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

- Biogen Idec Inc. (NASDAQ: BIIB)
- Bunge Limited (NYSE: BG)
- Darling International Inc. (NYSE: DAR)
- J.B. Hunt Transport Services Inc. (NASDAQ: JBHT)
- J. Crew Group Inc. (NYSE: JCG) ⬆
- MEMC Electronic Materials Inc. (NYSE: WFR)

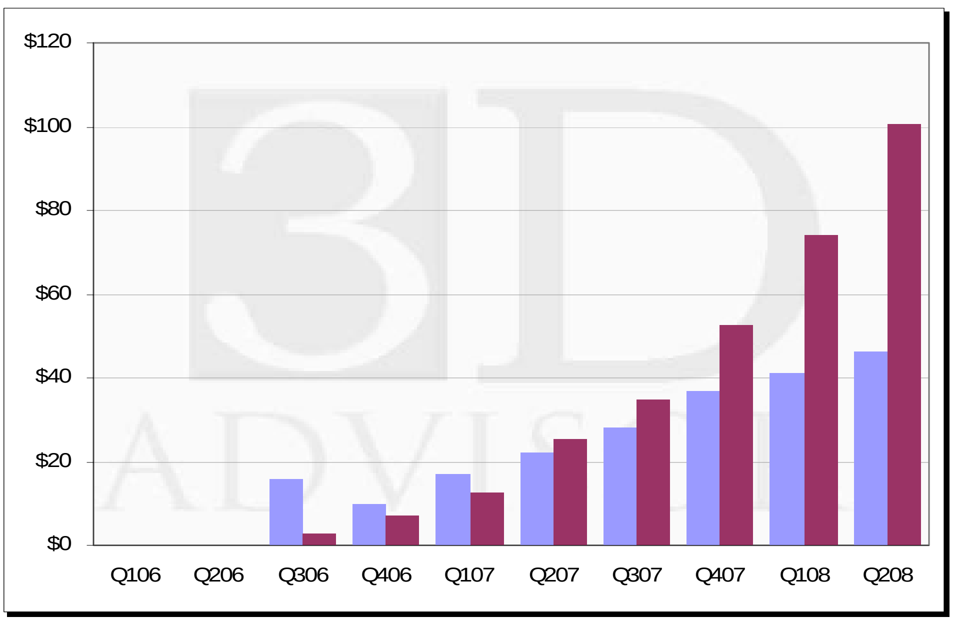
3DAdvisors Research Notes

Biogen Idec Inc. (NASDAQ: BIIB)

- Allow us to say this right at the start: Biogen Idec insiders continue to top our list of the most opportunistic and egregious 10b5-1 sellers we have followed. Going back three years, Biogen's managers have either sold stock while in possession of, or while there was the appearance of having non-public information, which when disseminated, resulted in the loss of billions in market value. For the past few years Biogen insiders' sales have been part of 'pre-arranged' 10b5-1 trading plans which are in theory designed to restrict an executive from attempting to influence how, when, or whether transactions are made pursuant to the plan. In other words, the plan determines when trades take place, not the executive. Yet, as we have pointed out in a number of 3DAdvisors reports (see 11/05/07 and 04/25/08), our research shows a strong correlation between Company-sponsored news-related rallies and the execution of insider sales. This update is being issued to stress the most recent example of their timely profit taking which preceded the Company's disclosure that there were two new confirmed cases of progressive multifocal leukoencephalopathy (PML), a rare and potentially fatal brain disease, in patients being treated with TYSABRI.

- At 5:15 p.m. EST on Thursday, July 31st, Biogen issued an SEC Form 8-K disclosing the Company, and its collaboration partner, Elan Corp., plc (NYSE: ELN), notified the appropriate regulatory agencies that two multiple sclerosis patients in Europe being treated with TYSABRI developed PML. While it was deemed important enough to issue a press release ten days earlier announcing the two-year anniversary of the re-launching of TYSABRI, no press release was issued for the new PML cases. The shares, which closed the Thursday session at $69.76, opened the following morning (08/01/08) at $51.66 and would close at $50.01, resulting in a loss of more than $6 billion in market capitalization. Company management held a conference call the following morning and made it very clear they felt the market overreacted to the news. It was pointed out seven different times on the call, including President of R&D **Cecil Pickett's** third sentence of his opening remarks, that it "is clearly stated in the label, we expect to see cases of PML".

Figure 1. International (Red Bars) and Domestic (Blue Bars) Quarterly Sales of TYSABRI, Q106 through Q208, Millions of $. Source: BIIB SEC Filings.



