3D ADVISORS

Research Notes

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Research Notes are a brief description of the insider trading, accounting, or governance behaviors that we have been investigating for possible inclusion in standard 3DA reports, and may also include other information of general interest to 3DA subscribers.

Companies in this Research Note

- Avon Products, Inc. (NYSE: AVP)
- Energizer Holdings Inc. (NYSE: ENR)
- Iron Mountain Inc. (NYSE: IRM)
- Laureate Education Inc. (NASDAQ: LAUR)
- Oshkosh Truck Corp. (NYSE: OSK)
- Dell Inc. (NASDAQ: DELL)
- Dick's Sporting Goods Inc. (NYSE: DKS)
- United Stationers Inc. (NASDAQ: USTR)

3DAdvisors Research Notes

Avon Products, Inc. (NYSE:AVP)

Accounting: Original judge removed from "channel stuffing" lawsuit

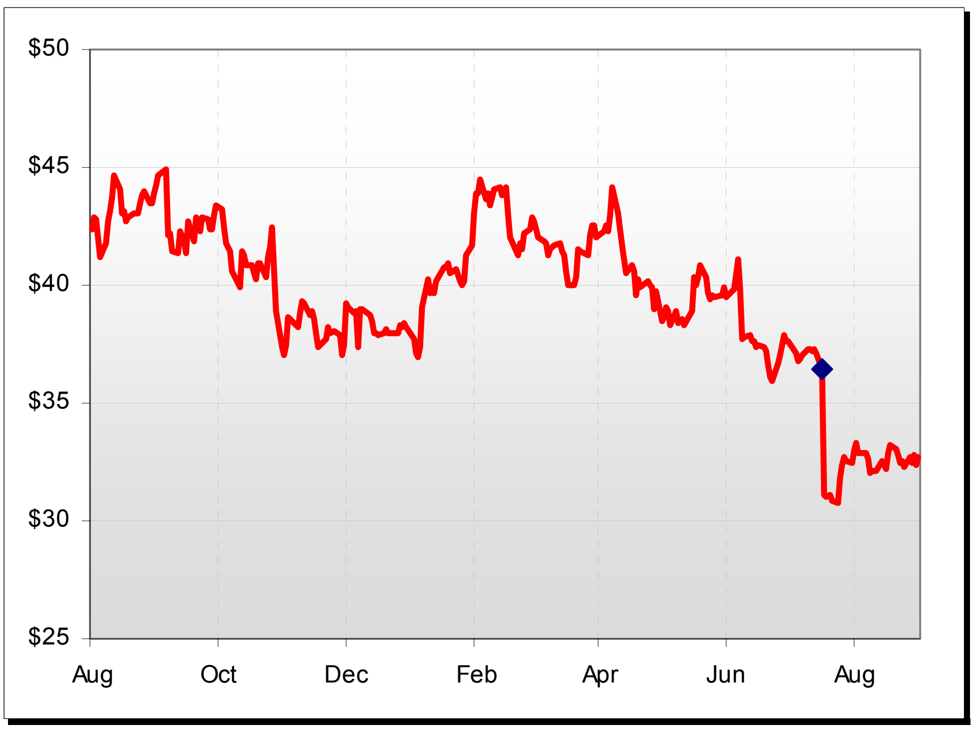
Governance: Management shuffle after Q2 debacle curious

On 08/30/05, Jeffrey Huron, the lead counsel for the plaintiffs in the Avon "channel stuffing" lawsuit, filed a motion under California state law with the Superior Court of California (Los Angeles) to disqualify Judge Wendell Mortimer, Jr. as the trial judge. Huron was able to do this because under California law if any ruling made by a judge is overturned by an appellate court, then a "peremptory challenge" to remove that trial judge can be filed. The Motion to Disqualify was granted on 08/31/05 and the case will be assigned a new judge.

This is a significant victory for Huron because it was Mortimer who threw out 3 of the 4 original "causes of action" and who also seemed to side with Avon on many issues, even in the face of what Huron and the plaintiffs felt was clear evidence supporting their allegations. With Mortimer removed and discovery about to begin in earnest, Huron feels he now has a chance to finally move the case forward after more than a year that it took to successfully appeal Mortimer's rulings in the case and have him removed.

