3D ADVISORS

This 3DAdvisors Report Covers:

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

Insider Research Bulletin

January 8, 2007

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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

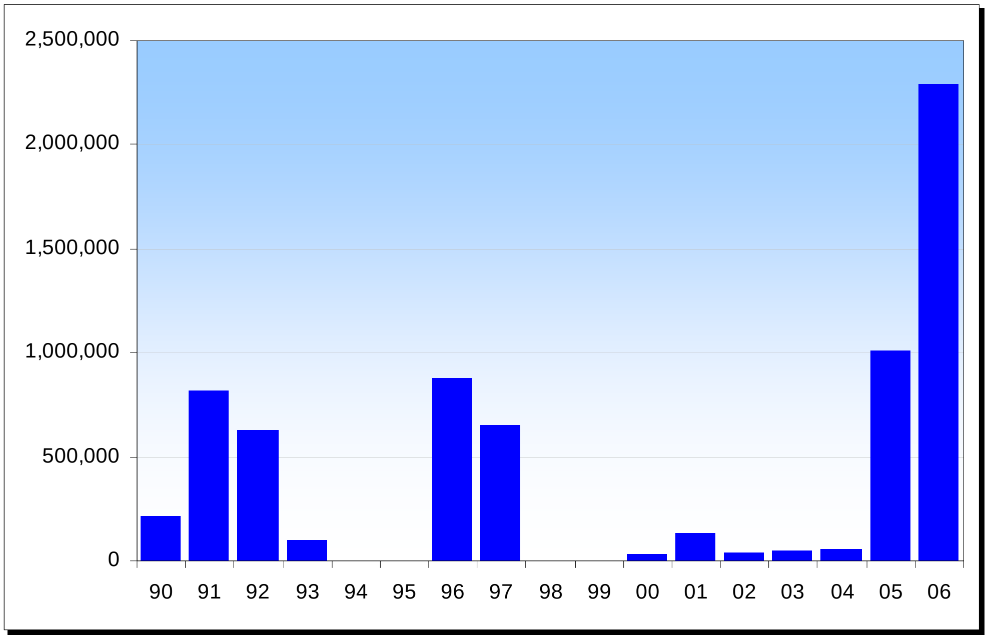
- B/E Aerospace Inc. (NASDAQ:BEAV)
- Career Education Corp. (NASDAQ:CECO)
- MEMC Electronic Materials Inc. (NYSE:WFR)

Discussion of 3DAdvisors Findings

B/E Aerospace Inc. (NASDAQ:BEAV)

On the surface, B/E Aerospace has been hitting on all cylinders and has to a large extent transcended the Company's financial performance from the pre-9/11 era. Even given recent success, management insists there is more to come, leaving investors with the expectation that the growth will continue for the next three years. But just as we have seen throughout the Airline industry, the trading behavior at the aircraft cabin interior manufacturer does little to persuade us that management sees a continuation in share price momentum. While BEAV shares far outpaced the industry index in 2005, the shares' performance in 2006 was just in line with its peer group and out gained the Dow by only 1%. Although most shareholders would be content with these returns, they certainly are not robust enough to justify the degree of BEAV insider profit taking in 2006, with the last flurry of sales occurring just before the close of the fourth quarter. Between October 9th and December 15th six insiders collectively liquidated 536,000 shares, driving the 2006 selling volume to a record 2.29 million shares.

Figure 1. Annual Selling Volume of B/E Aerospace Insiders. Source: BEAV SEC Filings.

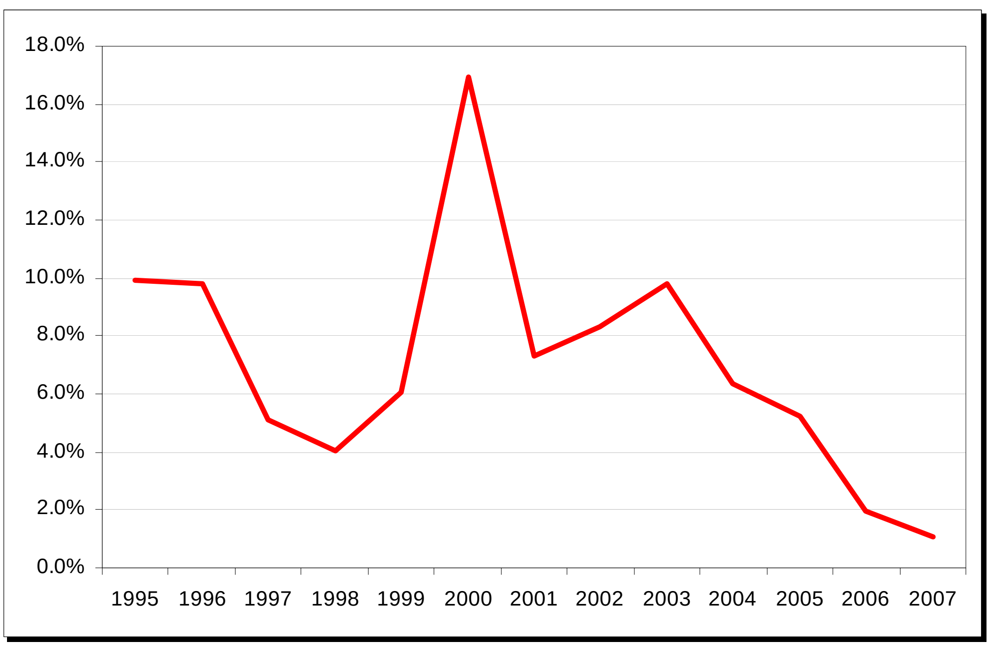


We first began to monitor the insider behavior at B/E Aerospace in mid-2005 when, for the first time since the shares collapsed in the wake of 9/11, they regained some of their value and afforded insiders their first selling opportunity in four years. By the first quarter of 2006 the selling had reached record levels as insiders sold more in a two month timeframe than they had in any full year dating back to 1990. This prompted our first coverage on the Company in an Insider Research Bulletin dated 04/18/06. Despite two consecutive blowout earnings reports, the shares traded down 35% to a six month low of $18 by July. Shortly thereafter, investors apparently regained faith in the Company's prospects and traded the shares back up to $25 in the fourth quarter, which is when insiders again surfaced to put the final touches on a truly unparalleled year of ownership diversification.

