



#### This 3DAdvisors Report Covers:

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

## Shares Soar on Solar Hype, Insiders Dump Holdings MEMC Electronic Materials Inc. (NYSE:WFR) Update

November 15, 2007

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### Business Description

MEMC Electronic Materials, Inc. produces wafers for the semiconductor industry worldwide. The Company's product categories include polished wafers, such as OPTIA and annealed products; epitaxial wafer that contains AEGIS product; and test/monitor wafers. These wafers are used for the manufacture of various types of semiconductor devices, including microprocessor, memory, logic, and power devices ranging from 100 millimeters to 300 millimeters in diameter. The Company's semiconductor devices are used in computers, cellular phones and other mobile electronic devices, automobiles, and other consumer and industrial products. Its customers include semiconductor device manufacturers, including the memory, microprocessor, and applications specific integrated circuit manufacturers, as well as foundries in North America, Europe, Japan, and the Asia Pacific. MEMC Electronic Materials was founded in 1984 and is based in St. Peters, Missouri.

### Summary of 3DAdvisors Findings for WFR

- ▶ **Accounting:** Solar hype trumps earnings quality, other issues
- ▶ **Insider Trading:** Despite hype and bullish guidance, insiders keep selling
- ▶ **Accounting:** Effects of plant shutdown obfuscated, not fully known
- ▶ **Fundamentals:** New polysilicon capacity continues to be announced
- ▶ **Fundamentals:** Lower inventory may put continued spot market sales at risk
- ▶ **Fundamentals:** CEO seems to back away from long-term guidance

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### Discussion of 3DAdvisors Findings for WFR

As WFR continues to shed its image as a humble semiconductor wafer company, its metamorphosis into a key supplier of polysilicon to the super-frothy solar industry has it trading much like one of the white-hot solar stocks (see Figure 1 below). By positioning itself as a preferred supplier of polysilicon to the industry, and with global supplies tight and spot prices high, the company has not only shown strong earnings growth and margin expansion, but it has also managed to get itself swept up in the solar

stock mania. Indeed, it would seem that CEO **Nabeel Gareeb** has donned a suit with a big “S” on his chest as his company's shares have doubled from their levels at this time last year.

**Figure 1.** Percentage Change in the Closing Price of WFR Shares (Blue) and Suntech Power Holdings Co. Ltd. (Red) Since 11/01/06. Source: Reuters and 3DAdvisors, LLC.



The Company is not shy about continuing to hitch its future to the solar industry to drive the stock higher. Just minutes before it released Q3 earnings after the market close on 10/25/07, it simultaneously put out two separate press releases announcing new deals to supply polysilicon to Conergy of Germany, and to expand its existing relationship with Gintech Energy Corporation of Taiwan. The value of the two deals was placed at between \$8 and \$9 billion over a 10-year period. Never mind the fact that results for the quarter that they released at the same time showed that margins slipped, earnings would have been missed were it not for a one-time gain recorded under “Other Income” and the Company offered to only meet its previously reduced revenue guidance. WFR rallied more than 20% over the next two sessions on heavy volume, more in response to the new solar deals than to the quarterly results. Almost immediately on the rally, insiders sold a significant number of WFR shares, including CEO Gareeb. Since then, investors seem to have largely ignored the fact that Conergy has fallen nearly 50% after lowering guidance, and disclosing new financing to relieve an acute liquidity crisis and that its CEO was departing within a week.

Since our full report on the Company on [02/13/07](#), and subsequent updates on [05/30/07](#) and [09/21/07](#), it has become increasingly evident, however, that a finish line is getting closer with regards to the Company's competitive advantage in the polysilicon arena as an ever-increasing number of players continue to enter the picture with plans to produce the stuff. This inconvenient truth creates a more-than-interesting picture for WFR shares, as they not only have been launched out of their typical semiconductor orbit on the solar hype, but also continue to be aggressively sold by Company insiders.

### Accounting: Solar hype trumps earnings quality, other issues

By its Q307 earnings release, it was quite clear WFR had managed to de-couple itself from the rest of the semiconductor industry as there was little in that period's results to justify the rally that ensued on the earnings news. In fact, there were a number of earnings quality issues. Margins had been compromised due to the third quarter shutdown of the Company's key polysilicon manufacturing facility in Pasadena, Texas. Earnings guidance would not have been met without the mark-to-market gains on warrants in Suntech shares, held by the Company, which added \$0.03 per share and was not included in previous guidance. The Pasadena facility shutdown caused WFR to significantly draw down its polysilicon inventories in order to fulfill orders, a situation that, by the Company's admission, will not be rectified soon and caused the first contraction in gross margins in over two years.