See our reports dated 05/09/05 and 08/16/05 for more information on recent developments in the "channel stuffing" lawsuit. We continue to believe the suit has the potential to act as a catalyst by forcing into public view certain behaviors that AVP management has engaged in that have allowed it to overstate revenue and earnings by shipping unordered goods to its independent reps. Even though AVP shares are down significantly over the past several months, we will continue to carefully monitor developments in the suit.

Figure 1. AVP Daily Closing Price, August 2, 2004 through September 2, 2005. Blue diamond was the date that the Company reported Q2 earnings (July 19th). Source: Reuters and AVP Press Release.



On August 16th, the Company announced some realignment of executives that we thought was interesting. It was disclosed that **Brian Connolly**, age 50, a 27-year company veteran, is to fill the newly created position of executive vice president, global sales strategy, continuing to report to **Susan Kropf**, Avon's president and chief operating officer. **Elizabeth A. Smith**, age 42, succeeds Mr. Connolly as executive vice president and president, North America, also reporting to Kropf. Smith was hired just this past January as "brand president".

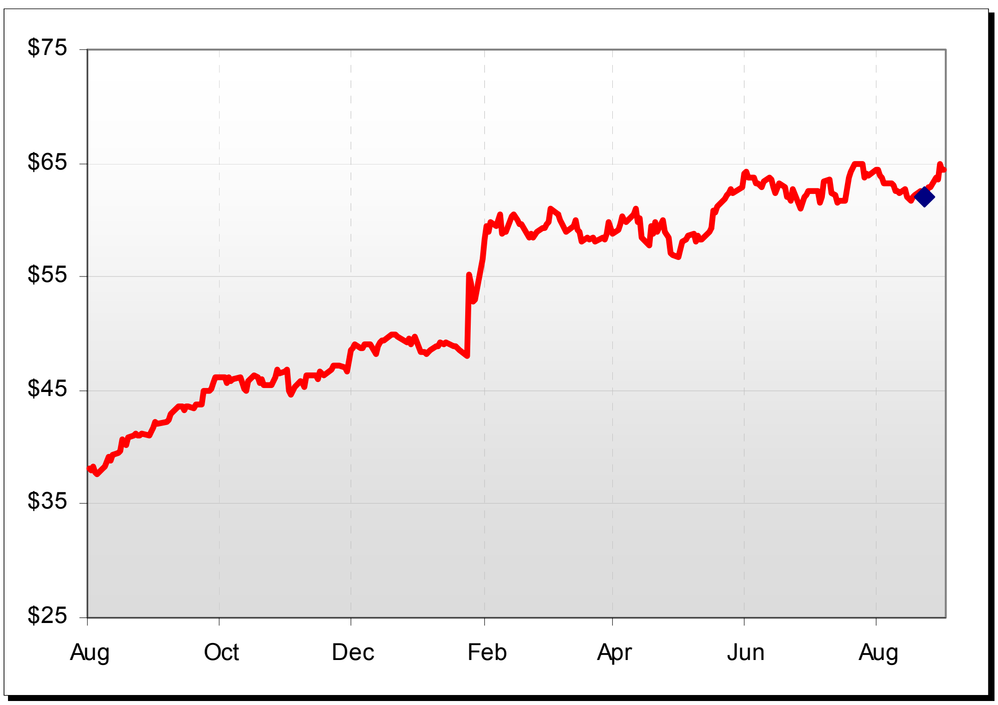
We thought this announcement was interesting for a couple of reasons. First, Connolly has been the head of Avon North America for a number of years and has been at the helm during the last couple of quarters while sales in the region have declined at mid-single digit rates and earnings have sagged more precipitously at double-digit rates. This move was clearly not a promotion as he will continue to report to Kropf. Now, after not being able to stem the bleeding in the U.S., he is moved over into a worldwide sales role, just after the Company got beat up badly on the release of its Q2 earnings because it surprised the Street with weak overseas numbers and lowered full year guidance.