The selling was led by Founder, Chairman and Chief Executive **Amin Khoury**, who also happens to be the Company's biggest public cheerleader. Just weeks after issuing very optimistic growth proclamations on the third quarter conference call, Khoury cashed out his last remaining holdings, 345,000 shares, after having sold over 500,000 shares earlier in the year. As if his actions at the time were not enough of a contradiction from his voiced endorsement, he would later go on to express his pleasure delivering a solid 2007 outlook in a January 3rd press release. Keep in mind, his brother, Co-Founder and Director **Robert Khoury**, who signed a six-year consulting deal in January 2006, cleared out all of his holdings back in March. Neither Khoury holds any vested or unvested stock options. We do not see any evidence that CEO Khoury has plans to leave the Company as he signed an amended employment agreement on July 31st for which he was awarded 390,000 shares of restricted stock scheduled to vest ratably over four years and will have his own five year consulting arrangement when he eventually steps down. Plus, at this time, we find no evidence that there is a succession plan in place.

If the thought of two involved Company founders without any ownership is not yet enough to raise one's suspicions, these additional facts may help sway investors: the CFO has cleared out 80% of his ownership, including all shares held in trust for his children; the President has liquidated 70% of his holdings; and one key director cleared out all the shares, and more, purchased on the open market late in 2005. The ownership erosion permeates through the executive ranks and even extends to the board, as the average ownership reduction in 2006 for the Company's top six executives was 65%, while the six board members (excluding CEO Khoury) sold on average 50% of their holdings. Making this picture even more interesting is the fact that out of those six execs, only two will have any derivative equity vest in 2007. All of the selling has led to the lowest level of insider ownership that we have seen in the past twelve years at this company. After insiders collectively held nearly 10% of the outstanding shares in 2003, they now own roughly 1%.

Figure 2. Ownership of BEAV Management as a Percentage of Shares Outstanding. Source: BEAV SEC Filings and 3DAdvisors, LLC.



There are additional reasons we have great interest in the BEAV activity. As we discussed in our earlier coverage, the board authorized a re-pricing of nearly all under water options held by insiders back in 2004. Although this program made valueless options profitable for management, it came at a cost as the options were exchanged on a one-for-three basis. One year later and just prior to the adoption of SFAS 123R, the Compensation Committee approved, in December 2005, the acceleration of all unvested stock options across the board, canceling any pending 2005 grants in the process. Consequently, insiders had an abundance of in-the-money options at their disposal, which they wasted little time monetizing in 2006, resulting in the total depletion of their unvested options downstream. We doubt that this quick monetization of options is what the board had in mind when it chose to re-price them for BEAV executives.

This activity also is deserving of our clients' attention due to the astute timing of the trades, both purchases and sales, over the past ten years. Back in the third quarter of 1997, a group of insiders, again led by the Khoury brothers, shed majority stakes of their ownership ahead of a three month, 50% slide that was initially triggered by the announcement that British Airways Plc. revamped plans for in-flight entertainment systems, which cancelled a large chunk BEAV's order backlog. Insiders then went on a buying spree between 1999 and 2003, spending over $5 million ($2 million by the Khourys) to pick up stock on the cheap. The two brothers would then begin dumping shares in March of 2006, just days after Brooks Automation (NASDAQ:BRKS), where Amin Khoury was a member of the Compensation Committee, was profiled in the Wall Street Journal for options backdating. Even though Khoury's involvement was not linked to BEAV, concerned investors still traded its shares down to new lows. So once again the brothers showed no hesitation in swapping their shares for cash at an opportune time. Appendix A illustrates the well-timed trades of both Robert and Amin Khoury over the past ten years.

On a final note, we are intrigued by management's response to a question raised by an analyst on the 3Q conference call regarding 2006 free cash flow. When challenged, in the conference call, about the fact that its guidance for the number for FCF had been too aggressive, management's answers were evasive, but telling. We note how CEO Khoury quickly turned the focus to next year's FCF in the transcript below. There is a stark contrast from their eagerness to answer the same question put to them on the Q3 2005 conference call and reluctance to discuss the following year's guidance at the time. It will be interesting to see the actual number reported on February 1st.

> **Analyst:** What do you see as far as free cash flow [2006]?
>
> **Tom McCaffrey, CFO:** Free cash flow this year will be probably closer to $30 million than the approximately $50 million that we talked about before.
>
> **Amin Khoury, Chairman and CEO:** I think our free cash flow next year is going to be pretty strong. We haven't done the work yet. We're in the process of doing it. We are working the balance sheet hard right now. I would say by the end of the year when we release our full fiscal year numbers, we will give you the cash expectations for the three years and answer the question the way you've asked it. But I think we're just not prepared to do it today. We're still doing the work and we're sort of in the middle of it. And I think that's the best we can do is the answer that Tom gave you. [Remember], I said I didn't know if you would like the answer to the question. We're not ready to answer the question yet.

Listed below are the detailed accounts of the trades executed by those we deem to be the more significant insiders who acted in the recent round.

- **Amin Khoury (67) -** Founder, Chairman and CEO. We find Amin Khoury's trading over the past year to be quite out of character for a company Founder, Chairman and

CEO. After having only bought shares each year between 1999 and 2003, Khoury has **unloaded his entire position since last March**. His first sales covering 518,000 shares occurred in March and May at roughly $25, just before the shares traded down more than 30% to a 52-week low of $17 in July. He then sold his last remaining 345,560 shares on November 20th and November 21st after the issue climbed back to $27, including 12,500 shares held in his wife's name. Unless he turns to the open market to rebuild his position, he will have no ownership stake until 96,000 restricted shares vest in July (see Appendix B). CEO Khoury's brother, BEAV co-founder and director **Robert Khoury**, liquidated his entire position, 495,000 shares, back in March. Neither brother has any unvested options, while only CEO Khoury has restricted stock.

- **Thomas McCaffrey (51)** – Senior V.P. Administration, CFO. McCaffrey, the Company's CFO since 1993, was a buyer of BEAV shares between 1999 and 2003, spending $470,000 to pick up 82,000 shares. The past year has been quite a reversal. After selling 213,333 shares in March at roughly $25, McCaffrey sold 68,100 shares on November 21st at $27, monetizing his last remaining options in the process. Even more notable than the **80% of his ownership he divested in 2006** is the fact that he cashed out the 23,100 shares held in trust for his children in November. We have always emphasized that stock purchases and sales for children hold added significance since executives are typically more long-term minded when it comes to investing for them. In other words, there are usually no excuses for selling children's interests (building a house, etc.) unless, that is, the shares are expected to drop. After selling 280,000 shares in 2006, McCaffrey will have only 26,000 restricted shares become actionable in the third quarter of 2007(see Appendix B).

- **Michael Baughan (45)** – President, COO. Prior to December, Baughan had sold on only three occasions since originally filing as a Section 16 insider back in 1999. His first sale in 2001 preceded a five month, 87% price slide, while his last sale in March was executed before the shares lost more than 30% over four months. For this reason, combined with the fact that he has now **sold 70% of his ownership** since becoming the President in December 2005, we place great weight on the 73,750 shares sold on December 4th and December 5th at $27. On the year, Baughan has monetized five different options series with expiration dates ranging between January 2010 and November 2014. He will not have any options or restricted shares vest until November 2008 (see Appendix B).

