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. The ⬆ symbol indicates that we have observed management behavior that suggests a bullish sentiment.

## Companies in this Research Notes

- Anadigics Inc. (NASDAQ: ANAD)
- Celgene Corp. (NASDAQ: CELG)
- Force Protection Inc. (NASDAQ: FRPT)
- Ingersoll-Rand Co. Ltd. (NYSE: IR)
- Kite Realty Trust Group (NYSE: KRG) ⬆
- Motorola Inc. (NYSE: MOT)
- SiRF Technology Holdings Inc. (NASDAQ: SIRF)
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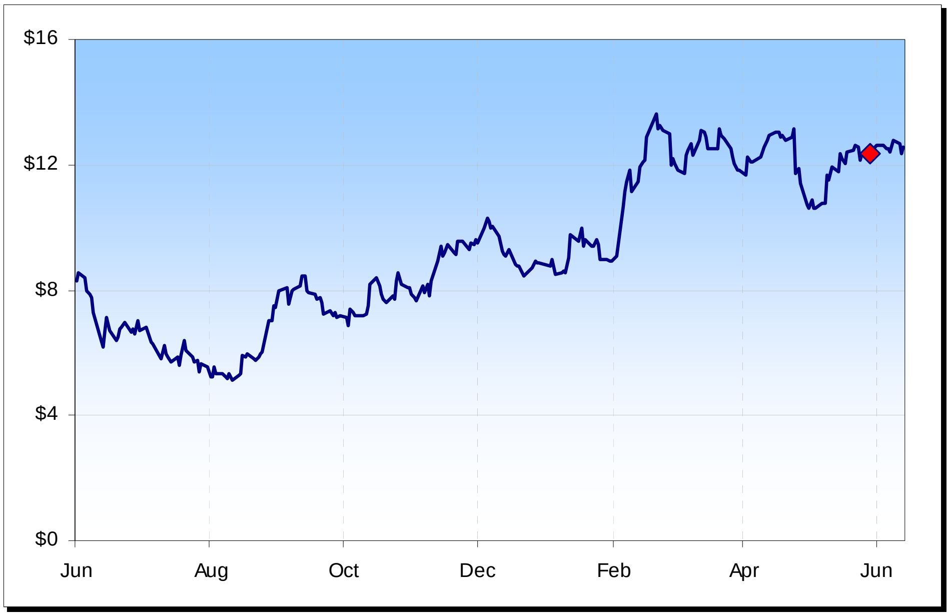
## 3DAdvisors Research Notes

Anadigics Inc. (NASDAQ: ANAD)

- With a market cap below $800 million, integrated circuit manufacturer Anadigics is a Company that typically would not cross our radar. And we presume its $12 share price is a deterrent for anyone considering the stock as a short opportunity. Nevertheless, we feel an inclusion in this report is warranted as any of our clients looking to take a long position in the Company should be aware of the current insider profile. With ANAD shares just below their 52-week high of $13.71, the Company reported first quarter earnings on April 24th that disappointed investors, who traded the stock down as much as 15% intraday on the release. Over the next week the shares would fall as low as $10.34 before climbing back above $12 by mid-May. On May 22nd and May 23rd eight insiders jumped at the chance to sell into the recovery, distributing 350,000 shares at $12.50, the largest group move in the past ten years. It is unclear if these sales coincide with the opening of a trading window since the Company does not make its “Trading Guidelines” available to the public, but such windows typically open shortly after earnings are released, not a full month later.

**Figure 1.** ANAD Daily Closing Price, 06/01/06 through 06/13/07. Red diamond is where five insiders entered into 10b5-1 trading plans. Source: Reuters and ANAD SEC Filings.




- It was not until an SEC Form 8-K filed one week later (May 29th) disclosing five of the sellers also adopted 10b5-1 sales plans to continue their course of diversification that our interest really peaked. Notable insiders named in the filing are: CFO **Thomas Shields** (48), who plans to sell 270,000 shares, or nearly six times the amount of shares he sold between 1999 and 2006, and Senior Vice Presidents **Ronald Michels** (53) and **Mohammad Khatibzadeh** (47). Including the 55,000 taken off the table just before adopting the plan, **Shields will be selling 90% of his actionable holdings** (common stock plus vested in-the-money options), which takes into account all options and restricted stock scheduled to vest during the life of the 10b5-1 plan. Michels and Khatibzadeh's plans cover 55% and 70% of their ownership, respectively, when added to the shares they sold in May. We should note that Shields and Michels already commenced their plan activity on the earliest date allowed, selling 27,000 shares apiece.