Energizer Holdings Inc. (NYSE: ENR)

Insider Trading: Chairman with stellar trading record engages in third forward sale

Since we last covered selling at Energizer in Insider Research Bulletins dated 2/4/2005 and 02/17/05, the activity has all but dried up. This was expected as insiders had monetized the majority of their vested options after the issue jumped from $48 to $60 back in the first quarter. Energizer shares have since stalled, but one insider, a familiar name to us, is once again monetizing shares.

Figure 2. ENR Daily Closing Price, August 2, 2004 through September 2, 2005. Blue diamond is the date (08/24/05) where William Stiritz pledged 1,000,000 shares to a broker in a STARS transaction. Source: Reuters and ENR SEC Filings.



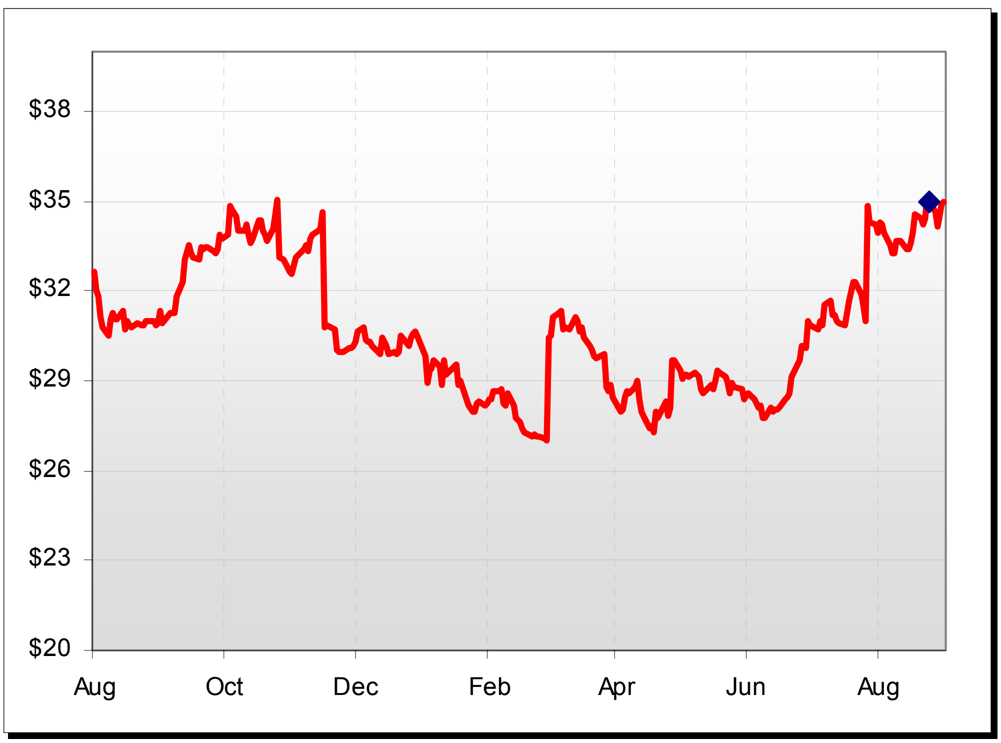
On August 24th, Chairman **William Stiritz** (70) entered into his third derivative contract of the year, pledging 1 million shares through a Specialized Term Appreciation Retention Sales (STARS) transaction, which is effectively a forward sale. He now has 2.5 million shares, **equal to 72.7% of his actionable holdings** (common stock plus exercisable options), pledged to securities brokers. Stiritz has never disclosed the upfront cash he received for his shares, so we are unable to determine the discount to market he has accepted, but that missing fact is inconsequential in this case. We are always interested in Stiritz's activity due to his history of prescient timing with regards to his trades at each company where he has held shares. We will continue to closely monitor this situation, as an update would be warranted if additional activity turns up.