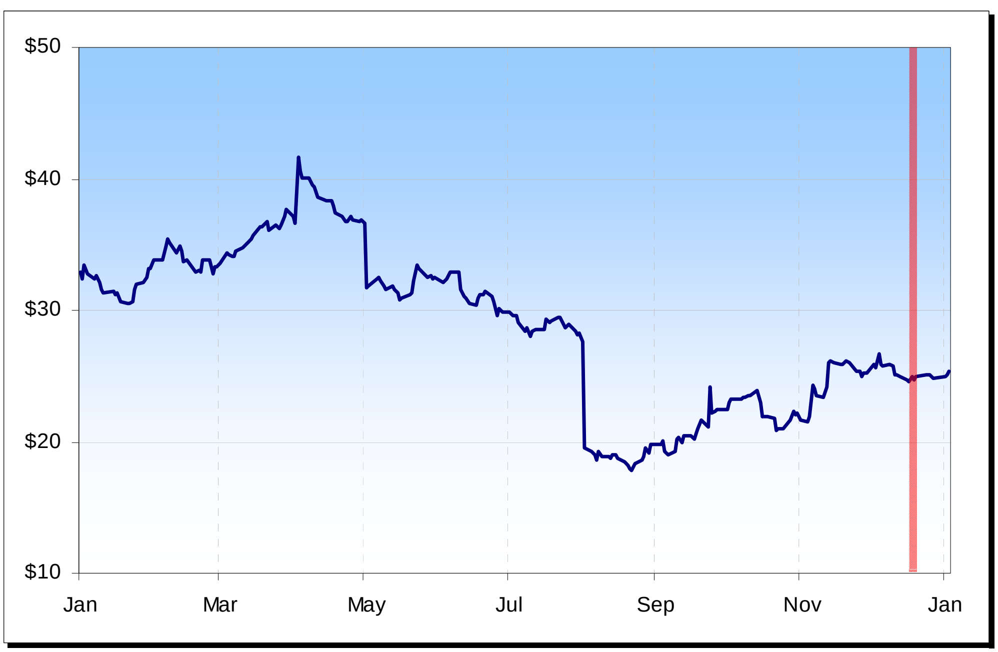
- **Jonathan Schofield (65)** – Director. Schofield, a member of the Compensation Committee, had been an avid buyer since joining the board in 2001. In fact, he even purchased shares in each of the last three quarters of 2005, with his last buy of 5,500 shares occurring on December 7, 2005 at $19.39. A former BEAV customer during his years as the chairman and chief executive of Airbus North America, no board member would seem to have a more comprehensive grasp of the Company's operations and market. For this reason, we consider his 2006 sentiment reversal to be very telling, especially in light of the delay of the Airbus A380 roll-out. Shortly after the six month short-swing period lapsed from his December 2005 purchase Schofield, who last paid $19 to buy shares, sold 10,000 shares in August at $24. Then on October 9th and October 12th he increased his selling volume, only this time at a lower average price of $22. Even though his 2006 sales **shed just 25% of his ownership**, the significant dynamic is his rather sudden reversal from his 2005 sentiment.

- **Robert Marchetti (63)** – V.P. and General Manager, Distribution Segment. Marchetti's diversification process began in December 2005 when he sold 109,167 shares at $20. Since then, he has sold an additional 41,354 shares throughout 2006, **equal to 65% of his ownership**, including the 26,654 shares sold between December 4th and December 15th at $26. Although Marchetti cashed out all but the 303 shares of common held in a 401(k) plan, he still has 22,000 fully-vested options remaining, but will see no new derivative equity become actionable until November 2008 (see Appendix B).

<u>Career Education Corp. (NASDAQ:CECO)</u>

In ranking the biggest insider trading stories of the past ten years, Career Education is not too far from the top. The Company has faced a barrage of civil and class action suits, been investigated by numerous regulatory agencies, and has had its reputation within the for-profit education sector, and investment community, enduringly tarnished. Management has been attacked from all sides for the huge profits they reaped before the house of cards fell, and now, with the Company trying to sell the Street on its restructuring plan, insiders are once again selling at an unbecoming juncture. Just one month after reporting a 62% decline in third quarter earnings, and missing the consensus by 21%, five top executives sold 1.07 million shares on the open market on December 21st and December 22nd at prices nearly 45% off the 52-week high, while the Company also repurchased 1.65 million shares from departing chairman **John "Jack" Larson**.

Figure 3. CECO Daily Closing Price, 01/03/06 through 01/05/07. Shaded red area is where six insiders sold 2.72 million shares. Source: CECO SEC Filings.



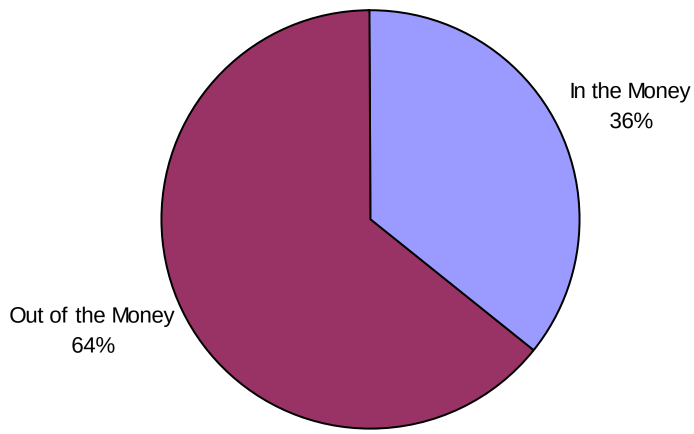
Back in September the Company announced that its founder, chairman, and chief executive, John Larson, the man at the center of the shareholder lawsuits and federal investigations, had relinquished his executive role. Only three months later, on December 19th, he retired from the board as well, leaving the Company at a contentious time as earnings continue to diminish and its largest school, American InterContinental University, has recently been put on extended probation. With a new CEO expected to be named this month, there is speculation that some of Larson's top lieutenants might defect in anticipation that new management will want to clean house and put in place their own team. For this reason, we suspect some of the recent activity, which occurred immediately following Larson's resignation, might be a presage to executive defections. Nevertheless, any degree of selling at Career Education, especially at these depressed prices, can not go overlooked due to the relevance of past trading, especially given the fact that some of the sellers have chosen to cash in options with long periods of time remaining before expiration for only small profits as if those options may risk dropping under water in the near to intermediate future.