- Others entering into personal sales plans were Co-Founder and Chairman **Ronald Rosenzweig** (69) and Chief Technology Officer **Charles Huang** (59), each of whom will be selling roughly one-third of their holdings under their respective plans. Those familiar with the Company probably notice the absence of President and Chief Executive **Bami Bastani** (53) from the list of recent plan adoptions. Bastani had previously entered into a plan in October and reportedly sold 186,000 of the 372,000 shares reserved by April. This story became even more compelling when he reported two 100,000-share sales, on May 22nd and June 12th, but the respective Form 4s did not indicate the sales were taking place under his 10b5-1 plan. Clearly, he did not have this many shares still available for sale under his plan, so we called the Company and spoke with Investor Relations Manager **Kristina Panek**. Our conversation proved to be quite informative:

**3DAdvisors:** Can you clarify why these Bastani sales, unlike those over the past few months, did not have a footnote disclosing they were part of his 10b5-1 plan.

**Kristina Peak:** These sales were not part of Mr. Bastani's trading plan. He sold these shares out of plan.

**3DAdvisors:** Does that mean that his existing 10b5-1 plan is still ongoing?

**Kristina Peak:** Yes. These sales were executed separate from his trading plan.

- Rarely has a Company been so candid about sales occurring outside the boundaries of an ongoing 10b5-1 plan. By going outside of his plan to take additional profits, Bastani jeopardizes the safe harbor protection afforded him by Rule 10b5-1, which could also increase the likelihood of regulatory scrutiny. Securities attorneys strongly advise against out of plan selling as it raises questions as to a plan's validity and could weaken the affirmative defense against insider trading charges. **Bastani has now sold 40% of his actionable holdings since October.**

Celgene Corp. (NASDAQ: CELG)

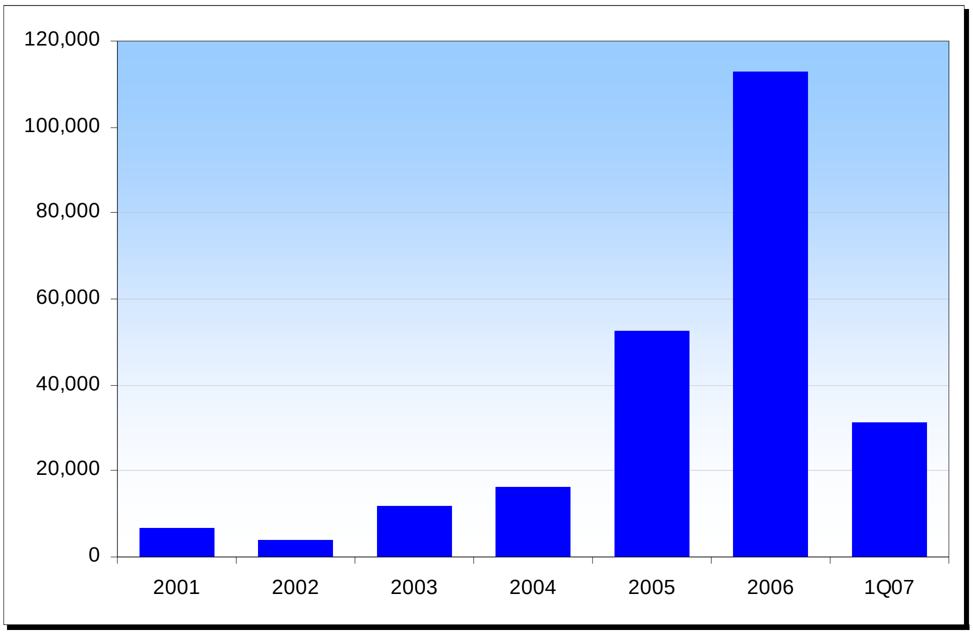
- Biopharmaceutical firm Celgene presents a bona fide example of insider behavior that is inconsistent with the current Street opinion. There has been a noticeable acceleration of profit taking since the Company reported Q1 earnings and revenue growth on May 3rd that failed to meet expectations, but **what really accentuates this story is the monetization of shares through forward sale contracts** which fail to draw the same attention that would result from open market activity. In all, there have been a total of 850,000 shares monetized by five insiders since May 7th in the $58 to $63 price range.