- Whether or not it is included on the label is irrelevant at this point, as TYSABRI is Biogen's fastest growing drug and the primary driver behind Biogen shares (see Figure 1 above). And with 66% of TYSABRI's sales in the first half of 2008 coming from international markets, and international sales growth outpacing domestic sales growth over the past four quarters, two PML cases in the EU could be detrimental to Biogen's ability to not only maintain these growth rates, but hit the 100,000 patient target in 2010 that it has all but guaranteed. There are a number of unanswered questions that remain, such as when exactly management became aware of these PML cases, but of greater magnitude to the stock's, and ultimately the Company's, direction is how many more potential PML cases are out there. One well written financial media article[1] posted on 08/01/08 disclosed 12 suspected cases of PML

[1] Trotta, Elizabeth. "Unconfirmed PML Cases Dent Biogen, Elan." TheStreet.com August 1, 2008.

involving TYSABRI patients detailed in the U.S. Food and Drug Administration's Adverse Event Reporting System database. As the analyst exchange below substantiates, management refused to address the topic of suspected cases on the call (before the data were published in the article above), increasing the skepticism amongst the call participants.

> **Analyst 1:** Just a question, could you give us any sense of the numbers of patients who have been through part of the diagnostic workup for PML, but may not constitute a confirmed case by the three criteria? It is clear that one of these patients had treatment for PML initiated even before they had a JC virus DNA. And I think it would be useful for all of us to know what those patient numbers are. Thank you.
>
> **Elizabeth Woo, V.P. of Investor Relations:** As you know, doctors are encouraged to report any suspect cases of PML to us. So we do get cases like that, but these are only the first two cases of confirmed PML that have occurred since the launch of TYSABRI in the past two years. We don't actually comment on specific numbers that have been reported to us.
>
> **Analyst 2:** My question is somewhat related. Can you give us any sense as to how many cases have fallen into the category of being suspected and turned out not to be PML? And then what is the time lag between reporting of a suspected case and the resolution as to whether or not it is PML?
>
> **Al Sandrock, Senior V.P. of Neurology R&D:** I think we already answered that question. We're not going to comment on the number of suspected cases that get reported to us.

- This brings us back to the insider activity that transpired last month. **More shares came out in July than in all but 3 of the past 50 months, with ten Biogen insiders selling a total of 341,244 shares at an average price of $66**. Included in this total are 201,000 shares sold under ‘pre-arranged’ trading plans on 07/22/08, the day the issue gained 7% on the Q2 earnings release. Once again we are left to wonder how this many officers, all trading under their own unique (based on their respective personal diversification needs) and separate plans, auspiciously executed sales on the same date, and in certain cases, caught intraday highs. We have broken down the historical 10b5-1 sales to attempt to identify the formulas or criteria used to direct the trade timing since the Company abruptly discontinued all 10b5-1 transparency back in March 2006. We are still unable to find any. For example, we suspected earlier that certain individuals had plans instructing the brokers to sell on earnings release dates or even positive earnings surprises. This is not possible since none of the six executives who sold on 07/22/08 had traded on any of the previous six quarterly release dates (five have ongoing sales plans in place). What’s more, none of the six above has traded together on dates the shares gapped up on non-earnings news either.

- It stands to reason some of these officers had knowledge of the PML cases at the time of their sales. The timing and history of this behavior at Biogen is too much to leave to coincidence. As it was reported in the SEC Form 8-K and also recited word for word by **Al Sandrock**, head of Neurology R&D, on the conference call, the first case of PML involved a patient who was being clinically evaluated for an undisclosed period before the final "confirmed" status was applied on 07/30/08. As the conference call exchange below indicates, there was also advance notice of PML in the second case as well. The conference call transcript has other references to the Company closely monitoring suspect cases, so it is highly unlikely these two new PML cases came as a surprise to Biogen management, it just depends who exactly was 'in the know'. If we had to guess, Executive V.P. **Robert Hamm**, head of Pharmaceutical Operations and Technology, might have had an idea when he monetized his entire position on 07/22/08. Hamm exercised every last vested option at his disposal from eight different series with expiration dates ranging from December 2010 to February 2017. Included were options from two different series (expiration dates: December 2009 and February 2015) which yielded profits of 3.5% and 12% when sold. To put this 156,086 share sale into perspective, Hamm's last five 10b5-1 sales between February 2007 and April 2008 averaged 4,000 shares per trade. For those still questioning his knowledge of this development, keep in mind Hamm headed up the Neurology business unit from January 2006 to October 2007 and was the TYSABRI point man on each quarterly earnings call until his reassignment. It would be naïve to think he was not consulted.

> **Analyst:** My question is, you mentioned that in the second case of confirmed PML, the patient actually presented with symptoms two months before. Was any CSF testing done at that time? And do you think at that time the JC virus was already harbored in the patient?
>
> **Al Sandrock, Senior V.P. of Neurology R&D:** Yes. The patient -- from what we understand, the patient developed left hemiparesis over the course of two months. We know about the CSF testing that was done in July, so we don't know anything more. We don't know whether there was one before that or what else was done. We are reporting to you what we know as of yesterday.
>
> **Analyst:** Then as a follow-up, do you expect more patients to present with symptoms in the next two months then?
>
> **Al Sandrock:** I would rather not speculate on that. As we restated before, the risk of PML is clearly stated in our label. Every patient in the United States before they start TYSABRI is made aware of the risk of PML. And they sign something that they understand that risk. And so every patient is aware of that risk. And clinical vigilance is certainly working, as we have seen in these two cases.
>
> **Cecil Pickett, President R&D:** As I mentioned in my introductory comments, I think as we have said in the past, and again that the regulatory agency FDA has said, and as Al pointed out, what is clearly in the label we expect to see cases of PML.