By this point, the Company's earnings quality and governance issues have been dissected by anyone with an interest in the name, so we are quite surprised that the recent sales have attracted little attention. With the exception of a generic piece posted by the Associated Press covering only the trade of CFO, Director **Patrick Pesch**, we have yet to see any meaningful coverage of the activity. Not only have prominent executives dumped significant percentages of their ownership, but they have taken a resolute approach to clearing out all, or the majority, of their in-the-money options in the process as well. Pesch, who along with Larson is named in an ongoing class-action suit, sold a third of his ownership at a 45% discount to the sale price associated with his questionable trade in August 2003 which drew the ire of shareholders. Even more conspicuous are the steep discounts accepted by some of Pesch's peers in the recent round. As we highlighted in an Insider Research Bulletin dated 06/14/04, Group President **John Gruver**, Executive V.P. **Steve Sotraidis**, and Division President **Todd Steele** each sold in the $60's in mid-2004. These trades were executed shortly before two key events, the release of new details related to the ongoing investigations and the first report of disappointing student-enrollment figures, dropped CECO shares from $70 to $27 in less than two months. The table below summarizes the price differential between their last and most recent dispositions.

Executive	Date Range of Last Trades	Avg. Price of Last Sales	Avg. Selling Price of Dec. '06 Sales	Discount From Last Sale Price
J. Gruver	5/11/04 – 5/20/04	$63.53	$24.64	**-61.2%**
P. Pesch	8/14/03	$44.38	$24.85	**-44.0%**
S. Sotraidis	5/05/04	$68.50	$24.52	**-64.2%**
T. Steele	4/23/04	$67.71	$24.65	**-63.6%**

As we mentioned before, the recent sales might be an indication that some of these executives are leaving due to the nature of the activity. With many of their stock options carrying strike prices either close to or above market, a large percentage of their equity compensation held little or no value. This did not detract them from clearing out the majority of those options that were actionable, including a series exercised by Sotraidis and Steele with five years left before expiration that when sold, yielded a very marginal pre-tax profit of 10%. The implication of option “skimming” is that the insider might sense further downside risk, which would leave the options in question out of the money. In order for remaining outstanding under water options to become profitable, CECO shares will have to gain between 15% and 160%, depending on the particular option series.

Figure 4. Breakdown of Remaining Outstanding Options Held by Top Six Career Education Corp. Execs (Excluding Interim Chairman and CEO Robert Dowdell). Source: CECO SEC Filings.



In addition to the 1 million-plus shares sold on the open market in December, CECO founder John Larson exercised all 1.65 million of his vested (in the money) options upon his December 20th resignation from the board and immediately sold all acquired shares back to the Company under what was called the “Share Repurchase Agreement”. It was disclosed he received the closing price of the common stock on December 20th, which after exercise costs, netted him $27.5 million before taxes. By purchasing the shares directly from Larson, they were not only able to prevent 1.6 million shares hitting the market when the issue trades on average only 1.3 million per day, but also circumvented having to file an SEC Form 144 disclosing the transaction. We are assuming a Form 4 was not required since the sale occurred simultaneously with his resignation. The Company, however, did report the activity in an SEC 8-K filed on December 21st. Since there was no coinciding press release and the trade stayed off the insider trading wires, the large sale went largely unnoticed. Though not egregious conduct, it would seem that the Company took preventative measures to preclude any more negative publicity. Indeed, we suspect investors would not have taken kindly to the Company founder being bought out of 95% of his ownership in a thinly disclosed repurchase transaction.

- **Steve Sotraidis (59)** – Executive V.P., Administration. Sotraidis joined the management team in 1997 but has only been reporting trades with the SEC since January 2003. As part of a team whose members have, on the whole, been active traders, Sotraidis stood out as the one “stake building” executive, having sold only once in the past four years. That changed very quickly on December 21st when he tapped into thirteen different options series to clear out all of the vested, in-the-money options held by him and his wife and immediately sold all 436,503 exercised-for shares at $24. In all, the sales netted Sotraidis a pre-tax profit of $6.6 million. Clearly, we are interested that the disposed shares **accounted for 98% of his actionable holdings**, but equally intrigued that he monetized roughly one-fifth of the options for a very slim profit. Sotraidis cleared out an option series not scheduled to expire for five more years, paying $22 for the shares and selling them at $24 and change. It would seem to us that in taking the short profit now, Sotraidis may sense the risk that the options involved would fall underwater between now and the time he may be leaving the Company. We say the latter in the case that he senses his long term tenure may be at risk. Whatever the case, his actions were extreme and there is little rationale for a high-level exec to clear out the majority of his ownership at prices 40% below the highs. Sotraidis currently has 173,000 vested under water options priced between $29 and $62, and at the current market price, all 22,000 options scheduled to vest this year will also be under water (see Appendix C).

- **Todd Steele (43)** – Executive V.P., Strategic Planning and Development, President, International and Startup Divisions. Steele's CECO career began on the board back in 1994 and he later took a full-time management position in 1998. He was a participant in the mid-2004 round of sales, shedding 50% of his ownership at $67. Apparently, he lacks confidence that his shares will reclaim their former value, as he **cleared out 85% of his actionable equity** on December 21st and December 22nd at 65% lower prices. In addition to monetizing 249,000 non-expiring options (expiration dates ranged from May 2009 through May 2012), he also tapped into his common stock holdings to sell an additional 26,000 shares, even though the Company has put in place ownership guidelines. Like Sotraidis, some of the options Steele exercised were pricey, affording him a very slight profit on the disposition. Steele currently has 131,000 options that will be unprofitable until CECO shares reach at least $30 (see Appendix C).

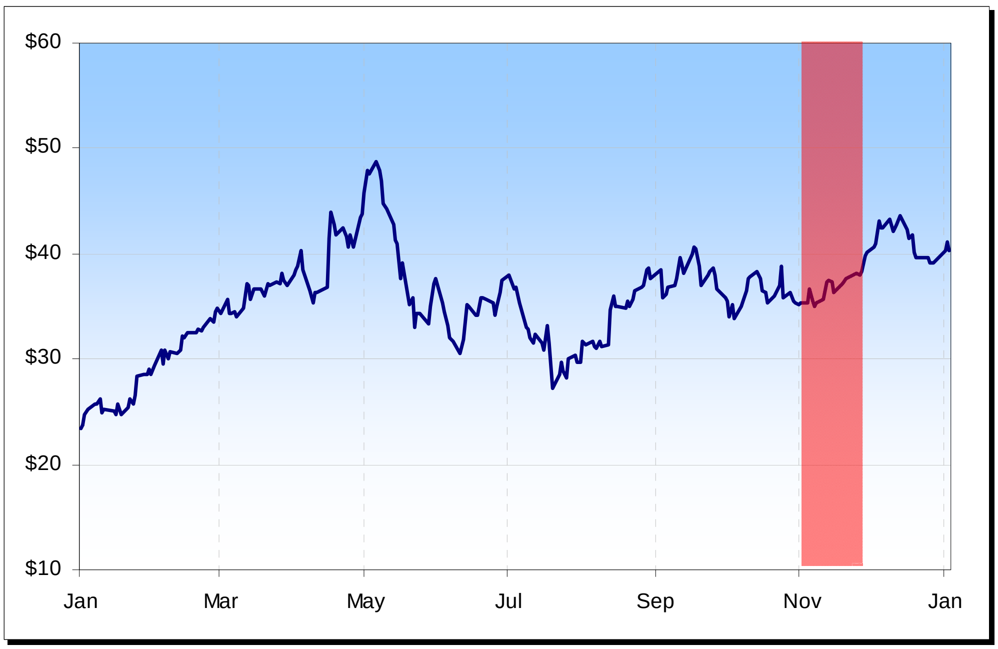
- **Patrick Pesch (49)** – Executive V.P., CFO, Treasurer, Director. Pesch has been at the forefront of certain prescient trading and has been named in a number of class-action lawsuits for his past activity. With the suits pending, we would not have expected to see him **selling 30% of his ownership** shortly after adverse corporate news. But such is the case, as Pesch executed his largest sale since CECO began trading in 1998, monetizing 188,000 options not scheduled to expire until September 2009 and June 2010. Following the trade, Pesch still retains the largest ownership position of any current executive, the majority of which is in-the-money options and common stock (see Appendix C).

