shares have been range bound for more than a year now, trading between \$16 and \$18 with only a few brief periods above or below these prices. Yet, the issue's inability to build any momentum has not tempered their profit taking. Based on their activity, it is becoming more apparent management might view the current price level as a ceiling.

People's United has admittedly outperformed its peer group through the financial crisis, as the shares have lost only 5% on the year compared to the 35% decline in the DJ US Bank Index. Possibly, a correction is in order as the shares trade at a forward P/E of 27, which is clearly frothy for the banking industry at this time. In fact, we could identify only four other banks¹ with a market capitalization above \$1 billion that have a higher forward P/E. Breaking it down even further, PBCT is currently the second richest savings and loan and priciest Northeast bank with at least a \$1 billion capitalization. But valuation is not at the top of the list of relevant topics management chooses to publicly discuss. Instead, as evidenced by the opening remarks made President, Chief Executive Officer **Philip Sherringham** on the Q3 conference call, management is bluntly

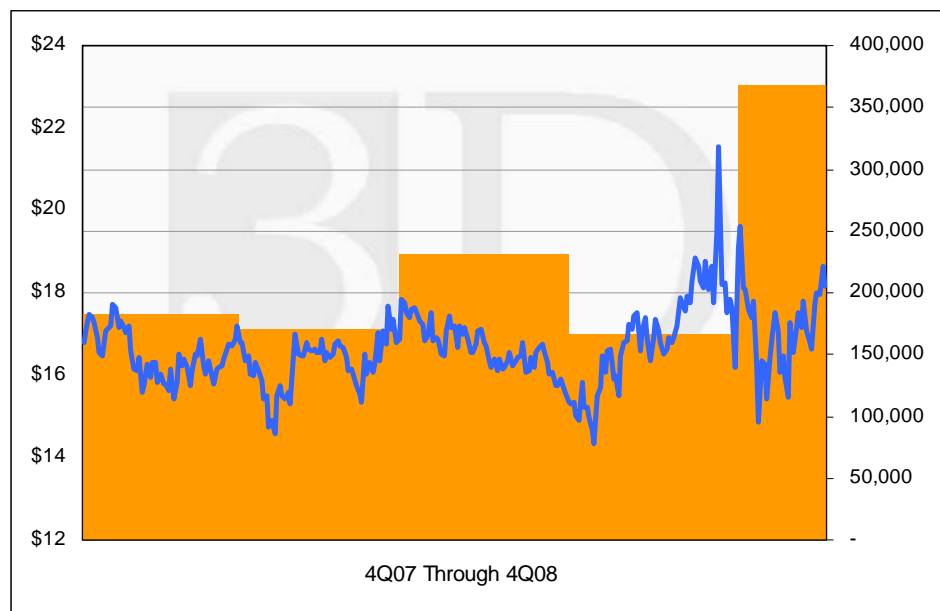
¹ First Horizon National Corp. (FHN), Investors Bancorp Inc. (ISBC), Privatebancorp Inc. (PVTB) and Synovus Financial Corp. (SNV)

hyping the Company's capital position, which now stands at \$3 billion in cash and short-term investments [bolding is ours]:

I hope that you have all seen the recent Barron's article featuring People's United. If you haven't, there's a link to the article on the Peoples.com website. Barron's reported that People's United -- and I quote -- "stands out for the strength of its balance sheet, lack of subprime mortgage exposure, and prospects for still stronger returns. And is so well-capitalized that it is hunting for acquisitions as others are watching their franchises shrink."

It is not often we see corporate executives citing positive media reports on a conference call and his doing so probably indicates the sell-side analysts, who were probably aware of the article already, might not be buying into the Company's story. This proved to be a valid concern judging by critical comments made by multiple analysts shortly after the call. And Sherringham's posturing lost some of its credibility when he surfaced less than two weeks later with his largest sale to date at the lowest prices of any insider sale thus far. After paying \$20 per share back in April 2007, Sherringham sold at an average price of \$17 last December and then at \$16.30 last month. And there are others with similar trading profiles, such as Executive V.P. of Commercial Banking **Brian Dreyer**, who has sold at successively lower prices in four of the last five quarters. All six Section 16 filing officers who were with the Company at the time of the conversion have already sold the stock they purchased in the offering and five of the six have executed multiple sales, typically at sequentially lower prices.