Iron Mountain Inc. (NYSE: IRM)

Insider Trading: Chairman and CEO enters into first derivative trade at Company

We've been closely monitoring the behavior of Iron Mountain insiders since December 2004, when the first signs of significant activity that we've seen in a number of years materialized into sustained weakness following its 3Q04 earnings report. There has been no trading since March, when insiders were quick to take profits into a short-lived rally triggered by promising 4Q04 results. Shares have since rebounded to their prior highs and one key executive has hedged his position at the current prices.

Figure 3. IRM Daily Closing Price, August 2, 2004 through September 2, 2005. Blue diamond is the date that Richard Reece entered into a zero-cost collar. Source: Reuters and IRM SEC Filings.



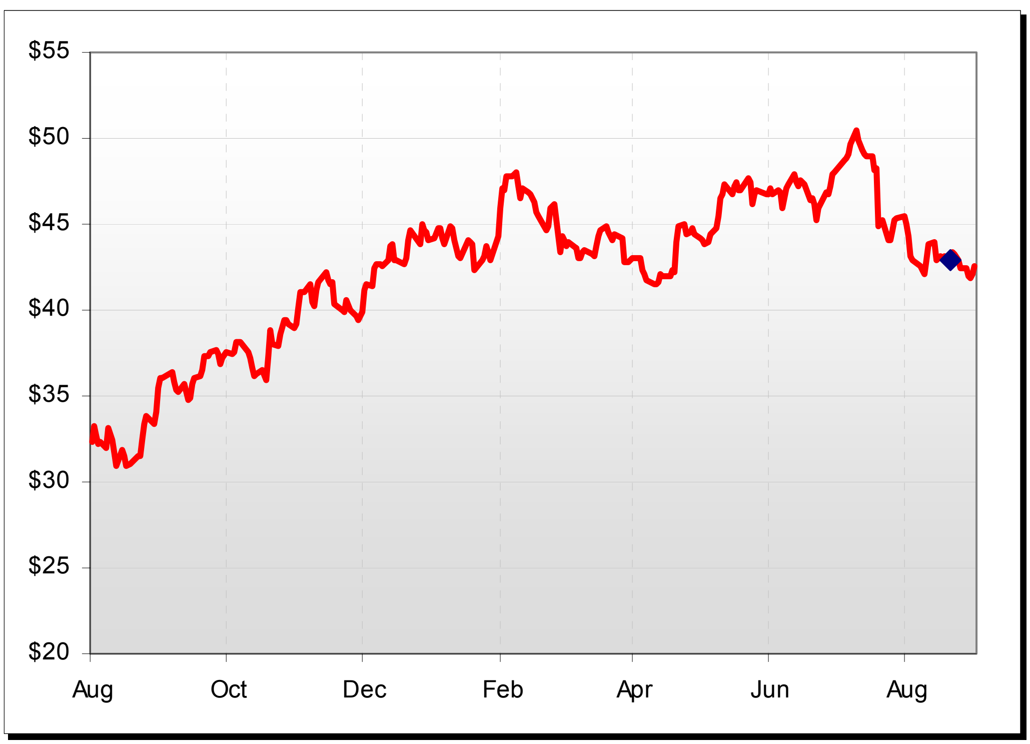
On August 26th Chairman and CEO **Richard Reece** entered into a zero-cost collar arrangement, hedging 644,368 shares, or 19% of his ownership position. Reece wrote covered call options and purchased put options with a spread between $31 and $46, effectively protecting himself from any downside below $31 in his shares. This was the first derivative activity we've ever seen at Iron Mountain. We should note that the Company issued an 8-K fully disclosing his activity, so we are not suggesting that there was any secrecy to Reece's derivative transaction. The Company disclosed that the board approved Reece's estate planning move, but that doesn't camouflage the fact that he took these precautionary measures.