To add to these matters, on the very day of WFR's Q3 earnings release and conference call, Taiwan Semiconductor (TSMC) offered guidance (in its Q3 conference call) which, according to TSMC's CEO **Rick Tsai**, clearly indicated it would be reducing spending in 2008: "Our current expectation for CapEx in 2008 will be significantly lower than the CapEx in 2007. We believe this capital investment will allow us to support the business growth in 2008."

As a major semiconductor manufacturer, any sign of a slowdown in the industry by a player as large as TSMC would normally not have been good news for WFR. The disclosure had no negative effect whatsoever when, as mentioned above, WFR's shares proceeded to rally to all-time highs by virtue of the fact that the Company had strategically chosen to announce, on the same day as its earnings release, the signing of a 10-year Conergy deal referred to above. Soon on the heels of the announcement, however, Conergy shares began to implode as that company was forced to raise \$146 million to fill a "short-term shortfall" in liquidity and that its CEO would step down in just one-week's time. The liquidity crunch and related concerns caused three major European investment houses to cut their recommendations on the shares to "Sell", hardly a good set of developments with regards to WFR's long-term deal with Conergy. But investors seemed unwilling to discount the WFR-Conergy deal that had just been announced.

### Insider Trading: Despite hype and bullish guidance, insiders keep selling

Despite investor excitement over the recently announced solar deals and management's bullish statements during conference calls and analyst meetings, insiders continue to sell off stock at an impressive rate. In fact, there are few companies that we can point to where related insiders have taken advantage of rallies they have helped orchestrate more than WFR. So correlated is their selling with each rally they have induced it has been a matter of days before we would witness someone taking advantage of the situation by unloading large chunks of his holdings. In fact, the behavior has become highly predictable. That Nabeel Gareeb is counted among this group and has shown such little restraint is highly unusual for a CEO, and it is not lost on us that Gareeb is consistently bullish while selling off big chunks of his holdings, including acting on sizable blocks of options as soon as they vest. Making matters more

interesting is the manner by which he has used his 10b5-1 plan to obfuscate the fact that he has effectively dumped nearly his entire holdings during the year.

Recent sellers include:

- **Nabeel Gareeb (42)** – President, Chief Executive Officer, Director. While investors might have been mollified by an MEMC press release<sup>1</sup> on January 31<sup>st</sup> announcing the 10b5-1 plan adoption of CEO Gareeb, we are still not buying into its validity. That long-winded release fell short of supplying any meaningful details pertaining to his diversification plans, and the clichéd “estate planning” justification provided is a little too incongruous for someone his age. While the release did craftily state that in addition to his trading plan sales, Gareeb would be selling 10% of his outstanding options (read: vested and unvested) as well, it deliberately failed to communicate the more relevant, which is that he would cash in 95% of his actionable holdings in 2007. After selling 950,000 shares in May at \$57, Gareeb sold another 250,000 shares on November 2<sup>nd</sup> at \$69.98, monetizing every last available option during both rounds just days after their vesting date. He has effectively hedged all exposure to WFR shares, but will have another 862,500 options become actionable in 2008 (see Appendix A). Based on past behavior, we anticipate he will swiftly sell these under his existing trading plan when they become available.
- **John Kauffmann (50)** – Senior V.P., Sales, Customer Service and Marketing. Kauffmann, the most veteran WFR employee in the executive office (1980), has been on a torrid selling spree since July, when he commenced selling under a 10b5-1 sales plan entered into in November 2006. On July 26<sup>th</sup> he monetized all his available options, tapping into eight different series with expiration dates no earlier than January 2013. He sold 39,000 on that date, and then cleared out 70,000 options on September 4<sup>th</sup> that had vested three days earlier. Kauffmann would surface yet again on October 29<sup>th</sup> just one business day after a new batch of options became actionable. He immediately sold all 37,500 for \$72.50, which translates to 96% of his ownership having been sold year-to-date. It does not seem to be a coincidence this sale occurred just days after WFR shares gapped up on the announcement of the Conergy solar wafer agreement. We have to suspect governance watch dogs would have a less than favorable opinion about his opportunistic 10b5-1 sales. Kauffmann will see nearly 80,000 options and shares become actionable by year-end 2008 (see Appendix A).
- **Sean Hunkler (44)** – Senior V.P., Manufacturing. Hunkler joined WFR in August 2005 (from Freescale Semiconductor) and thus far has only vested in his new-hire option grant and a much smaller award from 2006. After selling 50,000 shares in November 2006, he surfaced once again on October 29<sup>th</sup>, just two days after the Q3 earnings release, to sell another 50,000 shares at \$73. This sale covered 99% of his actionable position, which is now comprised of just a few thousand vested options since he does not hold any common. Hunkler will have 10,000 options and restricted shares vest in January and then will gain access to another 58,000 in 3Q08 (see Appendix A).