Figure 2. BIIB Daily Closing Price, 04/01/07 through 08/04/08. Red diamond is the date of the original 3DA full report; Yellow diamond is the date of the most recent 3DA update. Red shaded area is where 10 insiders sold 341,244 shares. Source: Reuters and BIIB SEC Filings.

- Also selling in July was another business unit head, **Faheem Hasnain** (Oncology/Rheumatology), who monetized all his vested in-the-money options (expiration dates: February 2016 and February 2017) and the majority of his common, selling 36,837 shares on 07/09/08. This sale, which eclipsed the sum of all shares previously sold under his 10b5-1 plans since 2006, erased 95% of his actionable holdings. His last plan disposition in April covered just 6,000 shares; further evidence there is little uniformity to his 10b5-1 activity. Two key officers who would, most likely, have received advanced notice of the PML news and also happened to make their first-ever sales on 07/22/08 were President R&D **Cecil Pickett** and Executive V.P., General Counsel **Susan Alexander**. Pickett, who headed up the July PML conference call, has been compensated with only restricted stock since joining the Company in 2006. Hence, his sale of 28,162 shares on 07/22/08 and 07/23/08 erased 40% of his beneficial ownership. Alexander similarly sold only her common, all 10,599 shares, leaving her options holdings intact. The stock sold accounted for 22% of her position. Just like the two above, we doubt Chief Operating Officer **Hans Peter Hasler** was unapprised of the PML data when he sold 30% of his holdings on 07/22/08.

<u>Bunge Limited (NYSE: BG)</u>

- Recent conversations with our Brazilian contacts have revealed increasing concern among farmers due to escalating fertilizer and other input prices and a resulting deterioration in farm economics. This stands in stark contrast to the comments made by Bunge CEO **Alberto Weisser** during the Q2 conference call:

> "The farm economics are fine for the farmers. The industry expects it still to grow 5% to 7% or 5% to 6%. That's the figures from ANDA. And the farm economics are good. We have to remember that for the expansion of the agricultural new land which we expect to happen something like around 5%, soybeans in Mato Grosso have to be at a level above $12.50 per bushel using CBOT. So, that's where the prices are above that level. So, we see continued very strong interest from the farmers to expand. "

The reality of the situation is that farmer economics are breaking down, especially in Mato Grosso (MT) where Bunge holds over $2 billion in paper representing receivables and farmer advances. The main culprit is the price of fertilizer which represents 50% of the farmers' costs at today's price levels (currently about $12.50/bushel). We now estimate the per bushel cost of inputs for the MT farmer to be about $10. The breakdown, provided by our contacts, is as follows:

Input	Cost/Bushel
Fertilizer	$5.00
Chemicals/Seed	$2.50
Fuel	$1.00
Labor	$1.00
Miscellaneous	$0.50
Total	$10.00

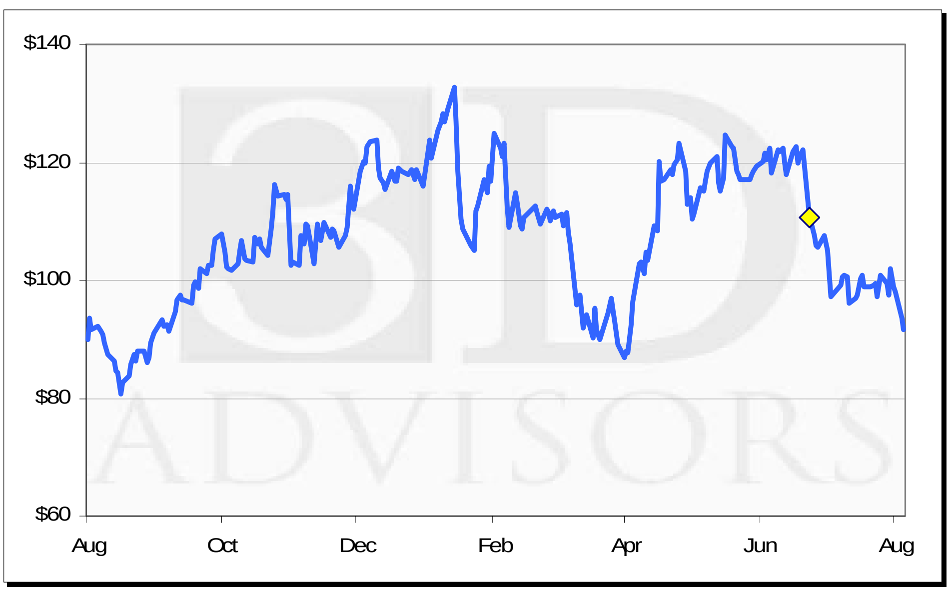
Note that the above are out-of-pocket cash expenditures and do not include depreciation, nor does it include the steep discount that farmers in infrastructure poor MT must accept for transportation costs that are estimated to be as high as $5.50 per bushel. The CBOT price of $12.50 from earlier this year quoted by Weisser above would mean that the farmer in MT can expect to get only $7.00 a bushel, way less than the total current estimated cost of inputs. One of our contacts, after seeing Weisser's comments, simply stated, "He must be smoking something".