Figure 3. PBCT Daily Closing Price, 10/01/07 through 11/14/08 (Blue Line and Left Scale) and Quarterly Sales by Insiders (Orange Bars and Right Scale). Source: Reuters and PBCT SEC Filings.



While it is our opinion that management sentiment is the basis for their continued selling, it is interesting to put the recent trading activity in the context of the overall post-conversion compensation practices, which generously benefited both directors and

executives. In October 2007 the Compensation Committee recommended and the shareholders approved the 2007 Recognition and Retention Plan, an equity-based benefit plan aimed at awarding executive officers and board members for the completion of the second-step conversion as well as the then pending Chittendon Corp. acquisition. At the same time the 2007 People's United Financial Stock Option Plan was approved, which together, the two plans reserved 22 million shares and options. The top five executives alone were immediately awarded stock and options with a combined fair value of \$48 million while the board members each received a combination of at least 290,000 shares and options with a fair value of \$5 million, regardless of their time with the Company. This was in addition to their annual equity grants made in March 2008. For example, CEO Sherringham received a total of 1.4 million shares and options in a span of five months, just before the Company went back for shareholder approval of the 2008 Long-Term Incentive Plan, which reserves another 10 million shares to be awarded to the management hierarchy. To us, the insider trading behavior we are seeing by these executives and directors running a mid-cap bank is consistent with the overly generous compensation structure and makes them look more like over paid large-cap technology executives during the hey day of the tech bubble.

We are left scratching our heads as to why shareholders supported these generous benefit plans considering the financial industry climate at the time; PBCT was already underperforming the Dow Jones by 20% year-to-date. We cannot recall a board compensating itself and the officers so handsomely for events like a thrift conversion and acquisition. In fact, we went back a number of years to check the compensation practices at other thrift conversions to see if they received similar retention awards. Take for example Hudson City Bancorp Inc. (HCBK), a comparable-sized holding company which completed its conversion in July 2005. Named executive officers received an increase in their annual bonus, equivalent to roughly 100% of their regular bonuses, which for the top five execs added less than \$2 million to their collective 2005 compensation. More importantly, no extra equity was provided. We also looked at Investors Bancorp Inc. (ISBC), a smaller savings and loan conversion that completed its second step in 2005. ISBC waited more than a year to adopt a new equity plan to reward management for the conversion, and while they did in fact grant a large number of shares and options to the insiders, the payout value was roughly one-third of what PBCT awarded its team.

It is beginning to look more and more like these options and shares have little to do with retention, either the insiders' retention or retention of the shares, as the plan's title implies. Unlike two-thirds of the companies listed in the Proxy that comprise the peer group used for compensation benchmark data, People's United does not have stock ownership guidelines for its officers or board members. One would think that when a large amount of equity is awarded to an executive team to promote long-term performance as well as align insider interests with those of the shareholders, imposing some minimum ownership requirements would seem prudent. But again, there is additional evidence that these awards are better classified as 'gifts' rather than long-term incentives.

At the 2008 annual meeting in April, the Company asked shareholders to vote for a proposal to amend the Recognition and Retention and 2007 Stock Option plans concerning the language used to define the vesting component of the stock and options. Before, an insider was not entitled to the unvested portion of the grants except in the case of death or change of control. This was changed to accelerate the vesting in the

case of retirement, which is quite applicable to the current directors. The board consists of ten independent directors, six of whom currently qualify for retirement (older than 65 years) while another two will reach the required age in one or two years. Each of these individuals now over the age of 65, including two who sit on the Compensation Committee, will now be entitled to receive the unvested equity (currently 80% of initial grants) if they were to leave tomorrow.

Below we have highlighted some of the more notable sellers:

- **Brian Dreyer (61)*** – Executive V.P. of Commercial Banking Group. Dreyer has now taken profits in four of the last five open trading windows, although ‘profits’ is hardly a fitting description for his first sales. After buying \$500,000 worth of PBCT shares in the April 2007 initial offering, for which he paid \$20 per share, he waited the mandatory six months (read: short swing period) before selling the acquired shares at a loss in October 2007. Since that time he has continued selling his shares, including some which only recently had their restrictions lapse, at even lower prices. To date, Dreyer has distributed 257,000 shares for \$4.5 million, including 72,754 sold after the Q3 earnings release on 10/16/08 for which he accepted his lowest prices yet (\$16.69). **With regards to the percentage of ownership sold since the conversion, Dreyer tops the list at 71%.** He will have another 200,000 options and shares become actionable through the end of 2009, but half of these are under water at current market prices (see Appendix B).
- **William Kosturko (59)*** – Executive V.P., General Counsel. Kosturko not only bought into the initial offering in April 2007, but was the lone insider to purchase additional shares in the over-allotment, spending a total of \$900,000 to acquire 45,000 shares. One year later it became apparent he did not see the same value in the shares, as he sold the 45,000 shares at a 15% loss plus another 47,000 from his existing holdings. And that was just the beginning. Kosturko would go on to sell another 50,000 shares on 08/28/08 and 127,949 shares between 11/02/08 and 11/05/08 out of his common holdings, all similarly around \$17. Taking into account the new equity that has vested since last April, Kosturko still managed to **unload nearly 80% of his actionable ownership.** While he will have a bunch (142,000) of new stock and options at his disposal over the next 52 weeks, half of these are options that are presently out of the money by 6% and 28% (see Appendix B).
- **Philip Sherringham (54)*** – President, Chief Executive Officer, Director. Sherringham served as the Company’s chief financial officer from 2003 until February 2008, when he was called upon to lead People’s when then CEO **John Klein** passed away. While he has not been as active a seller as some of his peers, his latest sales are quite material. After buying into the initial offering and selling those shares at a loss in December 2007, Sherringham resurfaced on 10/27/08 and 10/28/08 with his largest sales yet, disposing of 89,203 shares. Plus, the October sales came at even lower prices (\$16) than those he accepted for his shares last December and were executed 26% below the high set one month earlier. The 131,000 shares sold in the past year **represented 40% of his actionable holdings,** but we anticipate his holdings will be replenished by the 350,000 options and shares scheduled to vest through 2009. As is the case with his peers, however, more than half of these are currently under water (see Appendix B).

- **Robert D'Amore (55)*** – Executive V.P. of Retail and Small Business Banking. Having joined the Company in 1981, it is understandable D'Amore might look to take some profits. But like his peers, he showed little patience to wait for the shares to appreciate above the \$20 price he was buying at back in April 2007. On 08/28/08 D'Amore cleared out all options from three series with expiration dates three to five years out en route to selling 48,669 shares at \$17.50. Then on 10/31/08 he resurfaced to sell another 34,000 shares out of his common holdings, again at roughly \$17. The diversification only resulted in a **20% dent in his actionable position**, but provides further validation that People's insiders see the current prices as a possible ceiling. D'Amore will gain access to 220,000 options and shares through December 2009 (see Appendix B).
- **George Carter (71)** – Chairman. Though we typically discount sales by insiders approaching potential retirement age, Carter is a key director having served the board for more than 30 years and currently chairs the Audit Committee and Executive Committee in addition to holding the "Lead Director" title. He surfaced with his first sales on 10/29/08 and 10/30/08, selling the stock he purchased in April 2007 (and more) at a 16% loss. While Carter stands to replace the 22,000 shares sold with options and stock that will vest next month (see Appendix B), the fact he was willing to **sell almost 25% of his equity** at prices below \$17 should not be overlooked. And he is not the only board member to act this quarter, as **Collin Baron** sold 20,000 shares (20% of holdings) on 11/05/08 as well.

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

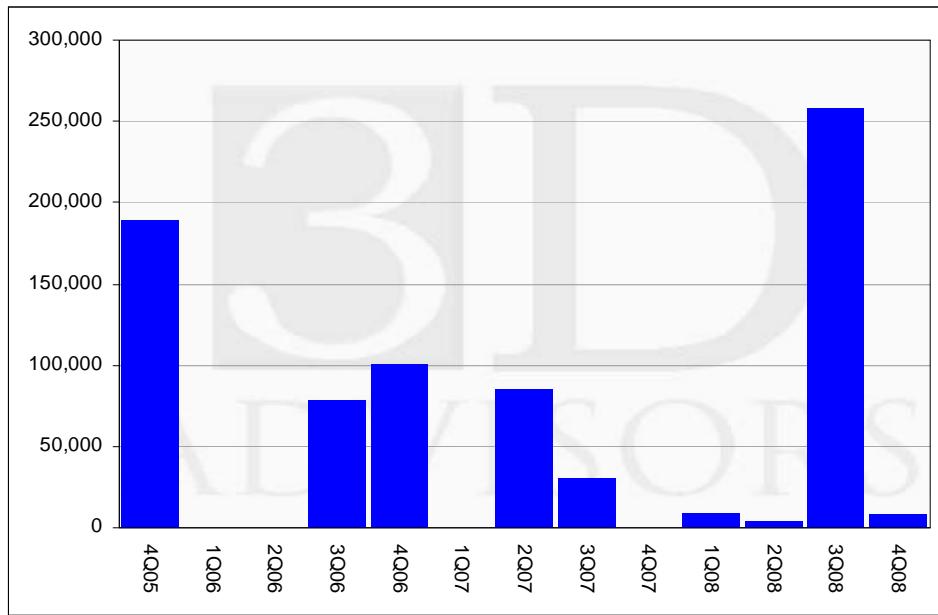
Quality Systems Inc. (NASDAQ: QSII)