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<sup>1</sup> “MEMC CEO Files 10b5-1 Plan”, PRNewswire-First Call, January 31, 2007. The same information can be found in an SEC 8-K filed on the same date.

- **Bradley Kohn (38)** – V.P., General Counsel. Kohn’s trading behavior is identical to Hunkler’s, as he joined the Company in September 2005 and to date has only vested in his initial new-hire award and a lesser 2006 grant. He cleared out the first 25,000 from his new-hire options in November 2006 and then more recently sold another 25,000 on November 5<sup>th</sup> under a trading plan entered in to in July. All that remains are a few vested options since he is yet to acquire any common stock, which translates to a 99% ownership reduction year-to-date. His ownership will be replenished in 2008 by the 33,000 options and shares scheduled to vest (see Appendix A), but with the trading plan in place, we suspect he will be selling these as well.

**Figure 2.** WFR Daily Closing Price, 11/01/06 through 11/13/07. Red diamonds are the dates where TPG most recently sold shares. Source: Reuters and TPG SEC Filings.



- **Texas Pacific Group (TPG)** – TPG, MEMC’s principal shareholder since 2001, opened the year holding 36.6 million shares (16.5%). They first sold 20 million shares on February 7<sup>th</sup> at \$53, just nine business days after WFR gapped up 20% on 4Q06 earnings. They would then sell 11.9 million shares in a private transaction with Citigroup Global Capital Markets on May 14<sup>th</sup>, receiving \$60.70 per share. This sale occurred 12 business days after Q1 earnings were released. The delay period between Q3 earnings and their most recent sale narrowed considerably, as two Form 144 filings disclosed the planned distribution of 2.7 million shares on October 29<sup>th</sup>, just two trading days after the earnings release, and subsequent rally. In similar fashion to WFR’s executives, TPG trimmed its holdings by 95% during the course of the year and currently owns 1.9 million shares, or less than 1% of the outstanding stock.

While the above sales describe those of recently-active insiders, the table below shows an expanded view of the holdings reductions of the Company’s executive group during the year. We are struck by the magnitude of the reductions that have occurred

during the course of the year and our best comment on this is that it should serve as a strong caveat to those who think WFR shares have a long way to go from here - on the upside, that is.

Executive	Position	% Holdings Sold Year-to-Date
N. Gareeb	President, Chief Executive	95%
M. Cabrera	Head of Human Resources	100%
M. Cheles	Chief Information Officer	100%
S. Hunkler	Head of Manufacturing	99%
J. Kauffmann	Head of Sales and Marketing	96%
B. Kohn	General Counsel	99%

\* CFO Ken Hannah and the Head of R&D, Shaker Sadasivam, are the only Section 16 officers yet to sell in 2007.

#### Accounting: Effects of plant shutdown obfuscated, not fully known

Though Gareeb and his lieutenants continue to carefully describe the cold shutdown of the Company's main poly manufacturing facility (Pasadena, Texas) specifically as a "discrete event", one is left to wonder about its lingering effects. The original damage control estimates for the duration of the shutdown was one week's time. Clearly, by the third quarter release, it became evident that this took longer, although the Company would not explain just how long. A bit more clarification of the actual downtime was disclosed in the SEC Form 10-Q for the period which described it as costing the Company "well over a week's worth of Polysilicon production".