- The practical implication of deteriorating economics is that Bunge will likely have increasing difficulty collecting on amounts owed by farmers, worsening an already acute cash and liquidity problem. Because of its inability to collect on bad debts, Bunge has been demanding cash for crop inputs (fertilizer, chemicals and seed) for the upcoming planting season, which begins on September 15th. As that date looms, only about 50% of the Brazilian farmers have been able to purchase such inputs, at last year's levels. The remaining farmers that have not done this tend to be the poorer producers from MT who are more likely to be already deeply in debt to Bunge. Many of these individuals are planning to go into the season by either buying far less fertilizer than in past seasons or even foregoing fertilizing altogether, which is possible given last season's heavy use of fertilizer inputs, but what it does mean is that these farmers will have to accept lower crop yields. Bunge is viewed among many of these farmers as a villain not only responsible for the high fertilizer costs but now not willing to extend credit and demanding cash up front. The scenario that could unfold is that these farmers could stiff Bunge on past debts with a crop produced with such Bunge-induced hardship and instead sell much of the upcoming crop for cash to others, leaving Bunge holding the bag on older debts.

- We are increasingly hearing that farmers are feeling more emboldened to stiff companies like Bunge in the current environment as the Brazilian courts have become increasingly less likely to rule in favor of the multinationals, even more so than in the past. The rising price of fertilizer is being blamed on these companies, causing efforts of foreclosure to become more and more politically incorrect with each planting season.

- Potential dilution to Bunge shareholders, from the Corn Products deal, increases dramatically as BG shares drop. The metrics on the deal are not defined in a share to share exchange ratio but in a share for fixed price ratio. CPO shareholders will receive Bunge shares worth $56 at the time of the closing. The dilution presented by the deal, which represented a 25% Bunge shareholder haircut at the time of the deal (Bunge closed at $110.70 the day the deal was announced), has changed dramatically as Bunge shares have dropped. With BG shares now trading in the $90 range, Bunge shareholders would be diluted by 34%. Should Bunge shares drop to $70, the dilution factor moves to 44%. Should shareholders from either side reject the deal, Bunge is subject to a $110 million termination fee.

Figure 3. BG Daily Closing Price, 08/01/07 through 08/05/08. Yellow diamond is the date that the CPO deal was announced. Source: BG SEC Filings.



- Bunge's cash position continues to be precarious. In addition to the $110 million risk posed above, consider the plethora of other issues facing the Company:

    - On July 18th, news surfaced that Bunge had lost one of its tax disputes with the Brazilian taxing authorities. Clients may recall that Bunge ceased disclosing the amount of such disputes back in its 2005 SEC Form 10-K. At that time, they had totaled almost $900 million. This recent development is quite interesting as certain Bunge assets (the production units of oil and margarine in the port of

Suape and Ipojuca (PE) of Bunge Alimentos S.A.) will be immediately seized and auctioned off should Bunge not pay the debt, plus all interest and penalties amounting to $55.3 million U.S (current currency rate). The Auction is set for the first week of August. Clearly, Bunge will make the payment, but the cash drain is something the Company can ill-afford at this time.

- Efforts to bolster its fading cash were quite evident in Q2 financials: A sharp $568 million increase in payables ($568 million for three month period, $924 million for six month); an increase in short-term debt of $836 million; and a $321 million addition to long-term debt.

- Inventories up to $8.8 billion, an increase of $2.9 billion from 12/31/07

- Related-party loans (unexplained by Bunge) have drained $48 million in cash in the past six months.

All this is brought into context by the fact that the Company's $1.1 billion in cash as reported at June 30th would have been all but wiped out had the Company not gone deeper into debt during the period. Much of the remaining cash position is actually cash held by Fosfertil.

- We are particularly interested in the upcoming SEC Form 10-Q (due next week) as it will contain the latest updates on outstanding loan advances to farmers and fertilizer receivables. We don't, however, expect to see an explanation of those "Related Party Loans" or information pertaining to the raiding of Bunge's offices by Italian officials (which occurred during the quarter) looking for evidence of fertilizer pricing collusion between the Company and Cargill. We will also be looking for any disclosure on the Company's loss of the tax dispute (mentioned above) and whether any other such liabilities might be looming. Clearly, with volume increases of just 2% (for three months, 3% for six) for the period and revenues advancing by 73%, Bunge's current revenue growth picture is commodity price driven. Given this, had this year's volumes been applied to last year's prices, the picture would not have been pretty.