With the exception of dissident board member **Ahmed Hussein**, few stakeholders have been critical of Quality Systems Inc.'s operating and stock performance lately. The Company reported FY 1Q09 (period ending 06/30/08) earnings on 08/07/08 of \$0.40, a 38% increase from the year ago period, which bested analysts' expectations by \$0.03. Revenues in the quarter jumped to a record high of \$55 million, which represents a 31% increase year-over-year. And as an added bonus for stockholders, the board increased the dividend by 20%. As a result, the shares set off on a dramatic climb, soaring from a July low of \$27 to an all-time high of \$47 in just two months. Into this rally insiders surfaced with their most spirited profit taking in recent years, as five of them sold 266,568 shares between August and November at prices from \$39 up to \$47. The insider actions proved timely as the shares would sell off 35% to \$31 by late October, just before FY 2Q09 earnings released on 10/31/08 briefly breathed new life in the shares. But this quarter did not fare nearly as well with year-over-year income growing just 9%, but more importantly, declining 9% from the prior quarter, the largest sequential shortfall in two years. It would seem to us that there may be building concern, at least among Company insiders, that the explosive earnings growth that has been the impetus to QSII stock gains in the past year might be losing steam.

For those not familiar with QSII's business model, the Company provides software and systems that automate administrative functions, such as patient record keeping, for medical and dental practices. This model might sound familiar to our clients as we covered one of Quality Systems' closest competitors athenahealth Inc. (NASDAQ:

ATHN) in a 3DA full report on [09/26/08](#). Although the two compete in the same narrow market, the two companies' profiles are quite different. athenahealth was formed just ten years ago and has been only trading on the NASDAQ for one year. QSII has deeper roots in the ground, having been founded by Director **Sheldon Razin** (largest shareholder) back in 1974 and has been listed since 1995. QSII is not currently working through the same growing pains we discuss in our ATHN report, but the two do look pricey with ATHN and QSII trading at 88 and 23 times earnings, respectively. But to us, the most significant similarities are the equally aggressive trading profiles of both management teams following the third quarter stock momentum.

Figure 4. QSII Quarterly Shares Sold by Insiders. Source: QSII SEC Filings.



Although QSII traded to a record high of \$47 in September, these are not unprecedented levels. The issue traded above \$40 for the first time in November 2005 and hovered just above or below the \$40 line through mid 2007. Yet, as you can see from Figure 4 above, only once (4Q05) did the selling volume surpass 100,000 shares. It would seem there is a heightened sense of urgency amongst the management group at this time from what existed in earlier periods when QSII traded at equivalent levels. One possibility is the changing landscape in the industry, as ATHN has gained market share since its IPO, and last month's merger of Allscripts Healthcare Solutions and UK-based Misys Healthcare might lead to near-term opportunities for QSII to gain some new customers, but should present a much more formidable long-term competitor as the combined company will have a client base of approximately 150,000 physicians. Another foreseeable issue is whether doctors will put office systems upgrades on hold due to concerns about the economy. Quality Systems' management downplayed the effect on the last conference call, but did state that some new client deals were shelved.

Another obvious concern is valuation, which became apparent when two analysts issued valuation-related downgrades following the FY 1Q earnings release and a third lowered estimates following the FY 2Q release. Quality Systems' managers have

certainly behaved as though valuation is on their minds as well. At the forefront of this group were newly-appointed President and Chief Executive **Steven Plochocki**, who took the reins in August after long-time CEO **Louis Silverman** unexpectedly resigned. Plochocki, who has yet to acquire any QSII shares since joining the board in 2004, monetized the majority of his vested options with the exception of those which became actionable in the current quarter, although he did exercise some that when sold, yielded a slim 9% pre-tax profit. His sale erased nearly 80% of his ownership at the time and his remaining vested derivative equity has since slipped under water. His second in command, **Patrick Cline**, who manages the NextGen division which accounted for 97% of the Company's fiscal 2008 sales, also cashed in the majority of his holdings. All five sellers last quarter sold at least 50% of their actionable positions with four shedding more than 70%. This is truly unprecedented profit taking by this executive team and apologists should not be so quick to write it off to the third quarter stock gains.