- Celgene shares have exploded, to the tune of 300%, over the past two years as the Company has ridden the coattails of its blockbuster multiple myeloma (blood cancer) drug Revlimid. One analyst reiterated his "buy" rating on June 11th, expressing his belief that Revlimid sales will triple over the next three years, a sentiment shared by many since the drug received a positive opinion from the European Medicines Agency in March, which typically leads to approval by the European Commission for a drug to be distributed in the EU. In fact, nearly two-thirds of the 21 analysts covering the Company currently rate the shares a "buy" or "strong buy", with not one "sell" recommendation issued. One could even surmise that with $1 billion in cash and a hit drug, the Company could be a prime takeout candidate by a larger competitor or private equity, but the recent insider behavior would suggest otherwise.

- With CELG shares down 12% from their recent high, Chairman, CEO **Sol Barer** (60) and President, COO, Director **Robert Hugin** (52) commenced selling under personal sales plans not formerly disclosed in any corporate filings or press releases. Barer unloaded 463,770 shares, **which accounted for 37% of his common holdings, while Hugin sold 44% of his common ownership** (195,490 shares). No details have been offered on their 10b5-1 plans so it remains to be seen if there are additional shares available for sale under their respective plans. Also surfacing was **Arthur Hayes** (73), a board member since 1995, whose sale of 30,000 shares on May 8th continued his holdings diversification, **which now equals 55% over the past**

**year**. This escalation of profit taking actually extends throughout the Company ranks, evidenced by the mounting cash proceeds recorded from employee stock options. Figure 2 below illustrates the proliferation of options exercised since the beginning of 2006, which typically translates to profit taking amongst the rank and file.

**Figure 2.** Net Proceeds from Exercise of Stock Options and Warrants (Millions of Dollars). Source: CELG SEC Filings.




- The behavior exhibited by those selling on the open market is accentuated by additional derivative transactions involving two veteran board members. On May 8th Audit Committee Chairman **Walter Robb** (79) sold forward 120,000 shares and now currently has three open forward sale contracts, entered into since November, covering 264,000 shares which will be delivered in Q1 of 2008. The shares account for 40% of his actionable ownership. We recognize at his age estate planning is a likely impetus, but the Company does not have a mandatory retirement age for board members and he was just voted in to serve another one-year term. His audit committee responsibilities make it evident he remains an active board participant. Similarly, Compensation Committee Chairman **Richard Morgan** (62), the longest standing board member (1987), entered into his third forward sale contract on March 1st and now has nearly 75% of his ownership (392,253 shares) pledged to third-party investors. Morgan has accepted steep 18% to 21% discounts for his shares, while Robb has neglected to report the upfront cash payments received for his shares.

- The disparity between management's sentiment and that of analysts, some of whom have characterized the recent weakness as a "buying opportunity", is profound. The average median analyst price target is $71, with some reaching nearly 45% above the current market price. The recent profit taking hardly conveys confidence that these are attainable price levels. There is a lot of sell-side faith being shown in Revlimid's growth prospects, but the share price will only hold up should the drug meet the lofty expectations placed on it, especially since Celgene's top two drugs accounted for 94% of product sales in the first quarter, while *all* the growth is coming from Revlimid. The cancer drug's growth will be relied on even more as the Company's next three revenue generating drugs all saw declining year-over-year sales in Q1.

**Table 1.** CELG Revenue by Drug, Q107 vs. Q106. Source: CELG SEC Form 10-Q, filed 05/09/07, page 20.

| *(In thousands $)* | Three-Month Period Ended March 31, 2007 | Three-Month Period Ended March 31, 2006 | % Change |
|---|---|---|---|
| Net product sales: | | | |
| REVLIMID® | $ 146,233 | $ 32,443 | 350.7 % |
| THALOMID® | 106,034 | 107,211 | -1.1 % |
| ALKERAN® | 15,964 | 18,295 | -12.7 % |
| FOCALIN™ | 1,491 | 2,101 | -29.0 % |
| Other | 74 | 193 | -61.7 % |
| Total net product sales | $ 269,796 | $ 160,243 | 68.4 % |
| Collaborative agreements and other revenue | 4,804 | 3,893 | 23.4 % |
| Royalty revenue | 18,815 | 17,705 | 6.3 % |
| Total revenue | $ 293,415 | $ 181,841 | 61.4 % |

<u>Force Protection Inc. (NASDAQ: FRPT)</u>

- Whereas certain analysts have gone on record stating that investors should be buying Force Protection on the June weakness, it conversely seems to us, based on insider signals, that the recaptured gains over the past few days presents a compelling short opportunity, or at least, a good exit point for any long position. The amount of shares that have recently left insiders' hands is nothing short of remarkable and there are indications this run of selling still has legs. Rounding out the activity is the holdings diversification by the Company's largest shareholder, Midsummer Investment Ltd., which has yet to be reflected in a Schedule 13D filing.