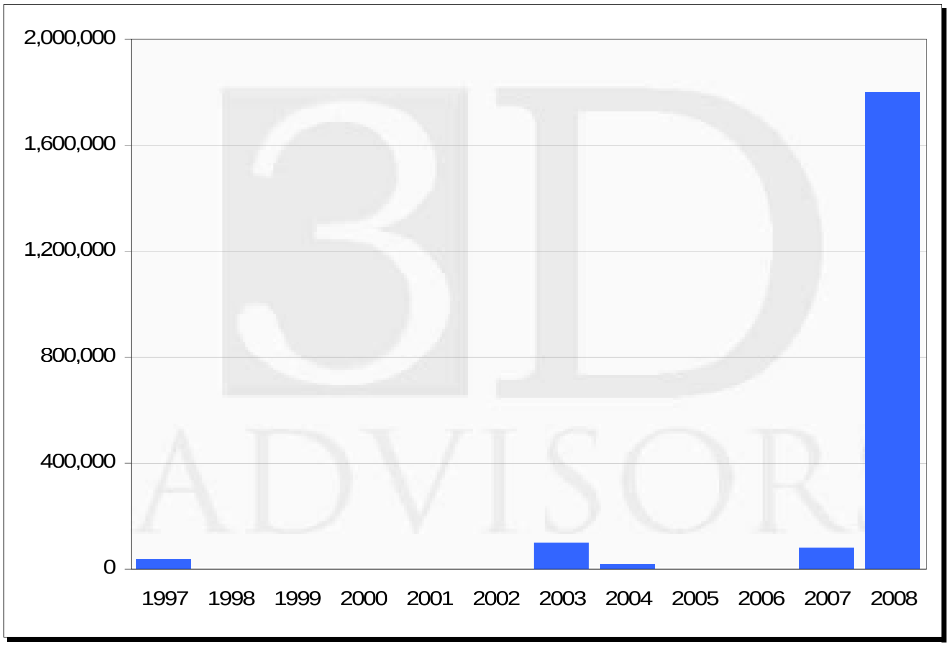
Darling International Inc. (NYSE: DAR)

- On 05/16/08 food by-product recycler Darling International issued a press release[2] announcing its chairman and chief executive, **Randall Stuewe** (45), sold shares. For a company that lists only eight press releases on its corporate website between 2003 and 2008 (more have been issued during this period but are not on the website), we were quite interested in the motivation for an insider trading announcement. Not only are such releases few and far between in the market, but it is a practice never before used by Darling. One possible explanation is that the Company wanted to head off any public concern since his sales were executed after the shares lost 11% in the days following the 1Q08 earnings release. In our opinion, the tactic was more of a subterfuge to draw attention away from the bigger picture,

[2] "Darlington International Announced Executive Stock Sale", PRNewswire-FirstCall, May 16, 2008.

which was the six insiders selling 1.7 million shares during this same period, more than seven times the total amount sold between 1997 and 2007.

Figure 4. Annual Selling Volume of DAR Insiders. Source: DAR SEC Filings.



- Stuewe was quoted in the press release having said, "After serving for over five years as Darling's CEO without divesting any Darling stock, I have determined that it is prudent to diversify a portion of my investment portfolio." The Company added that the 263,849 shares he sold on 05/16/08 represented less than 25% of his holdings. This was in fact Stuewe's first sale since joining Darling in 2003 after a 16-year career with ConAgra Foods, Inc. And the reported holdings reduction was close; except that it does not take into account the additional 86,000 shares he gave back to the Company to cover his exercise costs and associated taxes from the exercise of 350,000 options with expiration dates in 2003. Following the transaction, his actionable ownership was down 32%. But again, what failed to receive mention in the release was the record activity by his peers, including two officers, Executive V.P. of Finance and Administration **John Muse** and Treasurer **Brad Phillips**, each of whom is listed as a contact on the same press release.

- Muse took profits just two days (05/14/08) before the Stuewe's release, monetizing 67,867 options from a July 2014 series. He would then resurface in June, filing a Form 4 that showed the Company bought 12,067 shares back from him directly. This was the first time a Darling insider has ever used a "D" transaction code, indicating a "disposition to the issuer", and since it was Muse, the highest ranking finance officer signing off on his own Form 4, we doubt this was a filing error. These two sales erased 40% of his position. Another key officer selling during this period was Executive V.P., COO of Midwest Rendering **Mark Myers**, who joined Darling in the May 2006 National By-Products, LLC (NBP) acquisition. After selling much of his equity under a 10b5-1 plan in 2007, Myers sold 25,000 of his remaining shares, equal to 58% of his holdings, on 05/28/08 at $16. He currently does not have any vested or unvested derivative equity, so short of open market buying, there is no chance this ownership will be replaced in the near term.

- Myers' former boss is **C. Dean Carlson** (70), who was NBP's chairman and largest shareholder when Darling acquired the company in 2006. Carlson was given a DAR board seat and was the largest inside shareholder when he began serving his third term in May. Clearly, we are curious as to why he just unloaded 85% of his holdings (1.33 million shares) between 03/14/08 and 05/29/08, pocketing $20.6 million. This is Carlson's first experience as a Section 16 insider, so we have no trading history for him, and these were his first sales since joining the Company two years earlier. But little context is required when an 85% holdings reduction by the largest inside shareholder is complemented by 30% to 60% reductions resulting from his peers' sales.

