Important disclosures may be found on the last two pages of the report.

MEMC ELECTRONIC MATERIALS, INC. (WFR: $19.34*)

St. Peters, MO
October 27, 2005

Underperform
Price Target $15.00
Update

STOCK DATA

52 Week Range	$23.75-$9.20
ADTV - 3 Month	3.1
Market Cap	$4,049.8
Shares Outstanding (Diluted)	227.1

EARNINGS DATA

EPS (FD Operating)

Dec.	2004A	2005E	2006E
1Q	$0.16	$0.22A	$0.28
2Q	0.19	0.26A	0.29
3Q	0.27	0.25A	0.30
4Q	0.27	0.32	0.30
FY	$0.89	$1.06	$1.16
P/E	14.8x	18.3x	16.6x

FY	2004A	2005E	2006E
Revenue	1,028.0	1,126.1	1,225.8

FINANCIAL DATA

	3Q05
Cash & Equivalents	143.2
Accounts Receivable	126.8
Inventories	132.4
Current Assets	439.8
Total Assets	1,176.5
Total Current Liabilities	186.9
Long-Term Debt	106.7
Total Debt	122.2
Total Stockholder Equity	654.6

Financial Values In Millions

WFR: Lack of Poly Capacity Has Caused Deferral of Revenue; Upside to Operating Profits Has Yet to Materialize--Reiterate Underperform

Summary and Recommendation

MEMC's 3Q report was disappointing in a sense that it further validated our argument that the company does not have enough poly capacity or the ability to raise prices. Although the reported revenues of $288M were $2M above our estimate, reported GM was 200 bps below our expectations. Although the disappointing GM was due to deferring revenues from 3Q into 4Q, we believe the reason behind this was lack of capacity. In fact, on a blended basis, operating profit in 2H05 is now below prior expectations. There are several issues that we encourage investors to focus on: 1) WFR's lack of poly capacity (please see our analysis on MEMC's estimated poly capacity); 2) WFR's lack of pricing power (compared to top competitors that raised ASPs in 3Q); 3) peaking operating margins; 4) SOI revenues not material until 2007-2008; and 5) TPG's lock-up period expiring on November 16. We encourage investors to take profits, before the bulls are disappointed that the upside they are looking for does not materialize.

Key Points

- **Dismal 3Q report/guidance.** Reported operating profit of $69M, or 24% of revenues, came in well below our estimate of 26.5%. Although this is partly due to COGS of the deferred revenues that were realized in 3Q (with revenues in 4Q), we note that the wafer GM appears to have declined since our 2H05 revenue estimates have increased by $14M while operating profits are up only $4M.
- **How does poly work?** Although we agree that there are shortages of poly, we do not buy into the argument that poly could lead into substantial revenue/profit upside for 2006 because: 1) we continue to believe that WFR will not have sufficient capacity (unless it raises 2006 capex budget), and 2) WFR's competitors have adequate supply of poly, thus not being at a disadvantage.
- **Reiterate Underperform rating.** We encourage investors to refer to our publication from Monday and our poly capacity analysis in this brief. We believe there is limited upside to our 2006 operating profit (below consensus).

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3Q Results: After Peeling off the Layers, the Quarter was Both a Top- and Bottom-Line Miss

Last night after the close, MEMC reported 3Q revenue of $288 million, up 5% sequentially. The revenue number was $2 million above our estimate of $286 million, although below the street consensus of $289 million. Part of the revenue miss, in our opinion, was because of the four to five days of shutdown during Hurricane Rita, as well as not having enough Poly capacity (which caused the differed revenues into 4Q05).

The 3Q05 revenue increase was due to 1) higher wafer product shipments, and 2) increased sales of polysilicon to the solar market, although continued pricing pressure negatively offset the increase in unit demand. We find this ASP commentary interesting, since Shinetsu (the market leader) told us back in September that it had been able to raise prices by as much 10% (QOQ) in 3Q05.

Gross margin also came in under pressure, as the reported GM of 35% was below our estimate of 37%, and the company’s guidance of "improvement over the 2Q gross margin of 36%." Gross margins were negatively impacted by “several million dollars of cost” associated with the shutdown of the company’s Texas polysilicon plant due to Hurricane Rita, as well as the cost of deferred poly revenues (from 3Q into 4Q). Operating expenses of $32 million increased to 11% of sales, primarily due to what the company characterized as higher R&D expenses associated with SOI equipment installation.