- **Jacob Gruver (51)** – Group President, Academy and College Division. Like many of his peers, Gruver liquidated the majority of his ownership (80%) just ahead of the Company's 2004 woes. After sitting on the sidelines for more than two years, he **recently resurfaced to sell 65% of his holdings**, or 152,000 shares, on December 21st at $24. His remaining holdings are comprised of 11,000 shares of common, 30,000 vested options that are priced near market and an additional 110,000 exercisable options that require price gains between 15% and 160% for them to be profitable (see Appendix C).

MEMC Electronic Materials Inc. (NYSE:WFR)

When one sell-side analyst commented that silicon wafer supplier MEMC Electronic Materials was "running like a well-oiled machine" following the Company's 3Q06 earnings report, we had to double back to confirm we were following the same MEMC. Oddly enough, he was in fact referring to the same firm which reported declining earnings in two of its three already-reported quarters of 2006, was delinquent in its SEC filings through September, continues to have numerous material weaknesses in internal control, and closed the year down 20% from the 2006 highs. A number of other analysts have bought into management's optimism that two large solar wafer supply contracts signed in the third and fourth quarter with Gintech Energy and Suntech Power will propel future earnings, but four top executives do not appear equally as encouraged, selling 450,000 shares between November 2nd and November 30th at prices that were roughly 25% off the then-recent highs.

Figure 5. WFR Daily Closing Price, 01/03/06 through 01/05/07. Red shaded area is where four insiders sold 450,000 shares. Source: WFR SEC Filings.



➲ High-Level Execs Clear Out All Holdings

Historically, MEMC insiders are not known for aggressive insider selling, having sold on average just 15,000 shares per quarter between 1996 and 2004. We first began to monitor the Company in September 2005 when President, CEO **Nabeel Gareeb** (41), under the pretext of a 10b5-1 trading plan, cleared out 70% of his holdings over the course of two months after it was reported, by the Company, that his trades would be spread out over *five years*. Further details can be found in a 3DA Research Notes dated 09/23/05. Shortly thereafter, internal control issues caused the late filing of MEMC's Annual Report on Form 10-K for fiscal year 2005 and insiders were prevented from trading throughout much of 2006 due to a blackout period which remained in place until September, when the Company's SEC filings were made current.

Once the trading restrictions were lifted, we anticipated seeing a certain degree of profit taking since the shares had traded to a ten-year high earlier in the year. Only these sales surpassed all reasonable expectations. **Three of MEMC's named executives in the Proxy Statement monetized more than 95% of their ownership, while a fourth, the head counsel, also cashed out all of his holdings.** The scope of their diversification is quite uncommon for a company with a market cap just shy of $10 billion and bears added significance in view of their marginal common stock ownership and low levels of unvested derivative holdings. A more detailed description of the individual trades can be found further below, while their common stock holdings, following the recent round of selling, are summarized in the following table:

Executive Team Member	Position	Common Stock Ownership
N. Gareeb	President, CEO	100,000
K. Hannah	CFO	0
S. Sadasivam	Senior V.P.	0
J. Kauffmann	Senior V.P.	5,500
S. Hunkler	Senior V.P.	0
B. Kohn	General Counsel	0

➲ Internal Control Deficiencies Exacerbate

Those following MEMC closely are probably quite conscious of the internal control issues, but we find it particularly interesting that since the first weaknesses were uncovered in a 4Q04 assessment, they have become progressively more serious. What first originated as just staffing issues, as the Company did not employ people with the needed income tax accounting expertise, has snowballed into a number of different staff and procedural issues which we outline below. The deficiencies are currently widespread with the disclosure in the 2005 10-K so lengthy that we are supplying just a condensed adaptation. Despite the problematic practices, the Board has taken no measures to replace members of the Audit Committee, as the same three have served on the board since 2003.

One such member, **Robert Boehlke**, was the former chief financial officer at KLA-Tencor (NASDAQ:KLAC) during the six year period in which the Company is being investigated for option backdating. As part of MEMC's remediation process, the Company disclosed that it "instituted improvements" by appointing "senior finance and accounting personnel with substantial accounting and public finance expertise." By this we presume they are referring to the April hiring of CFO **Ken Hannah** who last served as Home Depot's senior vice president of operations. Hannah, 37, does have some financial experience with Home Depot and other large-cap firms, but has never held a

CFO position. It will be very interesting to see if someone so "green" is qualified to resolve the many control deficiencies.

Internal Control Disclosure – 1Q05 10-Q (filed on 05/10/05)

In the company's 2004 Annual Report on Form 10-K, the company identified a material weakness related to not employing resources with adequate expertise in matters related to the accounting for income taxes. As a result, management did not detect errors in the accounting for income tax amounts and disclosures in a timely manner.

Internal Control Disclosure – 2005 10-K (filed on 08/10/06)

- **Ineffective Company-Level Controls.** We did not maintain effective company-level controls as defined in the Internal Control—Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). These deficiencies related to four of the five components of internal control as defined by COSO (control environment, risk assessment, information and communication, and monitoring).

- **Inadequate Expertise in U.S. Generally Accepted Accounting Principles.** We lacked adequately trained finance and accounting personnel with appropriate U.S. generally accepted accounting principles (US GAAP) expertise. As a result, an effective internal secondary review of technical accounting matters could not be performed in certain circumstances.

- **Inadequate Revenue Recognition Policies and Procedures.** We did not have adequate policies and procedures in place related to revenue recognition, and we lacked personnel with adequate expertise in revenue recognition criteria under US GAAP.