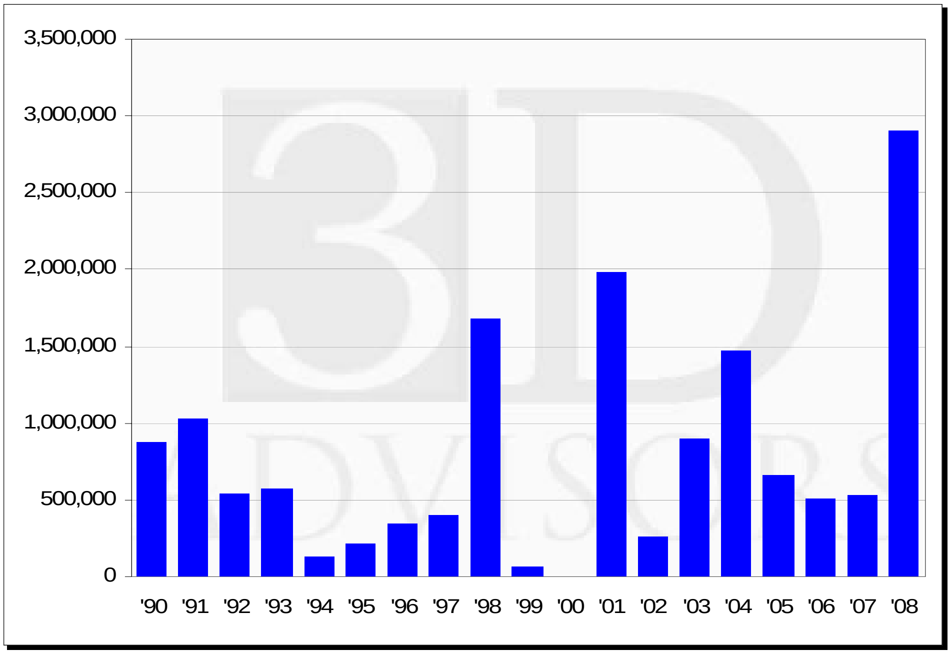
- This uncharacteristic concentration of sellers trading abnormally high volume and its unmistakable subtext comes amid sell-side analyst opinion that can best be described as mixed. Those analysts claiming the shares are fully valued may find confirmation in the insiders' actions. If biofuel opportunities are in fact just distant opportunities, and are already priced into the shares, then any shortfall in the Company's Q2 earnings to be reported on 08/08/08 could result in a material price correction. We do not necessarily expect management would sell to this degree immediately before a negative earnings surprise, but also would not count on an upcoming positive surprise either.

<u>J.B. Hunt Transport Services Inc. (NASDAQ: JBHT)</u>

- Less than one week after we issued a 07/09/08 Full Report on J.B. Hunt, the Company reported a 21% drop in second quarter profits and14% revenue increase driven by fuel surcharges. Earnings managed to best Wall Street's expectations by $0.03, or 8%, driving the shares from $33 up to the $37 to $38 range in the ensuing days. Despite the trucking industry's continued difficulties, which J.B. Hunt President and Chief Executive **James** "**Kirk" Thompson** (54) describes as a "significant freight recession", and the Company's rapidly deteriorating trucking segment, JBHT shares are currently outpacing the S&P 500 by 50% on the year. Given recent insider behavior it came as little surprise to us that the post-earnings gains prompted another wave of insider selling right on heels of their last profit taking efforts.

- In our previous coverage we highlighted the aggressive monetization of holdings by a number of JBHT officers and board members, which included in certain cases the exercise of all available stock options and even more revealing, the liquidation of retirement plan shares well in advance of reaching their respective retirement ages. The cast exhibiting this behavior were not low-level officers, but J.B. Hunt's top executives, including CEO Thompson and Chief Operating Officer **Alfred "Craig" Harper** (50). In total, 14 officers sold 1.17 million shares during the second quarter at prices ranging from $31 to $36. In the first ten days after the 2Q08 earnings release on 07/14/08, nine JBHT insiders sold another 471,000 shares at an average price of $36. As Figure 5 below illustrates, the selling so far this year has already surpassed the volume from any prior year going back to 1990, an impressive feat irrespective of the now all-time record high prices.

Figure 5. Annual Selling Volume by JBHT Insiders. Source: JBHT SEC Filings.



- After monetizing all of his available options and retirement plan shares in the last quarter, CEO Thompson was the first to trade after the Q2 earnings announcement. On 07/18/08 he sold 50,000 shares out of his remaining common holdings, which in the current Proxy were reported to be pledged as security for an undisclosed indebtedness. We suspect two possible courses of action have happened since the Proxy was released in March: either Thompson repaid his debts in full and none of his remaining 150,000 shares are currently collateralized, or he is selling his JBHT shares to pay off his debt balances. Either way, the fact remains he continues to unload his holdings at an unprecedented rate, having already doubled his highest annual selling total in the past ten years. His actionable holdings reduction could be either 70% or 100% depending on whether his remaining common is still tied up to secure personal debt.