Laureate Education Inc. (NASDAQ: LAUR)

Insider Trading: Betting on over-reaction to earnings, board member buys call options

We have found some subtle and very interesting bullish behavior from a Laureate Education (formerly Sylvan Learning Systems) director. **R. William Pollock**, a Laureate Education board member since 1995, bought short-term (the majority of the options were for six months) over-the-counter call options covering 148,980 shares between August 22nd and August 24th. The strike price of each of the three options contracts entered into was set at 107% of the market price of Laureate shares on the day of the transaction. Pollock appears to be betting that the market overreacted to the Company's second quarter earnings report (issued one month earlier) in which not only did LAUR attempt to conceal declining year-over-year comps but failed to include a balance sheet or cash flow statement. Making matters worse, Company CFO **Sean Creamer** resigned on July 21st. The market has punished the shares, as they've traded from all-time highs of $50 down to $42, a 16% move.

Figure 4. LAUR Daily Closing Price, August 2, 2004 through September 2, 2005. Blue diamond was the first of two dates (08/22 and 08/24) where R. William Pollock purchased call options. Source: Reuters and LAUR SEC Filings.



There are a few reasons that this behavior takes on an added significance. First, Pollock is 75 years old. When an insider his age sells shares, we typically discount the activity due to estate planning. But to see someone this age place a risky bet on the upside, we feel this carries even more weight than if the same trade was executed by a younger player. Secondly, directors frequently pick up shares in the early stages of their term as a vote of confidence, or, if there are ownership requirements in place. This certainly isn't the case in either circumstance, as Pollock is the Company's largest inside shareholder with a 2.94 million share position. His last trade proved to be opportune as he sold shares in May and June of 2004 ahead of a three-month, 14% slide. Lastly, this isn't the first time we've seen a LAUR board member placing similar bets. In October 2003, Audit and Compensation Committees member **John Miller** bought fifty six-month calls with the issue trading around $28. At the time of expiration, shares of Laureate were trading at $37, a 30%-plus gain.

<u>Oshkosh Truck Corp. (NYSE: OSK)</u>

Insider Trading: Members of founding family continue to drop holdings

Since November 2004, when we issued our first report on Oshkosh Truck (*Insider Research Bulletin* dated 11/30/04), we've been observing a high level of insider selling into the stock's continued momentum. A number of the Company's top executives and directors have managed to gradually monetize hefty percentages of their holdings since 2003 despite waning incentive awards, which will hamper their ability to replenish what's been distributed. Though the activity by the Company's executives has dried up since our last report (Full Report dated 06/23/05), the same can not be said for two directors, decedents of the Company's founder **Bernhard Mosling**, who have continued dumping their holdings.

We reported earlier the selling by brothers **Peter (60) and Stephen Mosling (58)**, who sold a combined 430,000 shares in May, their second heaviest month of sales on record (they sold 560,000 shares combined in July 2003). More recently, they dumped an additional 440,000 shares between August 16th and August 31st at an average price of $41. Note that all shares and prices have been adjusted for the 2-for-1 split on August 29th. On the year, they have sold a total of 934,064 shares, far surpassing the 179,388 shares the two sold last year. Peter and Stephen have scaled back their holdings by 65% and 38%, respectively, since last November.

Table 1. Annual Holdings of Peter and Stephen Mosling (adjusted for 2-for-1 split on August 29th). Source: OSK SEC Filings.

Insider	11/30/02	11/30/03	11/30/04	09/01/05	Chg. Since '04
P. Mosling	1,293,508	814,264	766,876	266,876	65.2%
S Mosling	2,149,020	1,560,616	1,452,616	895,352	38.4%

Insiders at a Number of Companies Take Profits After Lowering Guidance

Although 2Q05 earnings have come in ahead of analyst expectations (70% of S&P 500 companies have reported earnings above expectations), there has been a high number of companies that have lowered their guidance for the upcoming quarter and full-year expectations. We have found a few companies where insiders have executed non 10b5-1 sales into significant short-term volatility that occurred following such announcements.

Dell Inc. (NASDAQ: DELL)

One of the more telling earnings releases of the second quarter came out of Round Rock, Texas, as Dell proclaimed that its own aggressive pricing led to its tepid earnings. Although profits did come in ahead of expectations, investors were more focused on the third quarter guidance, which the Company forecasted would come in at the lower end of analysts' expectations. The Street has punished the shares, which are now trading nearly 20% below their July highs, which is precisely where four insiders sold 512,986 shares from August 16th through August 22nd.