➲ Overly-Generous Compensation for CEO

Despite the numerous issues the Company faced in 2006, CEO Nabeel Gareeb was rewarded handsomely by the Compensation Committee. Gareeb joined MEMC in April 2002 after a ten-year career with International Rectifier (NYSE:IRF). After receiving 1.65 million options for signing his original employment agreement in 2002, Gareeb was issued another 1 million options in May 2005 (in addition to his regular 2005 option grant) as a retention incentive for him to stay beyond the expiration of his original contract. He received more than 30% of the total option grants issued to MEMC employees in 2005. As if this was not enough, the Company provided him with a new four year employment agreement in October 2006 which provided for a 40% base pay increase, a target bonus increase greater than 40%, and an additional 2 million stock options.

Meanwhile, Gareeb's top lieutenants received either no base salary increase or just slight raises from 2005 to 2006 while also contending with declines in their equity compensation. Some of our clients may have noticed a 100,000-share acquisition by Gareeb on December 4th. At the time of the transaction, Gareeb was one of the lone chief executives in the mid-to-large cap semiconductor arena who held no stock in their respective company. After clearing out 70% of his ownership, or 1.04 million shares valued at $20.4 million, just after receiving the retention options in 2005, it is hard for us to put much stock in his going out of pocket for $150,000 to pick up shares. We suspect that his decision was more out of necessity to show some semblance of direct stock ownership. The actions of his peers, who hold far less equity, are, in our estimation, more representative of the general insider sentiment.

➲ Apparent Conflict of Interest With Key Managers and Largest Shareholder

Back in November 2001, an investor group led by Texas Pacific Group (TPG) acquired 72% of MEMC's outstanding common stock and at one point since, owned as much as 90%. Unlike many parallel situations where there is dissonance between controlling institutional shareholders and management, there appears to be a very unusual, and disconcerting, interlock at MEMC. A number of key executives, including CEO Gareeb and Audit and Compensation Committee members Boehlke and **C. Douglas Marsh**, have personally invested millions in TPG investment vehicles in exchange for "membership interests". It is even disclosed that Boehlke and Marsh each put up funds used by TPG to guarantee MEMC's credit facility. The kicker is that these managers, who in the case of the two directors are listed as "independent", receive sizeable payouts when TPG sells its ownership, which they recently did in November, cashing out 19.5 million shares and lowering their stake to roughly 15%.

This intricate web brings into question the motives of certain managers and legitimacy of the independence of committee members. When two Compensation Committee members are affiliates (partners) of the largest shareholder (TPG), the other two are investors in that shareholder, and the CEO, who also has personal funds tied up in the investor group, receives an inordinate number of stock options and a very generous new employment agreement, the whole situation smacks of self serving patronage. It is not a stretch to say that these relationships could be good reason why we are yet to see any changes made in the Audit Committee, which has failed to resolve the numerous internal control issues.

- **Shaker Sadasivam (46)** – Senior V.P., Research & Development. Sadasivam has been with the Company since 1997, having served in a number of different international management roles before settling into his current position in 2002. His trading history is limited but insightful, as his only prior activity involved clearing out all of his holdings in August 2003 at $12. It took sixteen months for WFR shares to trade above his 2003 exit price. On November 3rd we saw a repeat of his earlier trades as he tapped into nine different options series with plenty of time remaining before expiration (expiration dates between January 2012 and July 2015) to monetize all but a few of his vested options. In all, Sadasivam sold 230,000 shares, including his last remaining 11,000 shares of common stock, which in total **accounted for 97% of his ownership**. We should add that he is one of the five named executives (highest compensated) listed in the Company's most recent proxy statement but received 50% fewer option awards in 2006 than he had in 2005. For this reason, he will have only 53,450 options become actionable this year (see Appendix D), which will replace just a fraction of what was disposed in November.

- **John Kauffmann (50)** – Senior V.P., Sales and Marketing. Despite a 25-plus year MEMC career, Kauffmann currently has ownership of just 5,500 shares (no vested derivative holdings) following his sale of 145,600 shares on November 2nd. With just one prior sale of 5,000 shares (25% of ownership) in November 2004 under his belt, which occurred shortly after he initially registered as a Section 16 filing insider, he dramatically stepped up his diversification in November when he cleared out all of his vested options. Kauffmann tapped into all seven of his vested options series, none of which was set to expire before January 2013, and immediately sold all of the exercised for shares, which **resulted in a 96% holdings reduction**. Like Sadasivam, Kauffmann's option grants were down considerably over the past two years. After receiving a total of 316,000 options in 2003 and 2004, he has received only 60,000 since and will have nearly 150,000 options become actionable in 2007. This number decreases significantly in 2008 (see Appendix D).

- **Sean Hunkler (44)** – Senior V.P., Manufacturing. Hunkler, also a named executive, joined the Company in August 2005 after a 21-year career with Freescale Semiconductor, formerly a division of Motorola. On November 30th he monetized all of the 50,000 vested options from his new-hire grant at $39, and given that he is yet to own any common, **the trade resulted in a 100% reduction of his actionable ownership**. Since he will not have any derivative equity vest until the third quarter of 2007, it would appear that he was not satisfied there will be comparable profit taking opportunities in the near term. His conduct is a contradiction from the more common behavior of new high-level corporate executives, who commonly spend their first years building an ownership stake to show their commitment to the firm. Hunkler will have 41,000 options become actionable in 2007 (see Appendix D). As a side note, Hunkler was never a Section 16 insider at Freescale (Motorola), so we have no evidence of his trading habits at that company.

- **Bradley Kohn (37)** – V.P., General Counsel, Secretary. Kohn joined MEMC at the same time as Hunkler and as a result, has a similar vesting schedule with his new hire grant issued in 2005. On November 28th he monetized all 25,000 of the first batch of options that became actionable in the third quarter, and likewise, will not have any more vest until September 2007. Since Kohn has yet to accumulate any common stock, **his sale also shed all of his holdings** and he will not have any opportunity to sell until 26,000 options become actionable in the third quarter (see Appendix D).