- Despite Q1 earnings falling short of the consensus, FRPT shares, which were already up 50% on the year prior to the May 15th earnings release date, gained another 11% by late May. CEO **Gordon McGilton** (63) commented that he was "pleased with the results for the first quarter", and believes the outlook for 2007 is "even brighter". But wait, this is the same McGilton who cleared out all his common stock in October and then in January, cashed out all vested derivatives (1 million options) just two weeks after they became actionable. He currently holds no common and the 15,000 restricted shares he reportedly owns can not be sold until he leaves the Company.

- Just weeks after the earnings release, it was announced that competitor Navistar (NASDAQ: NAVZ) won an Army contract for 1,200 MRAP vehicles valued at $623 million, the largest to date. Many believed Force Protection was at the front of the line for the contract and Navistar was not even on the radar as a key player. Clearly, investors were spooked upon finding a new player in an already competitive race and FRPT shares lost nearly 30% on the news. Insider clues leading up the announcement should have tipped off shareholders that trouble was on the horizon, as Chairman **Frank Kavanaugh** (46) had been reining in his exposure just prior to and after the earnings release.

- On April 24th Kavanaugh commenced selling under an undisclosed personal sales plan after having already sold 3.8 million shares under a plan between September and December of 2006. In all, he has registered for sale 1.4 million shares under the existing plan, and has already sold 1 million at prices ranging from $23 to $30 between April 24th and May 31st. Once the remainder of the shares is distributed, **Kavanaugh will have cashed in 90% of his sizeable ownership stake**, all in a matter of months. Following the September activity of General Counsel and Director **R. Scott Ervin** (51), in which he cleared out 90% of his position, there is not one named executive who has actionable holdings that exceed 15,000 shares and vested options.

- As mentioned, the Company's largest institutional shareholder, Midsummer Investment Ltd., is now beginning to unwind its position. According to an earlier Schedule 13D filing and more recent 144 filings, Midsummer has sold 2.6 million of the 4.3 million shares, or roughly 60%, of its ownership since April 24th. Its position is now down to 2.5%, which follows a trend similar to that of the insiders, who owned 16.6% of the outstanding shares last August and now own just 1%. Force Protection has garnered plenty of analyst and media attention in recent weeks, both positive and negative, but the insider and institutional activity seems to have gone relatively unnoticed. One media outlet, which has covered FRPT in at least 9 columns over the past six weeks, has yet to mention the selling by either Kavanaugh or Midsummer. We feel it is time for the Street to start paying attention.

<u>Ingersoll-Rand Co. Ltd. (NYSE: IR)</u>

- Few situations are as captivating to us as corporate business transformations undermined by coincidental insider profit taking. One example currently taking place can be seen at Ingersoll-Rand, where the Company, after releasing disappointing Q1 earnings, has resolved to shed underperforming business units, some of which happen to be the most identifiable. Facing the pressure of the U.S. housing market, Ingersoll-Rand sold its road development operations to Volvo on April 30th and then announced plans to shed its Bobcat and construction-related businesses, only saying "they no longer fit" the Company's long-term strategy. Combined, the entities accounted for nearly 30% of 2006 revenues. The proceeds from the Bobcat divestiture would then be used to add $2 billion to the Company's existing buyback program. Interestingly, the recent insider sales came after the boost from the above news:

  Four of them, including Chief Financial Officer **Timothy McLevish** (51) **who unloaded 85% of his ownership** acted. McLevish, who had only sold a total of 50,000 shares since 2002, cleared out all his vested stock options with expiration dates between April 2012 and February 2015 to sell 358,000 shares, including

100,000 sold in March. A more subtle transaction, not included in the share count above, was McLevish's voluntary disposition of all 37,360 vested IR shares held in the Executive Deferred Compensation Plan (EDCP), in which he transferred the funds into "another investment option". It is unclear what other option he chose to put his cash into, but the transaction underscores his intent to curb his exposure to Ingersoll-Rand stock.

- Although the incidence of insider selling simultaneous with announced buybacks is not unheard of, we maintain that situations where management's trading behavior contradicts their company's cash spending decisions can not be overlooked. This situation becomes even more intriguing as we have seen not only Ingersoll-Rand's top finance executive cash out, but also Controller **Richard Randall** (56), a McLevish hire, who sold 40% of his holdings in May with his largest sales on record. And there is more. **Patricia Nachtigal** (60), the Company's head counsel of 15 years who also serves on the board, sold 54,000 shares on May 30th with her first sale in more than two years. Additionally, she took all the funds ($3.2 million) in the EDCP out of IR shares and transferred them to a different investment vehicle.