- Also selling in this round were two key officers who sold earlier, COO Harper and Executive V.P. of Equipment and Properties **Bobby Ralston** (61). Harper monetized his last remaining stock options in June immediately after they vested, and then later that month delivered shares under a pre-existing forward sale contract. With his holdings already at record low levels, he sold another 16,000 out of his common holdings on 07/24/08 at $36.36. Of the remaining 100,000 shares his Form 4 indicates he owns, 40,000 are tied up in another forward sale that will have to be settled in August 2009. The 167,000 shares he sold this year, more than he had disposed in any other year, accounted for 81% of his actionable ownership. Ralston's activity is quite interesting to us as the Company continues to hype its efforts to shift away from its asset-based carrier model, an undertaking that would seemingly fall under his supervision. After selling 40,000 out of his common holdings in April, he monetized the majority of his vested stock options on 07/18/08 in addition to selling the 5,500 shares that had just become unrestricted three days earlier. We also suspect that during this timeframe Ralston sold the 11,116 JBHT shares held in his 401(k) plan. His retirement account shares were clearly reported on each of his Form 4s going back five years but did not show up on either of his July forms. Taking into account these shares, Ralston has now sold 40% of his ownership in the last few months.

- Although there were a number of additional sellers, including three others who immediately sold all restricted stock they had vest in July, the last insider we will highlight is board member **Gary George** (57). George surfaced for the first time since joining the board in 2006, selling 271,000 shares on 07/21/08 for $10 million. George sold the shares out of a limited partnership that names his two children as managers or beneficiaries. When not serving on JBHT's board, George runs his own fully-integrated poultry company, George's, based in Arkansas. We presume George owns his own trucks and is well acquainted with the difficulties in managing a fleet in the current environment. Selling 42% of his holdings with his first sale speaks volumes as to his current outlook for the industry.

J. Crew Group Inc. (NYSE: JCG) ⬆

- It would seem J.Crew Group's chairman and chief executive, **Millard "Mickey" Drexler** (63), underestimated the effects of the economic downturn on JCG's ability to hit its earnings targets when he deposited 1 million shares into a Grantor Retained Annuity Trust (GRAT) on 01/10/08 (see 3DA Special Report issued on 02/06/08). Although JCG appreciated 16% between January and late May, all gains were erased when the Company announced strong Q1 earnings on 05/29/08, but more importantly, issued Q2 guidance that missed Wall Street's expectations, dropping the shares 21% on the session. We are confident Mr. Drexler did not go through the trouble and incur the legal fees of establishing the GRAT if he anticipated this outcome and probably would not be persistent in moving his sizeable ownership position into additional GRATs since then if he did not expect the shares to rebound.

- On 06/02/08, the session after the Q1 earnings release blow-up, Drexler established the "2008 GRAT #2" and funded it with 1 million shares. Then in short succession, he opened the "2008 GRAT #3" on 07/10/08, depositing another 1 million shares into what stands as his fourth open trust. Drexler now has 4.5 million of his 5.8 million shares, nearly 80% of his common stock and 47% of his total actionable holdings (common plus vested options), tied up in Grantor Retained Annuity Trusts.

- Despite this year's market volatility, there has been a dramatic decline in GRAT activity by key insiders and shareholders, particularly those who are in a position to influence significant strategic corporate decisions. We are unable to explain the trend. Drexler's activity happens to be the only GRAT transactions of this magnitude at a mid or large-cap company so far in 2008. His behavior contradicts Wall Street sentiment and deteriorating retail industry fundamentals, although it has been speculated recently the Company's guidance for the second quarter (to be reported on 09/01/08) is conservative. But more importantly, the subtle nature of his activity authenticates this is not a publicity ploy to resurrect the ailing shares and reassure concerned shareholders. For more information on GRAT activity and its inherently bullish connotation, please refer to either the 3DA Special Report titled Long Ideas: Grantor Retained Annuity Trusts issued on 08/02/06, or its update released on 02/26/08.

Figure 6. JCG Daily Closing Price, 08/01/06 through 08/05/08. Green diamonds are where Chairman and CEO Mikey Drexler deposited shares into a GRAT. Source: Reuters and JCG SEC Filings.