One reason we cannot easily overlook the severe holdings erosion is because of the small amount of derivative equity the sellers have scheduled to become exercisable down the road. For example, CEO Plochocki sold 45,000 shares last quarter but will vest in only 15,000 options through the end of 2009, which takes into account the options he was awarded at the time of his August hire. Division President Cline sold more than twice the amount of stock than he will gain access to through the end of next year. The same goes for the other sellers as well which suggests to us that they do not anticipate seeing the same prices in the near term or else they might have deferred the sale of some of these shares. We also find it curious that the Company's top two officers collectively hold zero shares of common. Although there are no stock ownership guidelines that would require them to hold shares, there has not been an open market purchase here in more than eight years. What's more, QSII has an employee stock purchase plan and 401(k) plan. The Company matches up to a certain percentage of an employee's contribution under both plans and pays all broker fees but not one named officer has acquired QSII shares through either plan.

From a governance standpoint, we feel board member and second largest shareholder Ahmed Hussein has brought attention to a number of issues stalling the Company's governance evolution. Those familiar with the Company are conscious of founder **Sheldon Razin's** involvement in Quality Systems' day-to-day operations and board oversight. As much as the Company defends the sanctity of their practices and Razin's detachment, recent evidence such as the new board appointees and hiring of board member Plochocki to fill the vacant CEO post are curious to say the least. Recent steps have been taken to lessen (or at least give the appearance of lessening) some of Razin's control, such as removing him from the board's Nominating Committee, but this might be nothing more than window dressing. For now, it seems as though Hussein's disruptions might be winding down as shareholders rejected the proposals put forth in his recent proxy battle. But Hussein and one of his cronies will remain on the board for another term so it remains to be seen just how much of a distraction he will be.

- **Steven Plochocki (56)*** – President, Chief Executive Officer, Director. Plochocki was a Quality Systems board member before being appointed to his current position in August. He had been the chief executive at four different small companies in the last ten years before taking this post. Having just been awarded 50,000 options for his hire, a considerably smaller grant than we are accustomed to seeing in these situations, Plochocki cleared out the better part of his derivative equity on 09/11/08, selling 45,250 shares for \$2 million. The options monetized came from four different

series with expiration dates ranging from September 2009 through September 2013. Some of the options came from a particular series that when monetized, yielded a slim 9% pre-tax profit. It is not often we see a chief executive “skimming” options. Considering he did not hold any common stock prior to this trade, the sale **set his holdings back by 77% at the time, but the subsequent market weakness has now left all of his remaining options under water**. Including his most recent option award, Plochocki will have only 15,000 options vest through the end of next year (see Appendix C), but it will take upside between 12% and 22% above the current market price for any of these options to be in the money. We would expect to see a new chief executive accumulating stock and building exposure to the shares at this time, not erasing it.