The Company now discloses that it has returned to "Steady State" production levels and is still on track for not only meeting its contractual commitments but also for its expansion plans to push its polysilicon production to its targeted 6,000 metric tons by year end (8,000 by the end of 2008). Having said this, the Company had to disclose the fact that it had significantly drawn down its polysilicon inventories in order to meet its commitments during the quarter during the plant shut down. From the Q307 conference call transcript [bolding is ours]:

**As we ramped the plant, there were complications that prevented us from recovering to our desired run rates in the planned manner and timetable. We were able to approximately meet the pre-announced revenue targets in part by drawing down inventory, however, the lower than anticipated poly production resulted in lower utilization at our wafer manufacturing sites, thereby impacting our gross margin to a greater than anticipated extent. We have recovered from this discrete event to a steady state rate of production and are pleased that we are targeting to achieve the level of Q4 revenue targeted prior to the**

**construction incident and able to recover some of the loss revenue from Q3. In addition, we have made no change to our target of achieving 2007 year end polysilicon capacity of over 6,000 metric tons per year.**

It would seem that Gareeb is implying that the costs of the shutdown have been contained and that the Company will be able to hit its pre-shutdown targets for the year, in spite of the problem. We are left to wonder: Disclosure of the actual effects of the Pasadena plant shutdown, however, both from lost revenues and additional costs, has been minimal at best. The amount of the inventory decline that can be ascribed to a draw down of finished goods to support sales and the amount of the work in process drop that was due to the inability to get material flowing through the system make it unclear how much working capital will have to be devoted to inventory going forward.

Such minimal disclosure leaves open the question of whether all of the costs related to the explosion and subsequent power outage have been recognized in operating costs or if a significant amount may still be held in suspense accounts on the balance sheet in expectation of insurance recovery or other reimbursement from the contractor. The potential for additional costs affecting the fourth quarter surely exists. Better disclosure would have negated the uncertainty.

To this we would submit that, when prompted, Gareeb has declined providing any detail as to whether there may be either business interruption insurance or recourse from the contractor in order to mitigate any costs. It could be that Gareeb is hoping for some sort of recourse. From the Q307 conference call:

**Analyst:** If I can fit in a short one, does the electrical contractor that made the mistake have insurance that will allow you to maybe some type of claim on the your Q3 variance, versus your plan?

**Nabeel Gareeb, President and CEO:** Yes, I wouldn't feel comfortable commenting on that as it may be a litigious issue.

It would seem that should recourse not be forthcoming, the possibility exists that WFR may have to recognize additional shutdown-related costs which could put its full-year targets in jeopardy.

#### Fundamentals: New polysilicon capacity continues to be announced

We have been following announced plans for capacity additions around the world and provided detailed accounting of these announcements in our most recent update reports on [05/30/07](#) and [09/21/07](#). Between these two updates alone, barely four months apart, we noted that announcements in this time period suggested capacity would increase an additional 14,000 metric tons (mt) in 2008 and over 26,000 mt by 2009. Since our September update, we have picked up the following additional announcements of planned capacity additions. Appendix B is the version of the table from our September update that does not include the figures below:

- ➡ Nitol Solar is a chemical company that is in the process of building a plant with planned capacity of 3,700 mt by 2009. Nitol already produces commercial quantities

of trichlorosilane gas, a key material in the production of polysilicon. This seems to be one of the first moves by a Russian manufacturer.

- ➡ **DALU Polysilicon Company, Ltd.** In a press release dated 10/09/07, it was announced that DALU had a ground breaking ceremony celebrating its plans to build a polysilicon production plant in Hohhot, China. DALU plans to build an 18,000 mt plant. Initial production will be 2,500 mt, but it was not disclosed when this production is expected to come online. This is a huge announcement as the Chinese continue to jump into the polysilicon market with both feet.

How long the Company can drive its results with spot sales of polysilicon will depend on how long the current supply shortage will last. The debate is not whether additional supply is coming online, which will ultimately cause prices for silicon to come down, but rather when the supply is coming online. The Company regularly dismisses the impact of such efforts, but the trading behavior of key insiders suggests to us that they too believe the days of selling poly at a premium will be over sooner rather than later.

#### Fundamentals: Lower inventory may put continued spot market sales at risk

With the large spreads between contract and spot price for polysilicon, it is no secret that WFR margins have benefited significantly from its previous levels of spot sales. With the shutdown of the Pasadena plant, however, and the related inventory drawdown, it very much seems that spot sales are not only on hold but will remain as such for the foreseeable future:

**Analyst:** Two things here. Somehow your inventories have gone down even further. I wasn't sure if you based the operating hand-to-mouth to meet your contractual agreements.