Although there were four sellers, our focus is on the activity of two board members, **Michael Miles** (65) and **Donald Carty** (58). Miles, Dell's Compensation Committee chairman, is a special limited partner of Forstmann Little and Co. and one of the heavy-hitters on Dell's board. He currently also sits on the boards of Time Warner, AMR, Morgan Stanley, Citadel Broadcasting and Sears. On August 17th, just days after the earnings announcement, Miles exercised his August 2006 option series and sold the underlying 384,000 shares at $36.88. Although this sale is in line with his average selling volume, he has now sold 768,000 shares, equal to 31% of his holdings, since May, a considerably larger holding reduction for him than for any year dating back to 1996.

Carty, the former chairman and chief executive of AMR, is the chairman of Dell's Audit Committee. Carty and Miles have an obvious relationship as they both have ties to AMR and also sit together on the board at Sears. Carty exercised 60,000 expiring options on July 6th and sold the underlying shares at $39.84, just weeks before the earnings announcement. Then on August 22nd he exercised the remaining 324,000 options in the same expiring series and sold 120,150 of the shares at $36. The result of the two transactions was a net acquisition of shares; however, he walked away with a pre-tax profit of $6.3 million. Carty, a board member since 1992, has now sold 34% of his holdings since last year.

Dick's Sporting Goods Inc. (NYSE: DKS)

We have watched as Dick's Sporting Goods insiders have sold a number of times this year ahead of some pretty dramatic volatility, including the most recent May and June sales by two key executives totaling 350,000 shares. On August 16th the Company announced that full-year earnings would come in between $1.27 and $1.32, well below analysts' expectations of $1.85 a share. Shares suffered through their worst session in the Company's nearly three-year trading history, closing down 18%. But whereas, in the past, Dick's insiders have tended to sell ahead of volatility or into a sustained rebound, we now have one insider who has uncharacteristically sold shares into the weakness.

Director **Lawrence Schorr** (50), a member of the Audit and Compensation Committees and Chairman of the Governance and Nominating Committee sold 30,000 shares out of his common holdings on August 22nd and August 23rd at an average price of $31.89, 20% off the August highs. Even more compelling than the price he accepted for his shares is the fact that he has **parted with over 50% of his ownership position** this year. Schorr, who was recently elected in June to serve another three-year term, has been one of the more active board members with his shares over the years, but this is the lowest price he's sold at since July 2003 when he distributed 23,100 shares at $18.

United Stationers Inc. (NASDAQ: USTR)

The insider picture at business products distributor United Stationers is quite intriguing as it contains the necessary ingredients to warrant more detailed 3DA analysis in the near future. A combination of six insiders and directors sold 130,050 shares between August 15th and September 2nd, just after the Company reported second quarter income missed analyst expectations, which dropped the stock 15% from $53 to $45. Insiders cashed out in the $45 to $47 range.

There was no principal seller in the group, as the activity was spread out amongst the participants. In the absence of sizeable ownership positions, these sales had a significant impact on the holdings of a few. Senior V.P., Marketing **Mark Hampton** exercised five series of non-expiring options (expiration dates: 2/09, 8/11, 9/11, 7/12, 8/13), two of which had just vested in the prior weeks to **sell 86% of his holdings.** Senior V.P. Trade Development **Joseph Templet** exercised three series with expiration dates between February 2009 and December 2011 and sold the underlying 25,066 shares at an average price of $46. Templet's sales, which were only his second in the past five years, **trimmed his holdings by 69%**.

Finally, Director **Ilene Gordon**, a board member since 2000, executed only her second disposition during her tenure, selling 12,000 shares **equal to 64% of her position** on September 2nd at $45. These rare USTR sales into weakness hardly serve to reassure shareholders hoping for an imminent rebound, especially when one takes into account recent comments by president and chief executive **Richard Gochnauer** who predicts the Company's planned technology investment "will make it more challenging to achieve our earnings per share goal in the near term."