- There is budding Street sentiment the Company may get completely broken up. With the current uncertainty in some of the Company's markets, it is yet to be seen what price the Company can fetch for some of its underperforming divisions. One thing we can say with certainty: the insiders' actions as of late do not give us confidence this is a case where the parts might fetch a higher value than the whole.

<u>Kite Realty Trust Group (NYSE: KRG)</u>

- When it comes to identifying bullish insider situations, we have always held the more subtle and unassuming a trade, the better. With any number of factors that might induce an insider to buy stock on the open market, we find there to be more value in inconspicuous trades such as the exercise of nonqualified options and holding the shares, call buying and put writing, large equity deposits in Grantor Retained Annuity Trusts (GRATs) and acquisitions for the benefit of minors, to name a few. Once and awhile, however, we come across a situation where the acquisition of a derivative goes completely under the radar, as in the case here.

- Many of our clients might not be familiar with the name since it is overshadowed by many of the larger-scale retail property developers, but it is probably time to take a first look despite the shares trading at 15 times forward FFO, richer than many in its peer group. Despite its comparatively small scale, the Company has grown substantially, developing new high-end projects in markets across the country. Its current portfolio consists of 48 retail operating properties with a 95% lease rate and it has 11 more properties under development. Its April inclusion in the S&P Small-Cap 600 will certainly help broaden name recognition. But what should have attracted attention along the way is the insider buying that has arguably persisted since the August 2004 IPO but has discreetly escalated in June.

- On June 7th, a limited liability company owned by Chairman, Founder **Alvin Kite Jr.** (73) and his son, Chief Executive Officer, President, Trustee **John Kite** (41), purchased 800,000 limited partnership units for $16 million. Since the units are derivatives, freely convertible to common on a one-for-one basis, they were reported on Table II of Form 4s for both Kites, and therefore, did not hit the screens of insider data reporting services. Hence, this sizeable investment, which increased Alvin and John Kite's ownership stakes by 20% and 35%, respectively, has managed to go unnoticed by the media and investor community.

- As mentioned, this large purchase is a continuation of an aggressive acquisition campaign undertaken by the Kites. Between August 2004 and December 2006 Alvin Kite had executed 90 open market purchases, spending $3.9 million to pick up 236,000 shares. Likewise, John Kite laid out $2.1 million to bolster his ownership by 146,000 shares over the same period. Along the way, Alvin and John Kite contributed 76,000 and 200,000 limited partnership units, respectively, into Grantor Retained Annuity Trusts, providing further confirmation they see long-term value in the shares. For an explanation of GRATs and their bullish implications, please refer to the 3DA report titled Long Ideas: Grantor Retained Annuity Trusts. We should also mention the $100,000 spent by Executive V.P. of Development, Chief Operating Officer **Thomas McGowan** (42) on March 29th to pick up 5,000 shares despite already having an ownership position in excess of 1.5 million shares. McGowan has routinely paid higher prices for his shares since the IPO, most recently paying $19 after buying at $14 last June.

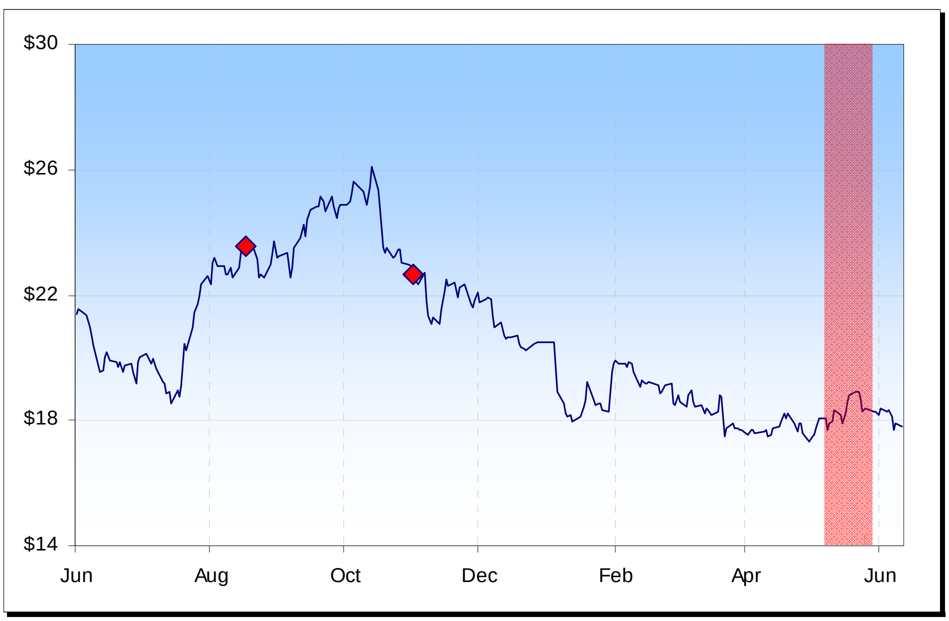
**Figure 3.** KRG Daily Closing Price, 06/01/06 through 06/13/07. Red diamond is where Alvin and John Kite purchased 800,000 limited partnership units for $16 million. Source: Reuters and KRG SEC Filings.