Appendix A: 10-Year Trading Histories for Selected BEAV Insiders

Sales: Red Diamonds; Buys: Green Diamonds

10-Year Trading History: CEO Amin Khoury

10-Year Trading History: Director Robert Khoury

Appendix B

Option and Restricted Stock Vesting Schedules for Selected B/E Aerospace Inc. Insiders

Grant Date	Equity Type	Options/ Shares	Strike Price (Options)	First Vesting Date	Expiration Date (Options)	Remaining Options/Shares in Series	Unvested Options/Shares in Series	Vesting Dates of Remaining Restricted Shares/Options
Amin Khoury, Chairman, CEO. Common stock holdings: 0 shares								
07/31/06	R. Stock	387,878	N/A	07/31/07	07/31/10	387,878	387,878	07/31/07, 07/31/08, 07/31/09, 07/31/10
11/15/06	R. Stock	66,988	N/A	11/15/08	11/15/08	66,988	66,988	11/15/08
Michael Baughan, President, COO. Common stock holdings: 12,542 shares								
12/27/05	Options	75,000	$22.18	12/27/05	12/27/15	75,000	0	Fully Vested
11/15/06	R. Stock	32,605	N/A	11/15/08	11/15/08	32,605	32,605	11/15/08
Thomas McCaffrey, Senior V.P., CFO. Common stock holdings: 61,802 shares								
07/31/06	R. Stock	104,242	N/A	07/31/07	07/31/10	104,242	104,242	07/31/07, 07/31/08, 07/31/09, 07/31/10
11/15/06	R. Stock	31,864	N/A	11/15/08	11/15/08	31,864	31,864	11/15/08
Mark Krosney, Group V.P., General Manager-Business Jet Segment. Common stock holdings: 0 shares								
02/02/04	Options	50,000	$5.59	02/02/04	02/02/14	50,000	0	Fully Vested
11/24/04	Options	40,000	$10.42	11/24/04	11/24/14	40,000	0	Fully Vested
Edmund Moriarty, V.P.-Law, General Counsel, Secretary. Common stock holdings: 22,264 shares								
01/19/00	Options	25,000	$8.44	01/19/00	01/19/10	25,000	0	Fully Vested
09/25/02	Options	25,000	$4.43	09/25/02	09/25/12	25,000	0	Fully Vested
01/26/04	Options	27,500	$6.59	01/26/04	01/26/14	27,500	0	Fully Vested
02/02/04	Options	20,000	$5.59	02/02/04	02/02/14	20,000	0	Fully Vested
11/24/04	Options	16,000	$10.42	11/24/04	11/24/14	16,000	0	Fully Vested
11/15/06	R. Stock	21,341	N/A	11/15/08	11/15/08	21,341	21,341	11/15/08
Robert Marchetti, V.P. and General Manager-Distribution Segment. Common stock holdings: 0 shares								
02/02/04	Options	50,000	$5.59	02/02/04	02/02/14	2,612	0	Fully Vested
11/24/04	Options	40,000	$10.42	11/24/04	11/24/14	20,000	0	Fully Vested
11/15/06	R. Stock	16,673	N/A	11/15/08	11/15/08	16,673	16,673	11/15/08

Appendix C

Option and Restricted Stock Vesting Schedules for Selected Career Education Corp. Insiders

Grant Date	Equity Type	Options/ Shares	Strike Price (Options)	First Vesting Date	Expiration Date (Options)	Remaining Options/Shares in Series	Unvested Options/Shares in Series	Vesting Dates of Remaining Restricted Shares/Options
Stephen Fireng, President-University Division. Common stock holdings: 1,783 shares								
05/17/02	Options	20,000	$22.06	05/17/03	05/16/12	20,000	0	Fully Vested
05/19/03	Options	16,000	$29.35	05/19/04	05/18/13	16,000	4,000	05/19/07
05/21/04	Options	16,000	$62.56	05/21/05	05/20/14	16,000	0	Fully Vested
02/01/05	Options	40,000	$40.56	02/01/06	01/31/15	40,000	0	Fully Vested
05/20/05	Options	35,000	$34.70	05/20/06	05/19/15	35,000	0	Fully Vested
05/18/06	Options	45,000	$30.80	05/18/07	05/17/16	45,000	45,000	05/18/07, 05/18/08, 05/18/09, 05/18/10
05/18/06	R. Stock	10,000	N/A	05/18/09	[1]	10,000	10,000	[1]
Jacob Gruver, Group President of the Academy and College Division. Common stock holdings: 11,461 shares								
05/17/02	Options	130,000	$22.06	05/17/03	05/16/12	65,000	0	Fully Vested
05/21/03	Options	80,000	$29.35	05/21/04	05/20/13	60,000	20,000	05/20/07
05/21/04	Options	40,000	$62.56	05/21/05	05/20/14	40,000	0	Fully Vested
05/20/05	Options	30,000	$34.70	05/20/06	05/19/15	30,000	0	Fully Vested
05/18/06	Options	10,000	$30.80	05/18/07	05/17/16	10,000	10,000	05/18/07, 05/18/08, 05/18/09, 05/18/10
05/18/06	R. Stock	4,000	N/A	05/18/09	[1]	4,000	4,000	[1]
Patrick Pesch, Executive V.P., CFO, Treasurer Director. Common stock holdings: 42,400 shares								
05/20/99	Options	48,000	$4.65	05/20/99	05/19/09	48,000	0	Fully Vested
05/11/01	Options	240,000	$12.62	05/11/02	05/10/11	240,000	0	Fully Vested
05/17/02	Options	130,000	$22.06	05/17/03	05/16/12	130,000	0	Fully Vested
05/21/03	Options	80,000	$29.35	05/21/04	05/20/13	80,000	20,000	05/20/07
05/21/04	Options	60,000	$62.56	05/21/05	05/20/14	60,000	0	Fully Vested
05/20/05	Options	75,000	$34.70	05/20/06	05/19/15	75,000	0	Fully Vested
05/18/06	Options	50,000	$30.80	05/18/07	05/17/16	50,000	50,000	05/18/07, 05/18/08, 05/18/09, 05/18/10
05/18/06	R. Stock	13,500	N/A	05/18/09	[1]	13,500	13,500	[1]
Steve Sotraidis, Executive V.P.-Administration. Common stock holdings: 10,430 shares								
05/19/03	Options	60,000	$29.35	05/19/04	05/18/13	60,000	12,000	05/19/07
05/21/04	Options	53,000	$62.56	05/21/05	05/20/14	53,000	0	Fully Vested
05/20/05	Options	72,000	$34.70	05/20/06	05/19/15	72,000	0	Fully Vested
05/18/06	Options	40,000	$30.80	05/18/07	05/17/16	40,000	40,000	05/18/07, 05/18/08, 05/18/09, 05/18/10
05/18/06	R. Stock	10,000	N/A	05/18/09	[1]	10,000	10,000	[1]

Appendix C

Option and Restricted Stock Vesting Schedules for Selected Career Education Corp. Insiders