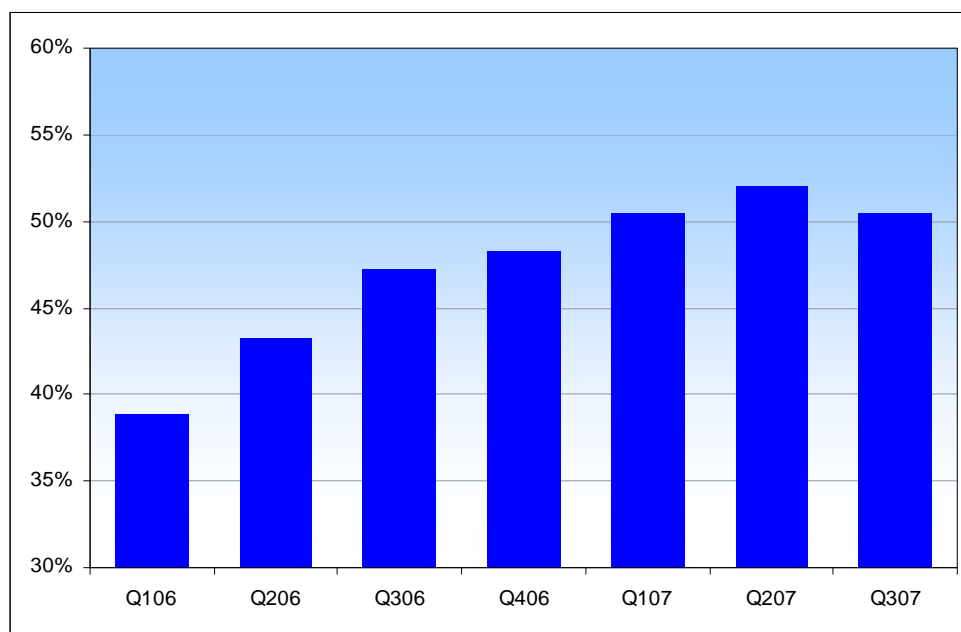
**Nabeel Gareeb, President and CEO:** Yes, basically like I said in the prepared remarks that we were able to -- we used -- we drew down inventory to basically, approximately meet the revenue figure, given the shortfall in poly production, and obviously that had an impact on our wafer manufacturing facility utilization and that affected our gross margins as well. Obviously now we are back to steady state and we don't anticipate doing that and perhaps hopefully building a little bit.

**Analyst:** I guess going forward over the next few quarters, are you planning on rebuilding some inventory or should we expect them at these low levels?

**Nabeel Gareeb:** There's the opportunity to certainly rebuild some but not to the level that we used to have. If I can flush inventory out of factory and keep them operating at a lean level, that's actually preferred to me.



**Figure 3.** WFR Gross Margin Percent, Q106 through Q307. Source: WFR SEC Filings.



As a result of the plant shut down, which was originally estimated to last only one week, the Company did in fact see its margins contract sequentially for the first time in over two years by 150 basis points, to 50.5% (see Figure 2 above). We also note that as the Company continues to commit more and more of its capacity in long-term deals to provide solar manufacturers with silicon, it reduces the amount of polysilicon it can sell in the spot market. In the Q3 conference call, the company said it was still expecting to increase its own capacity to 6,000 mt per year by the end of 2007.

#### Fundamentals: CEO seems to back away from long-term guidance

We have always been quite skeptical of WFR's long-term forecast, introduced early this year as the outline for the Company's "Phase II" plan since being on the verge of bankruptcy in 2001. The aggressive plan, interestingly devoid of detail, stated long term targets for between \$3 and \$4 billion in annual revenues and non-GAAP EPS of between \$5 and \$7 by the end of a "two to three year period". WFR shares gapped higher in late January on the unveiling of these goals and have traded higher since. To this it is interesting to note that insider sales also surged along with the shares, led by none other than Gareeb himself (see details on similar trading behavior immediately following bullish company announcements below).

There have been numerous attempts by analysts to get more granularity on how WFR plans to hit those long-term numbers but the Company continues to offer limited detail. As of this writing there has been no attempt to offer any kind of forecast for 2008. Indeed, a statement made by Gareeb during the Company's Q307 conference call strongly implies that he is hesitant to reaffirm his original long-term guidance:

**Analyst:** And my final question, are you still on target with the long-term earnings model of \$5 to \$7 with \$3 to \$4 billion for revenues in the 2010-2011 time frame?

**Nabeel Gareeb:** I will tap dance around that. If I respond affirmatively or negatively, it will be reconfirming guidance or whatever it's called, I forget. So fundamentally you can do the math on deals on the growth rate, et cetera. I think we are in pretty decent shape.