- Another reason we are paying close attention to the Kite activity is due to its resemblance to the insider profile at comparably sized retail development REIT Saul Centers Inc. (NYSE: BFS), which has been a model of advantageous insider accumulation. Since 2004 BFS insider buys have outpaced the sales by 9 to 1, much of which is attributed to the relentless spending spree of Chairman, CEO **B. Francis Saul II** (74). Saul laid out $30 million to increase his ownership from 4.5 million to 6.1 million shares and now controls 35% of the outstanding stock. We should point out that BFS shares gained 145% from the date of his first purchases in May 2004 until his last trade in March 2007. It has yet to be seen if KRG shares can generate the same impressive returns but to us this is one worth following the insiders on.

Motorola Inc. (NYSE: MOT)

- Motorola insiders have proven to be some of the most proficient timers we have tracked over the past few years. We covered their activity in a number of reports since 2004, but the last two dated August 17, 2006 and November 1, 2006 highlighted a very compelling shift in their trading behavior which demonstrated a resolve to cash out shares in the months leading up to negative earnings surprises. Keep in mind, the sentiment exhibited throughout 2006, especially in the second half of the year, was in stark contrast to the generally bullish Street sentiment. The most aggressive distributions were executed while a number of analysts, prior to the earnings troubles, rated the shares a "strong buy" and professed their belief Motorola shares were severely under appreciated. Now, with the shares trading near a two-year low, we are quite intrigued that insiders have again surfaced to sell.

**Figure 4.** MOT Daily Closing Price, 06/01/06 through 06/13/07. Red diamonds are the dates of our last two reports (08/17/06, 11/01/06); Red shaded area is where three MOT executives sold 429,553 shares at an average price of $18. Source: Reuters and MOT SEC Filings.




- At the forefront of the activity is **David Devonshire** (61), the Company's former chief financial officer who announced his resignation on March 21st after holding the position for five years. Some might wonder why, if Devonshire is a former employee, would we be interested in his activity? On March 21st the Company issued a press release announcing it was lowering first quarter guidance. Also included in the release was the resignation of CFO Devonshire, effective April 1st, with the disclaimer he would "continue with the Company to ensure a smooth transition" for board member and now acting CFO **Thomas Meredith**. For all intents and purposes it seemed, after being made a scapegoat for the Company's earnings woes, that he was on his way out. But this was not the case.

- Even though Devonshire was taken off the "Our Executives" page of the corporate website and was not issued any equity grants for 2007, an SEC Form 4 filed on June 1st listed him as executive vice president and treasurer. In a strange twist, it was disclosed days later that **Steven Stobel** was named the Company's treasurer on June 1st, giving us the impression Devonshire had finally departed, but we were once again misguided. Our conversation with a Company representative revealed Devonshire's new title is just "executive vice president" and he will be a Motorola officer through year-end.

- Knowing now that he is still a gainfully employed executive, there is little justification why on May 9th and May 31st Devonshire cleared out his last lower priced options (137,467) not set to expire until May 2013 and then cashed out his remaining 54,767 shares of common, all in the $17 to $18 range. Just last year he was willing to part with his shares at 25% higher prices ($22) and had previously only accepted prices this low on one occasion over the last five years. But as mentioned, he was not alone as a total of three executives sold 430,000 shares here at the lows.

- **Peter Lawson** (60), the Company's general counsel and a named executive, monetized 160,000 options from two series (expiration dates: May 2012 and May 2013) on May 14th at $18, just weeks before the Company announced plans to lay off 4,000 employees. The shares represented roughly one-fourth of Lawson's actionable holdings, but that percentage calculation would have been considerably higher had we excluded certain vested options with strike prices barely in the money. We find the timing of his sale to be contradictory, as Lawson was front and center in defense of Carl Icahn's proxy bid for a board seat, but sold just one week after the shareholder meeting. Also selling was **Daniel Moloney** (47), president of the Company's smallest division, Connected Home Solutions. Though the 77,000 shares distributed accounted for less than 20% of his actionable holdings, the options he monetized were not set to expire until May 2013 so there was no urgency for him to take profits at this time. Like his peers, this was the lowest price he has sold at in the past two years.