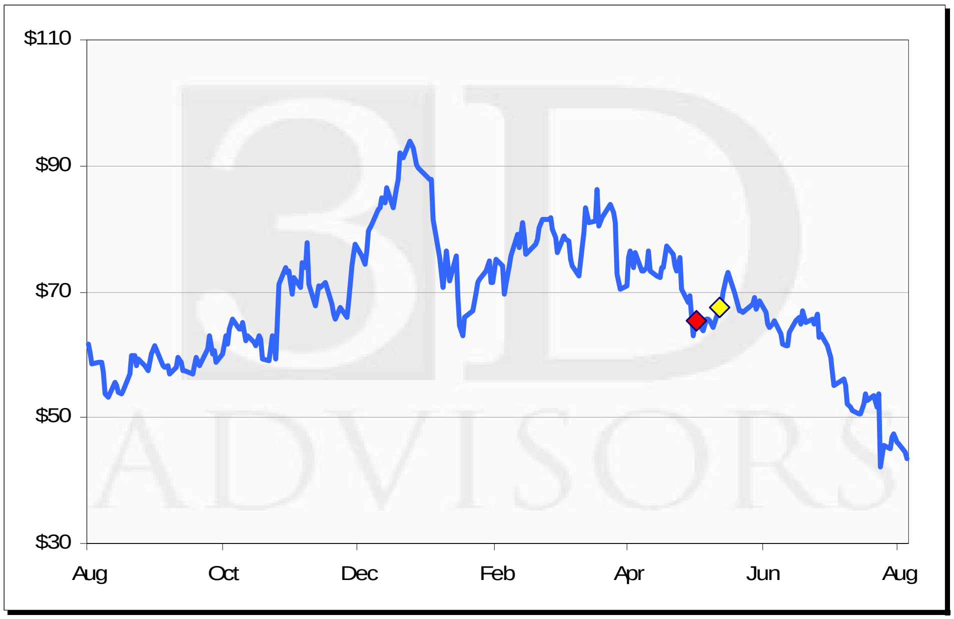
- On a final note, three J.Crew insiders sold 230,000 shares between the time of Drexler's January 2008 GRAT contribution and the first quarter earnings release. We underscored the profit taking in a Research Notes report filed on 04/03/08. With the exception of a small pre-arranged sale by Executive V.P. of Factory **Libby Wadle** on 08/01/08, there has been no other selling since the Q1 earnings release. While we wish we could report there have been insiders taking advantage of the discounted prices to add to their positions, we take some solace in the fact the selling has mostly dried up.

MEMC Electronic Materials Inc. (NYSE: WFR)

- In our update on 05/12/08, we had concluded that a series of problems reported at the Company's Pasadena, TX complex had exposed its increasing reliance on spot sales of polysilicon to meet its guidance for revenue and especially margins, and that the risks for shareholders associated with the Company being in such a position were rising rapidly. We noted that with the semiconductor side of the business continuing to be soft, and with inventories at already very lean levels, the need to pump out as much polysilicon as possible for sale in the lucrative spot market has never been greater, putting more and more pressure on efforts to expand polysilicon capacity. In Q1, even though the Company was forced to reduce its spot sales due to production problems, it did not meet all its obligations to contract customers.

- Underscoring the above risks was the trading behavior of CEO **Nabeel Gareeb**, who on 05/02/08, just 8 days after the release of the first quarter results, exercised 575,000 non-expiring options (500,000 of which vested that day) and immediately sold the shares, effectively selling off 100% of his actionable position. We pointed out that these trades were well off the recent highs reached in December, but as it turns out, the transactions were prophetic moves by the CEO.

Figure 7. WFR Daily Closing Price, 08/01/07 through 08/05/08. Red diamond is the where Nabeel Gareeb sold 100% of his actionable position; Yellow diamond is the date of the last 3DA update report. Source: Reuters and WFR SEC Filings.



- After the close on 07/23/08, the Company reported 2Q08 results that yet again missed analysts' expectations due to production problems, with both revenue and earnings falling short of the lower end of guidance. During the quarter, the Company experienced a premature failure of a heat exchanger at its facility in Merano, Italy and suffered a fire due to a loose pipe fitting at its primary polysilicon facility in Pasadena, TX. In a separate SEC Form 8-K filed on the same day as the earnings announcement that received little notice, the Company announced the departure of **Sean Hunkler** (44), SVP of production operations. We last mentioned Hunkler in an issue of Research Notes on 02/27/08 shortly after he had sold off 92% of his actionable position and just at the beginning of what has now become a recurring series of production mishaps. Gareeb indicated during the Q2 conference call that production would now be reporting directly to him.

- WFR shares naturally took a beating in the ensuing session, trading over 28 million shares while making a new 52-week low, closing down over 21% at $42.23. We specifically note that this most recent episode includes an important shift in management behavior that increases risks further for investors: the Company did not pre-announce the problems it was having with polysilicon production as it had in prior quarters, and instead chose to surprise the Street.

- Despite efforts by the Company to offset the obviously disappointing surprise, including the announcement of a $500 million expansion of its share buyback authorization, the signing of a new wafer agreement, and the disclosure of new production trend data, the tone of the conference call was decidedly more pointed than any prior call. The conservative Q3 guidance included a range of $60 million for revenue ($560 million to $620 million) reflecting continued uncertainty in the Company's ability to ramp up its polysilicon production. Given all that has happened, the Company has wisely chosen to hold a mid-quarter conference call to update investors and analysts in early September. If any clients are now thinking that WFR is looking cheap, we would urge caution as the fundamentals and executive behavior strongly suggest to us that risks remain very high. We are extremely interested in the forthcoming second quarter SEC Form 10-Q, as well as what the Company might have to say on the September mid-quarter call.