If Gareeb had any confidence the long-term model previously announced could be achieved, we suspect he would welcome the chance to say they are still on target. After all, such has been his style. Being "in pretty good shape" is a far cry from being on target.

Gareeb certainly telegraphs that inventory was drawn down in Q3. He also strongly implies that he plans to keep polysilicon spot sales flat:

**Analyst:** Can you give us a sense of whether your sale of poly spot market, will that remain approximately constant as you look at '08?

**Nabeel Gareeb:** We haven't provided '08 guidance so I don't know that I would feel comfortable commenting on that, but the goal, certainly as we articulated earlier this year and have presented in our conferences, etcetera, is to keep poly flattish, spot poly sales relatively flattish so that the growth primarily occurs from the 156-millimeter and the 300-millimeter engines.

Based on recent inventory drawdown, however, it would seem that WFR's ability to sell into the spot market has been steadily eroding and the drawdown did not necessarily begin during Q3. At 12/31/06, Inventories were at \$80 million. By Q1 of 2007 they had dropped to \$67 million, then again to \$59 million by Q2 (06/30/07). By Q3, the quarter of the drawdown due to the plant shutdown, they had dropped to just \$45 million. Given the amount of contract sales WFR is committed to, it would seem that the prospect for lucrative spot sales, the likes of which have inured to the bottom line in past periods, may have dimmed dramatically.

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## Appendix A

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
<b>Mignon Cabrera, Senior V.P.-Human Resources. Common stock holdings: 0 shares</b>								
08/28/06	Options	200,000	\$36.78	08/28/07	08/28/16	175,000	175,000	25,000 vest in 8/08, 8/09; 125,000 vest in 8/10
01/24/07	R. Stock	6,000	N/A	01/24/08	01/24/11	6,000	6,000	01/24/08, 01/24/09, 01/24/10, 01/24/11
07/24/07	Options	12,000	\$58.31	07/24/08	07/24/17	12,000	12,000	07/24/08, 07/24/09, 07/24/10, 07/24/11
<b>Michael Cheles, V.P.-Information Technology, Chief Information Officer. Common stock holdings: 0 shares</b>								
09/05/06	Options	200,000	\$38.50	09/05/07	09/05/16	175,000	175,000	25,000 vest in 9/08, 9/09; 125,000 vest in 9/10
01/24/07	R. Stock	6,000	N/A	01/24/08	01/24/11	6,000	6,000	01/24/08, 01/24/09, 01/24/10, 01/24/11
07/24/07	Options	12,000	\$58.31	07/24/08	07/24/17	12,000	12,000	07/24/08, 07/24/09, 07/24/10, 07/24/11
<b>Nabeel Gareeb, President, Chief Executive Officer, Director. Common stock holdings: 100,000 shares</b>								
04/27/04	Options	150,000	\$8.45	04/27/05	04/27/14	37,500	37,500	04/27/08
05/02/05	Options	150,000	\$11.93	05/02/06	05/02/15	75,000	75,000	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	750,000	750,000	10/25/08, 10/25/09, 10/25/10
10/25/06	Options	1,000,000	\$37.01	<sup>1</sup>	10/25/16	1,000,000	1,000,000	<sup>1</sup>
<b>Ken Hannah, Senior V.P., Chief Financial Officer. Common stock holdings: 4,432 shares</b>								
04/26/06	Options	350,000	\$41.57	04/26/07	04/26/16	350,000	306,250	04/26/08, 04/26/09, 04/26/10
04/26/06	R. Stock	52,500	N/A	04/26/07	04/26/10	45,938	45,938	<sup>2</sup>
01/24/07	R. Stock	10,000	N/A	01/24/08	01/24/11	10,000	10,000	01/24/08, 01/24/09, 01/24/10, 01/24/11
04/25/07	Options	50,000	\$67.43	04/25/08	04/25/17	50,000	50,000	04/25/08, 04/25/09, 04/25/10, 04/25/11
<b>Sean Hunkler, Senior V.P.-Manufacturing. Common stock holdings: 0 shares</b>								
08/15/05	Options	200,000	\$18.05	08/15/06	08/15/15	100,000	100,000	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	10,350	07/25/08, 07/25/09, 07/25/10
01/24/07	Options	20,000	\$45.70	01/24/08	01/24/17	20,000	20,000	01/24/08, 01/24/09, 01/24/10, 01/24/11
01/24/07	R. Stock	20,000	N/A	01/24/08	01/24/11	20,000	20,000	01/24/08, 01/24/09, 01/24/10, 01/24/11
07/24/07	Options	20,000	\$58.31	07/24/08	07/24/17	20,000	20,000	07/24/08, 07/24/09, 07/24/10, 07/24/11