- **Patrick Cline (47)*** – President of NextGen Healthcare Information Systems Division, Director. Cline has run the NextGen division since his company, Clinitec, was acquired by QSI back in 1996. He last traded in October 2006 when he dumped all 100,000 of his common holdings under a non-recurring sales plan when the shares traded from \$31 to \$43 in a matter of months only to fall back to the mid \$30s two months later. More recently he surfaced on 08/13/08 to clear out all of his lower priced options along with all of his common stock, which in total covered 143,000 shares **equal to 87% of his holdings (now 100% following 4Q price weakness)**. The options monetized had expiration dates of October 2008, June 2009 and February 2012, but the shares that came from options about to expire accounted for just 6% of the total sold. Cline will have 60,000 options vest over the next 52 weeks, but some of these are currently under water (see Appendix C).
- **Paul Holt (42)*** – Chief Financial Officer. Although Holt has been an active trader over the years, having executed 17 sales since 2000, his volume has always been light. During only one quarter in the past eight years did he ever dispose of more than 10,000 shares. He began trading under a 10b5-1 sales plan in August 2007 and through May did not sell more than 8,000 in any quarter. This changed recently as Holt sold 25,000 shares between 08/11/08 and 09/11/08 between prices of \$40 and \$47. In the middle of this period he also sold 10,000 shares that were not reported as being part of a plan, so either he just recently opened a new sales plan and commenced the trades immediately or sold outside of his plan. Either way, he **erased 91% of his actionable ownership since the 08/08/08 FY 2Q earnings release** and will vest in only 14,000 options by the end of 2009 (see Appendix C).
- **Donn Neufeld (51)** – Senior V.P., General Manager of QSI Division. Neufeld is the lone insider to take profits in the calendar fourth quarter after the shares sold off. After taking profits on 11,375 shares of common on 09/10/08 at \$47, he resurfaced on 11/05/08, after the FY 2Q09 earnings release, to sell another 8,043 shares of common only this time at 10% lower prices (\$42). The two sales **erased 75% of his actionable holdings**, which excluding the few vested under water options he holds, are now comprised of just 6,000 common. He is scheduled to have only 100 options vest in 2009 (see Appendix C), but these are currently under water with a strike price of \$38.
- **Vincent Love (66)** – Director. Love joined the board in 2004 and is currently the Audit Committee chairman. On 09/10/08 he monetized nearly all of his vested, in-the-money options which came from two series with expiration dates of February 2012 and October 2012. He immediately sold the 34,000 shares for \$47. These

options constituted all of his vested options with the exception of 2,500 that vested earlier this month. The 10,000 shares he reports are listed under his wife's name, but even if we give him credit for owning them **then his reduction from the sale was 73%**. With just 3,750 options to vest by the end of 2009 (see Appendix C), some of which are under water by as much as 28%, Love seemingly is more concerned with taking profits now rather than having the equity to do so at a later date.

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

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Appendix A

Common Stock and Option Holdings for Selected FLIR Systems Inc. (FLIR) Insiders

Name	Actionable Position as of 11/18/08:			Derivative Equity Expected to Vest in Next 12 Months			
	Common	Options ¹	Total ²	Grant Date	Strike Price ³	Vesting Dates	# Vesting
Arne Almerfors EVP, President of Thermography	116,460	187,466	303,926	02/13/06	\$12.57	02/15/09	44,600
				02/13/06	N/A	02/15/09	4,400
				05/01/07	\$20.75	02/15/09	23,467
				04/28/08	\$34.31	02/15/09	10,833
				04/28/08	N/A	04/28/09	3,830
				05/01/07	N/A	05/01/09	2,700
							89,830
Stephen Bailey SVP of Finance, CFO	43,097	583,086	626,183	02/13/06	\$12.57	02/15/09	44,600
				02/13/06	N/A	02/15/09	4,400
				05/01/07	\$20.75	02/15/09	23,467
				04/28/08	\$34.31	02/15/09	11,600
				04/28/08	N/A	04/28/09	4,107
				05/01/07	N/A	05/01/09	2,900
							91,074
John Hart Director	4,000	37,200	41,200	04/28/08	N/A	04/28/09	833
							833
Earl Lewis Chairman, President, CEO	916,656	1,813,969	2,730,625	02/13/06	\$12.57	02/15/09	96,800
				02/13/06	N/A	02/15/09	9,200
				05/01/07	\$20.75	02/15/09	83,334
				04/28/08	\$34.31	02/15/09	43,167
				04/28/08	N/A	04/28/09	15,263
				05/01/07	N/A	05/01/09	10,334
							258,096
William Sundermeier President of Govt Systems	19,731	97,866	117,597	02/11/07	N/A	02/11/09	4,700
				02/13/06	\$12.57	02/15/09	39,800
				02/13/06	N/A	02/15/09	3,800
				05/01/07	\$20.75	02/15/09	23,467
				04/28/08	\$34.31	02/15/09	10,833
				04/28/08	N/A	04/28/09	3,830
				05/01/07	N/A	05/01/09	2,700
							89,130
Anthony Trunzo SVP of Corp Strategy and Dev	46,627	188,666	235,293	02/13/06	\$12.57	02/15/09	29,000
				02/13/06	N/A	02/15/09	4,200
				05/01/07	\$20.75	02/15/09	15,667
				04/28/08	\$34.31	02/15/09	7,833
				04/28/08	N/A	04/28/09	2,775
				05/01/07	N/A	05/01/09	1,940
							61,415

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.