- Less than one year removed from a period when analysts could not be more bullish on Motorola, one would be hard pressed to find the same support today. Yet unlike previous time frames, where Motorola insider behavior contradicted the bullish sell-side outlook, this time actions seem to confirm the uniformly bearish outlook being exhibited by The Street at this time.

<u>SiRF Technology Holdings Inc. (NASDAQ: SIRF)</u>

- In our most recent update on SIRF on 03/09/07 we focused on two separate though highly related behavioral observations. First, there was a cluster of seven insiders who sold a significant number of shares in late February as the shares rallied up into the low $30 dollar range. The last time we saw such collective action by insiders was in early 2006 just before a long slide that ultimately led to a 50% decline in the shares. Second, we noted several subtle changes in risk disclosures and accounting policies that both suggested to us that the Company was feeling increasing competitive pressure. We specifically mentioned competition from privately-held Global Locate (GL). SIRF and GL have filed claims of patent infringement against each other, and both have also filed complaints with the ITC. In the 03/09/07 update, we outlined some of the competitive advantages of GL's GPS product, and suggested some of the trading, disclosure and accounting behavior we have observed at SIRF may in fact be related to pressure coming from GL.

**Figure 5.** SIRF Daily Closing Price, 06/01/06 through 06/13/07. Red shaded area is where 7 insiders sold 432,100 shares; Red diamond is where FRM Corp. disclosed its ownership had been reduced by 2.03 million shares. Source: Reuters, SIRF SEC Filings, FMR Corp. Form 13G/A filing.


- On 06/12/07, Broadcom Corp. (BRCM) announced its intention to acquire GL for as much as $226 million (acquisition price plus earn-out). Unlike some of the analysts following SIRF, we believe this development carries very significant implications for the Company and will exacerbate the competitive pressures it will face in several key markets, possibly in the near term. It's safe to assume that BRCM looked very carefully at SIRF's patent claims against GL as well as its complaint with the ITC and judged them to be without merit, otherwise, it would not be proceeding with the acquisition. BRCM obviously has far greater resources to fight the patent and ITC battles than Global Locate or, for that matter, SIRF. Additionally, as a much larger player in the semiconductor market than either SIRF or GL, BRCM will be able to apply its scale and leverage with suppliers to the GL product line to reduce costs even further and more quickly, putting the more expensive SIRF products at a greater cost disadvantage. As more and more players enter the GPS end-user markets for different kinds of devices, costs become more and more important in all segments, not just the wireless (cell phone) market, where some analysts have suggested the impact of BRCM will be limited. TomTom's willingness to substitute the GL chipset for SIRF's in its ONE product is evidence that size, power consumption, reasonable performance and significantly lower cost make GL highly competitive in the PDN market.

- FMR Corp., who had been the largest institutional holder of SIRF shares reporting ownership of 4.66 million shares or 8.8% of the shares outstanding as of 03/31/07, filed a Form SC 13G/A with the SEC on 06/11/07 indicating their stake now stands at 2.63 million, a reduction of about 43.6%. FMR chose to sell the shares into considerable SIRF share weakness (see Figure 5 above), and filed the Form SC 13G/A just one day before the BRCM announcement.

<u>SunPower Corp. (NASDAQ: SPWR)</u>

- While much hype continues to float solar-related companies higher, we continue to see signals that SunPower shares may trade well-above reality, and will likely be influenced by any strategic move from its controlling parent, Cypress Semiconductor (NYSE: CY), to monetize SPWR value for CY shareholders. The pressure is clearly on CY to do something, both by analysts and current Cypress shareholders. Cypress CEO **T.J. Rodgers** is clearly in the driver's seat here, given the fact that, even after its 7.5 million share sale on April 30th (at $58.50), Cypress still holds 58% of the outstanding SPWR shares.

  In spite of the fact that it seems that CY's Rodgers holds most of the cards, he continually hedges, when regularly asked, how he intends to "unlock the value" of SPWR shares. In October, he stated that, after much exploration, Cypress had concluded that there was "no rush for us to run out and monetize SunPower in some way". Instead, he strongly implied that CY will continue to invest in SPWR and that SPWR "will only become more valuable over time" (SPWR Q306 conference call). The subsequent April sale of 7.5 million shares, by Cypress, may have surprised some as the shares have yet to return to the level where Cypress managed to sell.