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<b>John Kauffmann, Senior V.P.-Sales, Customer Service and Marketing. Common stock holdings: 5,500 shares</b>								
01/26/04	Options	30,000	\$10.85	01/26/05	01/26/14	7,500	7,500	01/26/08
07/26/04	Options	6,200	\$8.09	07/26/05	07/26/14	1,550	1,550	07/26/08
10/27/04	Options	150,000	\$9.43	10/27/05	10/27/14	37,500	37,500	10/25/08
02/16/05	Options	10,000	\$11.63	02/16/06	02/16/15	5,000	5,000	02/16/08, 02/16/09
07/26/05	Options	20,000	\$17.65	07/26/06	07/26/15	10,000	10,000	07/26/08, 07/26/09
01/25/06	Options	18,300	\$25.66	01/25/07	01/25/16	13,725	13,725	01/25/08, 01/25/09, 01/25/10
07/25/06	Options	11,900	\$29.73	07/25/07	07/25/16	8,925	8,925	07/25/08, 07/25/09, 07/25/10
01/24/07	Options	20,000	\$45.70	01/24/08	01/24/17	20,000	20,000	01/24/08, 01/24/09, 01/24/10, 01/24/11
01/24/07	R. Stock	15,000	N/A	01/24/08	01/24/11	15,000	15,000	01/24/08, 01/24/09, 01/24/10, 01/24/11
07/24/07	Options	20,000	\$58.31	07/24/08	07/24/17	20,000	20,000	07/24/08, 07/24/09, 07/24/10, 07/24/11
<b>Bradley Kohn, V.P., General Counsel. Common stock holdings: 0 shares</b>								
09/18/05	Options	100,000	\$19.88	09/18/06	09/18/15	50,000	50,000	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	4,425	07/25/08, 07/25/09, 07/25/10
01/24/07	R. Stock	15,000	N/A	01/24/08	01/24/11	15,000	15,000	01/24/08, 01/24/09, 01/24/10, 01/24/11
01/24/07	Options	12,000	\$45.70	01/24/08	01/24/17	12,000	12,000	01/24/08, 01/24/09, 01/24/10, 01/24/11
01/24/07	R. Stock	6,000	N/A	01/24/08	01/24/11	6,000	6,000	01/24/08, 01/24/09, 01/24/10, 01/24/11
07/24/07	Options	13,000	\$58.31	07/24/08	07/24/17	13,000	13,000	07/24/08, 07/24/09, 07/24/10, 07/24/11
<b>Shaker Sadasivam, Senior V.P., Research and Development. Common stock holdings: 0 shares</b>								
01/24/03	Options	50,000	\$7.90	01/24/04	01/24/13	12,500	0	Fully Vested
07/25/03	Options	16,000	\$11.74	07/25/04	07/25/13	4,000	0	Fully Vested
01/26/04	Options	15,000	\$10.85	01/26/05	01/26/14	7,500	3,750	01/26/08
07/26/04	Options	12,100	\$8.09	07/26/05	07/26/14	6,050	3,025	07/26/08
10/27/04	Options	25,000	\$9.43	10/27/05	10/27/14	18,750	6,250	10/27/08
02/16/05	Options	25,000	\$11.63	02/16/06	02/16/15	18,750	12,500	02/16/08, 02/16/09
07/26/05	Options	40,000	\$17.65	07/26/06	07/26/15	30,000	20,000	07/26/08, 07/26/09
01/25/06	Options	18,300	\$25.66	01/25/07	01/25/16	18,300	13,725	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	9,300	07/25/08, 07/25/09, 07/25/10
01/24/07	Options	20,000	\$45.70	01/24/08	01/24/17	20,000	20,000	01/24/08, 01/24/09, 01/24/10, 01/24/11



## Appendix A

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
01/24/07	R. Stock	15,000	N/A	01/24/08	01/24/11	15,000	15,000	01/24/08, 01/24/09, 01/24/10, 01/24/11
07/24/07	Options	20,000	\$58.31	07/24/08	07/24/17	20,000	20,000	07/24/08, 07/24/09, 07/24/10, 07/24/11

<sup>1</sup> 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 performance criteria are met.