Note: Red text indicates series is currently out-of-the-money



Appendix B

Common Stock and Option Holdings for Selected People's United Financial Inc. (PBCT) Insiders

Name	Actionable Position as of 11/18/08:			Derivative Equity Expected to Vest in Next 12 Months			
	Common	Options ¹	Total ²	Grant Date	Strike Price ³	Vesting Dates	# Vesting
George Carter Director	76,907	0	76,907	12/07/07	\$17.08	12/07/08	47,336
				12/07/08	N/A	12/07/08	22,924
							70,260
Brian Dreyer EVP of Commercial Banking Group	45,098	43,318	88,416	10/25/07	N/A	10/25/08	50,177
				02/17/05	N/A	02/01/09	4,410
				02/16/06	N/A	02/01/09	4,526
				02/15/07	N/A	02/01/09	7,392
				02/15/07	\$21.63	02/15/09	11,561
				02/16/06	\$14.91	02/16/09	12,327
				02/17/05	\$12.02	02/17/09	8,033
				07/27/06	N/A	07/27/09	3,938
				10/25/07	\$18.10	10/25/09	96,042
							198,405
William Kosturko EVP, General Counsel	112,674	73,805	186,479	10/25/07	N/A	10/25/08	35,682
				02/17/05	N/A	02/01/09	1,890
				02/16/06	N/A	02/01/09	2,922
				02/15/07	N/A	02/01/09	4,757
				02/15/07	\$21.63	02/15/09	9,639
				02/16/06	\$14.91	02/16/09	7,962
				02/17/05	\$12.02	02/17/09	7,088
				07/27/06	N/A	07/27/09	3,938
				10/25/07	\$18.10	10/25/09	68,297
							142,174
Robert D'Amore EVP of Retail and Small Business Banking	231,060	91,276	322,336	10/25/07	N/A	10/25/08	57,983
				02/17/05	N/A	02/01/09	2,205
				02/16/06	N/A	02/01/09	4,526
				02/15/07	N/A	02/01/09	7,392
				02/15/07	\$21.63	02/15/09	11,561
				02/16/06	\$14.91	02/16/09	12,327
				02/17/05	\$12.02	02/17/09	8,033
				07/27/06	N/A	07/27/09	6,563
				10/25/07	\$18.10	10/25/09	110,982
							221,570
Philip Sherringham President, CEO, Director	131,136	84,037	215,173	10/25/07	N/A	10/25/08	89,204
				02/17/05	N/A	02/01/09	2,385
				02/16/06	N/A	02/01/09	9,083
				02/15/07	N/A	02/01/09	4,757
				02/15/07	\$21.63	02/15/09	26,009
				02/16/06	\$14.91	02/16/09	24,654
				02/17/05	\$12.02	02/17/09	8,033
				07/27/06	N/A	07/27/09	6,668
				10/25/07	\$18.10	10/25/09	170,742
							341,533

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.

Note: Red text indicates series is currently out-of-the-money



Appendix C

Common Stock and Option Holdings for Selected Quality Systems, Inc. (QSI) Insiders

Name	Actionable Position as of 11/18/08:			Derivative Equity Expected to Vest in Next 12 Months			
	Common	Options ¹	Total ²	Grant Date	Strike Price ³	Vesting Dates	# Vesting
Patrick Cline EVP, Pres of Forged Products, Director	0	0	0	02/11/05	\$19.33	02/11/09	42,500
				06/12/07	\$38.83	06/12/09	13,750
				08/11/06	\$37.09	08/11/09	3,750
							60,000
Paul Holt CFO	2,400	0	2,400	02/11/05	\$19.33	02/11/09	12,750
				06/12/07	\$38.83	06/12/09	1,375
							14,125
Vincent Love Director	10,000	0	10,000	09/20/06	\$39.81	09/20/09	1,250
				08/09/07	\$43.26	08/09/09	1,250
				09/09/08	\$45.61	09/09/09	1,250
							3,750
Donn Neufeld SVP, GM of QSI Division	6,332	0	6,332	06/12/07	\$38.83	06/12/09	100
							100
Steven Plochocki President, CEO, Director	0	0	0	09/20/06	\$39.81	09/20/09	1,250
				08/09/07	\$43.26	08/09/09	1,250
				08/18/08	\$40.08	08/18/09	12,500
							15,000

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.

Note: Red text indicates series is currently out-of-the-money