Diluted EPS of $0.43 included tax adjustments, comprised of ($0.01) per share associated with the unamortized cost of the terminated lines of credit in 2Q05 and $0.19 per share due to a reversal of tax valuation allowances. Excluding the above one-time adjustment, operating EPS came in at $0.25, well below our estimate of $0.28 and the consensus of $0.29.

MEMC also announced that it will restate its financial statements for each of the first two quarters of 2005 to modify a nonrecurring tax adjustment made in 1Q05. According to the company, no material changes to revenue or operating earnings for those periods are expected. Although the restatement of taxes is expected to unfavorably impact EPS by a total of approximately $0.08 in 1Q05. We have incorporated this into our model, although we await the filing of the amendments for the details.

Figure 1: Reported Results versus FBR and Consensus Estimates - 3Q05

	SEP05A				Compares		DEC05E		
	Reported	Est	Guidance	Consensus	JUN05A	SEP04A	Est	Guidance	Consensus
Rev($M)	$288	$286	$284-$289	$289	$275	$275	$310	$310-$313	$304
%Y/Y	5%	4%			8%	41%	16%		
%Q/Q	5%	4%	3% - 5%		9%	8%	8%		
GM	35%	37%	improve over 2Q		36%	40%	39%	39%	
OM	24%	26%	improve over 2Q		26%	30%	29%	$29M op expense	
Tax Rate	13%	14%			12%	25%	15%		
Shares (M)	227	225			225	220	228		
OP EPS	$ 0.25	$ 0.28		$ 0.29	$ 0.26	$ 0.27	$ 0.32	N/A	$ 0.32

Source: FBR Research and Company reports

4Q Guidance: Third Strike, and MEMC Has Yet to Offer a Meaningful Upside to Consensus

The company stated that its revenue should improve to $310-$313 million (7%-9% QOQ), which is above our estimate of $300 million and the consensus estimate of $304 million. In addition, the company guided to a 39% GM versus our expectation of 36%, because of the $7.3M worth of deferred revenues from 3Q with COGS already recognized in 3Q.

We note that when we strip out the $7.3 million from the 4Q revenue guidance, the sequential revenue growth rate is around 5.5%. We believe it is important to note that 2H05 blended gross margin (without the deferred poly revenue) is about 80 bps below the value with the deferred revenue included. We believe this shows gross margin pressure on the core wafer business. Although we were expecting ASP pressure to have already abated, as Shinetsu and Komatsu have told us they have already increased 300mm wafer ASPs, we find it interesting to see MEMC is still experiencing ASP pressure. The company tells us that such ASP pressures are a direct result of contracts negotiated in 1H05, but we find it confusing that it has been telling us for some time that a mix of poly shortage and insufficient 300mm raw wafer capacity will help with the overall revenues in 2H05. To that end, we find the news of continued ASP pressure as another indication that MEMC has either been experiencing operational issues, (such as unfavorable yields) preventing them to service the customer, or trying to increase market share by offering customers favorable contracts.

The company stated that wafer pricing in 3Q remained under pressure and that 4Q was characterized as flattish, but the environment was good. Assuming that 40% of the MEMC contracts were to be renegotiated at 10% higher ASPs (very bullish case) during the November time frame, this would impact overall pricing favorably by only 4%. We believe that the November and December renegotiations of contracts will have limited impact to the overall blended ASPs for the company.

We note that the new revenue deferral policy involves two situations that relate only to the sales of poly. The first situation is when an MEMC customer places multiple independent purchase orders in a short period with different pricing for different delivery periods. In this case, the prices must be averaged over all of the purchase orders, unless fair value for future deliveries can be established in the same period the purchase orders were placed. The revenue deferral occurs as a result of the averaging. The second situation involves contracts involving delivery penalty, and revenues cannot be fully recognized until deliveries are complete.

It appears to us that the company is 1) selling a portion of its excess polysilicon at spot prices (that may fluctuate in the future) and the other portion under short-term contracts, and 2) MEMC was unable to deliver polysilicon in 3Q due to the lack of capacity; therefore, it has booked poly shipments that will be delivered in 4Q. We believe that the second conclusion confirms our thesis that a bottleneck exists concerning MEMC's poly capacity.

The company also indicated that it will be expanding its polysilicon capacity by 40% over the next two years (as was noted in our report on Monday, October 24, that such a poly capacity increase would need to happen in order to meet a goal of 10% of revenues). According to the company, the expansion will occur over the course of 2006, with the first phase occurring in 1Q06 and the rest in 2H06.