- Then there is the steady stream of selling by key SunPower insiders (see Insider Research Bulletin 6/05/07) that has been steadily increasing with each of the five post-IPO lockup quarters and continues as of this writing. Highlighting these sellers, we must note the actions of SPWR Chief Financial Officer (and former CY CFO) **Emmanuel Hernandez** who has, with recent sales, now **shed nearly 85% of his actionable holdings** just this calendar year alone, taking into account the 100,000 shares sold on May 31st and June 5th under his existing sales plan. Additional sellers who surfaced subsequent to our first SPWR coverage are Director **Betsy Atkins**, a presence in a number of corporate boardrooms, and **Howard Wenger**, Vice President, Global Business Operations. Atkins continues to cash in her options immediately upon vesting each month, selling another 700 shares in June. Like Hernandez, she holds no common stock, and after her recent trades, has no vested in-the-money options. Likewise, Wenger just cleared out nearly the remainder of his ownership (95% year-to-date) under a 10b5-1 plan, selling 30,000 shares on June 5th at $52. As a reminder, holdings diversification to this degree challenges the very spirit of Rule 10b5-1.

- **SunPower's acquisition of PowerLight clouds the picture:** Although SunPower and its independent auditors currently certify the Company's controls and procedures as adequate, there are more than the average number of caveats offered for future consideration, not the least of which involve C&P issues that have existed at recently-acquired PowerLight. PowerLight's previous problems regarding material weakness are quite interesting. An August 2006 letter from PowerLight's independent auditors identified numerous weaknesses with regards to financial statement close processes and procedures and "unsatisfactory application of the percentage of completion accounting method"; inaccurate physical inventory counts; and "incorrect accounting for complex capital transactions and inadequate disclosure of related party transactions".[1] Now, after the PowerLight merger, SunPower is recognizing more percentage of completion (POC) revenues than it traditionally has in the past. When asked about SunPower's relatively new focus on POC accounting in SPWR's Q1 conference call, CFO Hernandez responded with: "So fortunately we've got people in PowerLight who are good at this so the learning curve for the rest of SunPower folks is getting pretty fast." Good at this, indeed. Given the long list of its pre-acquisition C&P issues, among them issues with the POC accounting, one must wonder what else PowerLight's accounting people are "good at"?

The PowerLight acquisition may be cannibalizing some of SunPower's relationships, and vice versa. PowerLight competes directly as a distributor of solar panels and systems with many of SunPower's customers, such as Conergy AG and Solon AG. SunPower acknowledges that the merger has caused, in one instance, and may continue to cause, solar cell or panel suppliers to reduce or terminate their business relationship with PowerLight. Indeed, Conergy AG, which represented 45% of customer sales in 2005, was down to 10% by Q1 of 2007. Likewise for Solon AG, which accounted for 24% of customer sales in 2006, is now down to just 12%.

- **Essential R&D is slipping:** SunPower's R&D investments are slipping. In the Q1 conference call, questions arose concerning SunPower's R&D line being at just 1.7% of revenue, particularly given the fact that this is a company that differentiates itself on technology. To this, SPWR CEO **Thomas Werner** blames PowerLight's "lower model" but, in the same breath, does not offer high hopes that the situation will improve soon. He states that they will "put our foot on the accelerator for R&D in the next several years but that won't necessarily show up in terms of percentage of revenue." When asked what SunPower's long-term modeling is for R&D, Werner discloses that it is 4% of revenues but then hedges by stating "Given the variables…it will probably be a while before you see that." To this, we note that SunPower's R&D spending is running well-behind some of its key competition, such as Evergreen Solar (NASDAQ: ESLR) and First Solar (NASDAQ: FSLR).

- **SPWR is so interlocked with CY that independence does not seem an option:** Speculation that Cypress' strategic plans with regards to SPWR may result in a SunPower independent of CY may be quite a stretch. With so much of SunPower's essential costs either carried by, or shared with Cypress, one must wonder what the actual operating costs for SunPower, in a post-Cypress environment, would look like. SunPower leases much of its facilities from Cypress. Allocated overhead, in most areas, clearly are reduced due to Cypress' scale with regards to procurement of goods, technology and services, not to mention insurance, employee benefit support and audit services. The list goes on, making us wonder just how symbiotic this relationship truly is and at what time may it become viewed as more parasitic.

[1] SunPower 2006 SEC Form 10-K, page 47.

In spite of this, cries for SPWR independence continue to be heard. Based on what we have reviewed, however, it continues to look as if CY CEO Rodgers, recognizing the complexities involved, continues to hold off on any decision which would cause SPWR to stand on its own. We suspect not much will happen until Cypress has managed to sell more of its current 44 million share position.