Grant Date	Equity Type	Options/ Shares	Strike Price (Options)	First Vesting Date	Expiration Date (Options)	Remaining Options/Shares in Series	Unvested Options/Shares in Series	Vesting Dates of Remaining Restricted Shares/Options
Todd Steele, Executive V.P.-Strategic Planning and Development, President-Intl. and Startup Divisions. Common stock holdings: 18,665 shares								
05/17/02	Options	96,000	$22.06	05/17/03	05/16/12	30,000	0	Fully Vested
05/21/03	Options	48,000	$29.35	05/21/04	05/20/13	48,000	12,000	05/21/07
05/21/04	Options	45,000	$62.56	05/21/05	05/20/14	45,000	0	Fully Vested
05/20/05	Options	50,000	$34.70	05/20/06	05/19/15	50,000	0	Fully Vested
05/18/06	Options	35,000	$30.80	05/18/07	05/17/16	35,000	35,000	05/18/07, 05/18/08, 05/18/09, 05/18/10
05/18/06	R. Stock	8,000	N/A	05/18/09	[1]	8,000	8,000	[1]

[1] A portion of the restricted stock vests on the third anniversary of the grant date and the remaining portion vests subject to the Compensation Committee's determinatio

* Red highlight denotes options that are currently out of the money

Appendix D

Option and Restricted Stock Vesting Schedules for Selected MEMC Electronic Materials Inc. Insiders

Grant Date	Equity Type	Options/ Shares	Strike Price (Options)	First Vesting Date	Expiration Date (Options)	Remaining Options/Shares in Series	Unvested Options/Shares in Series	Vesting Dates of Remaining Restricted Shares/Options
Nabeel Gareeb, President, CEO, Director. Common stock holdings: 100,000 shares								
03/26/02	Options	1,000,000	$4.99	04/08/06	03/26/12	1,000,000	0	Fully Vested
03/26/02	Options	650,000	$1.50	04/08/03	03/26/12	62,500	0	Fully Vested
04/25/03	Options	150,000	$12.25	04/25/04	04/25/13	150,000	37,500	04/25/07
04/27/04	Options	150,000	$8.45	04/27/05	04/27/14	150,000	75,000	04/27/07, 04/27/08
05/02/05	Options	150,000	$11.93	05/02/06	05/02/15	150,000	112,500	05/02/07, 05/02/08, 05/02/09
05/02/05	Options	500,000	$11.93	05/02/08	05/02/15	500,000	500,000	05/02/08
05/02/05	Options	500,000	$11.93	05/02/10	05/02/15	500,000	500,000	02/02/10
10/25/06	Options	1,000,000	$37.01	10/25/07	10/25/16	1,000,000	1,000,000	10/25/07, 10/25/08, 10/25/09, 10/25/10
10/25/06	Options	1,000,000	$37.01	[1]	10/25/16	1,000,000	1,000,000	[1]
Sean Hunkler, Senior V.P.-Manufacturing. Common stock holdings: 0 shares								
08/15/05	Options	200,000	$18.05	08/15/06	08/15/15	150,000	150,000	08/15/07, 08/15/08, 08/15/09
08/15/05	Options	100,000	$18.05	08/15/09	08/15/15	100,000	100,000	08/15/09
07/25/06	Options	13,800	$29.73	07/25/07	07/25/16	13,800	13,800	07/25/07, 07/25/08, 07/25/09, 07/25/10
John Kauffmann, Senior V.P.-Sales and Marketing. Common stock holdings: 5,500 shares								
01/24/03	Options	30,000	$7.90	01/24/04	01/24/13	7,500	7,500	01/24/07
07/25/03	Options	30,000	$11.74	07/25/04	07/25/13	7,500	7,500	07/25/07
09/01/03	Options	70,000	$12.98	09/01/07	09/01/13	70,000	70,000	09/01/07
01/26/04	Options	30,000	$10.85	01/26/05	01/26/14	15,000	15,000	01/26/07, 01/26/08
07/26/04	Options	6,200	$8.09	07/26/05	07/26/14	3,100	3,100	07/26/07, 07/26/08
10/27/04	Options	150,000	$9.43	10/27/05	10/27/14	75,000	75,000	10/25/07, 10/25/08
02/16/05	Options	10,000	$11.63	02/16/06	02/16/15	7,500	7,500	02/16/07, 02/16/08, 02/16/09
07/26/05	Options	20,000	$17.65	07/26/06	07/26/15	15,000	15,000	07/26/07, 07/26/08, 07/26/09
01/25/06	Options	18,300	$25.66	01/25/07	01/25/16	18,300	18,300	01/25/07, 01/25/08, 01/25/09, 01/25/10
07/25/06	Options	11,900	$29.73	07/25/07	07/25/16	11,900	11,900	07/25/07, 07/25/08, 07/25/09, 07/25/10
Bradley Kohn, V.P., General Counsel, Secretary. Common stock holdings: 0 shares								
09/18/05	Options	100,000	$19.88	09/18/06	09/18/15	75,000	75,000	09/18/07, 09/18/08, 09/18/09
09/18/05	Options	100,000	$19.88	09/18/09	09/18/15	100,000	100,000	09/18/09
07/25/06	Options	5,900	$29.73	07/25/07	07/25/16	5,900	5,900	07/25/07, 07/25/08, 07/25/09, 07/25/10

Appendix D

Option and Restricted Stock Vesting Schedules for Selected MEMC Electronic Materials Inc. Insiders

Grant Date	Equity Type	Options/ Shares	Strike Price (Options)	First Vesting Date	Expiration Date (Options)	Remaining Options/Shares in Series	Unvested Options/Shares in Series	Vesting Dates of Remaining Restricted Shares/Options
Shaker Sadasivam, Senior V.P., Research and Development. Common stock holdings: 0 shares								
01/24/03	Options	50,000	$7.90	01/24/04	01/24/13	12,500	12,500	01/24/07
07/25/03	Options	16,000	$11.74	07/25/04	07/25/13	4,000	4,000	07/25/07
01/26/04	Options	15,000	$10.85	01/26/05	01/26/14	7,500	7,500	01/26/07, 01/26/08
07/26/04	Options	12,100	$8.09	07/26/05	07/26/14	6,050	6,050	07/26/07, 07/26/08
10/27/04	Options	25,000	$9.43	10/27/05	10/27/14	18,750	12,500	10/27/07, 10/27/08
02/16/05	Options	25,000	$11.63	02/16/06	02/16/15	18,750	18,750	02/16/07, 02/16/08, 02/16/09
07/26/05	Options	40,000	$17.65	07/26/06	07/26/15	30,000	30,000	07/26/07, 07/26/08, 07/26/09
01/25/06	Options	18,300	$25.66	01/25/07	01/25/16	18,300	18,300	01/25/07, 01/25/08, 01/25/09, 01/25/10
07/25/06	Options	12,400	$29.73	07/25/07	07/25/16	12,400	12,400	07/25/07, 07/25/08, 07/25/09, 07/25/10

[1] Options are performance based that will vest at the end of four years if certain performance criteria are met; it may vest with respect to 400,000 of the 1,000,000 shares at the end of three years if certain perf