We question how MEMC is able to add capacity so quickly and why Hemlock, Wacker, and Tokuyama would not also be able to do the same. In our opinion, this rapid expansion of polysilicon puts risk on the overall magnitude of the deferred revenue going forward, as poly prices can deteriorate due to the added supply. We also see risk to the deferred revenues if overall MEMC poly production is short (meaning the company cannot produce enough for both wafer and poly production). We note the company mentioned it missed out on revenue due to the week-long shutdown of its Texas poly facility. We conclude that the company is now running at full capacity with limited inventory. What happens if MEMC sacrifices wafer shipments (therefore losing market share) in order to ship raw poly and capitalize on the high poly prices today? At first glance, we see the deferred revenue as an added risk.

We still remain confused regarding how MEMC can fund its 300mm capacity expansion, poly expansion, and SOI development on its "capex to be 15% of revenues" commitment. We note that MEMC appears to be adding 300mm capacity at a cost of $1.5 million per 1k/month of capacity, meanwhile Shin-Etsu and others can do this at a rate of approximately $5 million per 1k/month of capacity. With the confirmation of poly capacity expansion during the 3Q05 earnings conference call, we feel our argument is stronger that MEMC's "capex of 15% of sales model" does not allocate enough capital to conduct all of these activities at once.

We again reference our polysilicon model for MEMC, which we believe is valid (even more so with a few modifications). This model is summarized in the figure below. As illustrated, we use our modeled silicon shipments for MEMC and incorporated our new revenue estimate for 2005. In addition, we have assumed polysilicon pricing of $85/kg, which is based on a mix of contracts and spot market price for electronics-grade poly. Assuming the company was able to ship $8 million (or 3% of revenue) of poly in 1Q05, $14 million (or 5% of revenues)in 2Q, $25 million in 3Q (or 9% of revenues), and $25 million (or 8% of revenues) in 4Q, we find a revenue number close to 7% of our 2005 estimated revenue, or $70 million. We also note that MEMC indicated that its polysilicon capacity is about 15% of the total market (stated in the conference call), which we believe aligns well with our estimated MEMC polysilicon capacity of 3,700 metric tons per year.

Figure 2: Estimated Poly Shipments for MEMC in 2005

MEMC poly capacity (metric ton/yr)		***3,700***
MEMC total M sq in Si shipped 2005E		936
MEMC M sq in Si 300mm shipped in 2005E (32% of total)		299
MEMC M sq in Si 200mm shipped in 2005E (50% of total)		468
MEMC M sq in Si 150mm and below shipped in 2005E (18% of total)		168
Conversion Efficiency (ingot and wafer manufacturing)		30%
Poly weight (kg) per 300mm wafer - with waste included		0.439
Poly weight (kg) per 200mm wafer - with waste included		0.183
Poly weight (kg) per 150mm-and-below wafer - with waste included		0.096
Total 300mm weight poly (kg)		1,200,170
Total 200mm weight poly (kg)		1,758,904
Total 150mm and below weight poly (kg)		598,399
Total poly weight due to semi wafers (metric Ton)		3,557
Metric ton of poly used to make 90% of wafers (rest of poly from others)		***3,202***
% of total poly capacity used for MEMC semi wafer manufacturing		87%
% of total poly capacity available for excess poly manufacturing		13%
Metric tons of excess poly available from MEMC facilities		***498***
Metric tons of poly available from manufacturing scraps (15% of waste)		320
Total poly available to MEMC for solar applications		818
Blended spot and contract price/kg solar poly for 2005E	$	85
1 metric ton of solar poly incremental revenue ($)	$	85,000
Revenues derived from excess poly sales ($M)	***$***	***70***
MEMC 2005E Revenues ($M)	$	1,126
Maximum % of 2005E MEMC revenues from excess poly sales		6%

Source: FBR Research and Company reports

We have repeated the calculation for 2006, assuming that MEMC is able to ship poly at a $100 million annual run-rate. We note that MEMC must increase its poly capacity by 21% in 2006 (to 4,475 metric tons/year and over 50% of the stated expansion) to ship the needed amount of polysilicon to meet this run-rate. We believe that this confirms our thesis that MEMC's poly-related revenues are constrained by their current poly manufacturing capacity and are at risk 1) if the company cannot ramp poly capacity of this magnitude in 2006, 2) poly prices go down, and 3) it cannot allocate adequate capex to the expansion due to its 300mm wafer expansion. See below for the calculation.