<sup>2</sup> 26,250 restricted stock units vest in 25% increments on April 26, 2007, April 26, 2008, April 26, 2009 and April 26, 2010, respectively. The remaining 26,250 restricted stock units become exercisable on April 26, 2010.

## Appendix B: Worldwide Polysilicon Production Estimates (Metric Tons)

Comparison of May '07 Forecast with September '07 Forecast

Company	Est. Date	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E
Hemlock	May07 Estimate	7,000	7,400	10,000	10,000	15,000	18,000	18,000	N/A
	Sep07 Estimate	7,000	7,400	10,000	10,000	15,000	18,000	36,000	36,000
	<b>Inc. May to Sep</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>18,000</b>	N/A
Wacker/Siltronics	May07 Estimate	5,000	5,000	5,500	6,500	10,000	14,500	14,500	N/A
	Sep07 Estimate	5,000	5,000	5,500	6,500	10,000	14,500	21,500	21,500
	<b>Inc. May to Sep</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,000</b>	N/A
REC (ASiMI and SGS)	May07 Estimate	4,800	5,400	6,000	7,200	10,700	13,000	13,000	N/A
	Sep07 Estimate	4,800	5,400	6,000	7,200	10,700	13,000	19,000	19,000
	<b>Inc. May to Sep</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,000</b>	N/A
Tokuyama	May07 Estimate	4,800	5,200	5,400	5,400	8,400	8,400	8,400	N/A
	Sep07 Estimate	4,800	5,200	5,400	5,400	8,400	8,400	8,400	8,400
	<b>Inc. May to Sep</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	N/A
MEMC (Pasadena & Italy)	May07 Estimate	3,700	3,700	3,700	4,000	8,000	8,000	8,000	N/A
	Sep07 Estimate	3,700	3,700	3,700	4,000	8,000	8,000	15,000	15,000
	<b>Inc. May to Sep</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,000</b>	N/A
Mitsubishi	May07 Estimate	2,800	2,800	2,800	3,800	3,800	3,800	3,800	N/A
	Sep07 Estimate	2,800	2,800	2,800	3,800	3,800	3,800	3,800	3,800
	<b>Inc. May to Sep</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	N/A
Sumitomo Titanium	May07 Estimate	700	700	1,000	1,500	2,000	2,000	2,000	N/A
	Sep07 Estimate	700	700	1,000	1,500	2,000	2,000	2,000	2,000
	<b>Inc. May to Sep</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	N/A
Elkem (Norway)	May07 Estimate	0	0	0	2,500	5,000	5,000	10,000	N/A
	Sep07 Estimate	0	0	0	2,500	5,000	5,000	10,000	10,000
	<b>Inc. May to Sep</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	N/A
Total China & New Ent.*	May07 Estimate	0	130	300	1,250	3,300	3,300	5,500	N/A

## Appendix B: Worldwide Polysilicon Production Estimates (Metric Tons)

Comparison of May '07 Forecast with September '07 Forecast

Company	Est. Date	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E
	Sep07 Estimate	0	130	300	1,250	17,300	29,850	33,000	37,460
	<b>Inc. May to Sep</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>14,000</b>	<b>26,550</b>	<b>27,500</b>	N/A
Total Capacity	May07 Estimate	28,800	30,330	34,700	42,150	66,200	76,000	83,200	N/A
	Sep07 Estimate	28,800	30,330	34,700	42,150	80,200	102,550	148,700	153,160
	<b>Inc. May to Sep</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>14,000</b>	<b>26,550</b>	<b>65,500</b>	N/A
% Inc from Prior Year (May07 Est.)			5.3%	14.4%	21.5%	<b>57.1%</b>	<b>14.8%</b>	9.5%	
% Inc from Prior Year (Sep07 Est.)			5.3%	14.4%	21.5%	<b>90.3%</b>	<b>27.9%</b>	45.0%	

### \* China & New Entrants

M. Setek	0	0	0	0	5,000	5,000	5,000	5,000
DC Chemical	0	0	0	0	3,000	3,000	3,000	3,000
PV Crystalox	0	0	0	0	0	1,800	1,800	1,800
HyCore	Details to be Announced							
LDK Solar					6,000	15,000	15,000	15,000
Other China	0	130	300	1,250	3,300	5,050	8,200	12,660
Total	0	130	300	1,250	17,300	29,850	33,000	37,460