Figure 3: Our Estimated Poly Shipments for MEMC in 2006 (assuming 21% increase in capacity)

MEMC poly capacity (metric ton/yr)		***4,474***
MEMC total M sq in Si shipped 2006E		1,057
MEMC M sq in Si 300mm shipped in 2006E (45% of total)		476
MEMC M sq in Si 200mm shipped in 2006E (45% of total)		476
MEMC M sq in Si 150mm and below shipped in 2006E (10% of total)		106
Conversion Efficiency (ingot and wafer manufacturing)		30%
Poly weight (kg) per 300mm wafer - with waste included		0.439
Poly weight (kg) per 200mm wafer - with waste included		0.183
Poly weight (kg) per 150mm-and-below wafer - with waste included		0.096
Total 300mm weight poly (kg)		1,906,745
Total 200mm weight poly (kg)		1,788,430
Total 150mm and below weight poly (kg)		375,583
Total poly weight due to semi wafers (metric Ton)		4,071
Metric ton of poly used to make 90% of wafers (rest of poly from others)		***3,664***
% of total poly capacity used for MEMC semi wafer manufacturing		82%
% of total poly capacity available for excess poly manufacturing		18%
Metric tons of excess poly available from MEMC facilities		***810***
Metric tons of poly available from manufacturing scraps (15% of waste)		366
Total poly available to MEMC for solar applications		1,176
Blended spot and contract price/kg solar poly for 2006E	$	85
1 metric ton of solar poly incremental revenue ($)	$	85,000
Revenues derived from excess poly sales ($M)	***$***	***100***
MEMC 2006E Revenues ($M)	$	1,225
Maximum % of 2006E MEMC revenues from excess poly sales		8%

Source: FBR Research and Company reports

Conclusion

The basis of our downgrade from last week was based on our fundamental analysis, which has led us to believe that raw wafer industry dynamics will prevent a significant upside to our 2006 earnings estimate for MEMC. To that end, the company's 3Q earnings report and conference call support our argument that regardless of what the company's promises are, the realities of this industry will prevent it from realizing a significant upside next year, unless it adds considerable capacity, which, again, will require a higher capex and lower free cash flows.

We note that the poly shortage has been something that the company and our peers that disagree with us have been talking about since early this year. They have also been talking about ASP improvement in 2H05, when contracts are due. To that end, the deferred revenues from 3Q to 4Q highlight the fact that MEMC simply does not have enough capacity to meet demand. Additionally, since we started doubting the poly impact, the company, as well as the bulls on the stock, have accused us of not understanding the poly impact on the company's 2006 results. In a nutshell, both groups of people have told us repeatedly that revenue upside in 2006 will not come from selling excess poly into the spot market. Well, did not the company just announce deferred revenues of $7 million, realized in 4Q05, from selling excess poly into the spot market? And, on the wafer ASPs, both MEMC's competitors and wafer distributors have told us that prices actually went up in 3Q. So, how come MEMC was not able to raise prices?

Net/net: 1) we believe that investors have started to peel off more to evaluate MEMC's earnings power (which in our view, will come below the current consensus figures); 2) the company has promised us repeatedly to report significant upside, but it has yet to deliver such results; 3) the company may not have capacity to realize significant revenues from selling excess poly into the spot market; 4) the company has yet to increase ASPs as top competitors have; and 5) we note that the lock-up period (after which TPG, Texas Pacific Group, could sell more of their shares) will expire on November 16, and, based on the trends from the past several quarters, we would not be surprised if they were to reduce their holdings further. We therefore encourage investors to take profits, as a lack of upside to 2006 operating profits will disappoint the bulls on the stock.

Risks

The microelectronics business is highly cyclical, with occasional periods of extreme imbalance between supply and demand.

We expect the overall semiconductor market to continue to improve into 2006. Current risks to this thesis are the following: 1) if global GDP weakens unexpectedly; 2) overall semiconductor demand falls below our expectations; and 3) overall capex equipment installations (and thus supply) come in below our current expectations.

Although Texas Pacific Group's (TPG) ownership in MEMC has been reduced from 34% to its current level of about 25%, we believe that this is still an overhang on the stock that has nothing to do with fundamentals. We expect further reduction in TPG's ownership going forward.

Although the industry has consolidated, mitigating the risk of wafer supply overcapacity, we believe that the risk of overcapacity remains as Japan-based competitors, with deep pockets, could flood the market with 300mm capacity aimed at increasing market share, although such increased supply is not expected to materialize fully until 2H06.

Company Profile

Incorporated in 1984, MEMC Electronic Materials, Inc. is engaged in the design, manufacture, and sale of electronics-grade wafers for the semiconductor industry. The company provides wafers in sizes ranging from 100 millimeters (4 inches) to 300 millimeters (12 inches), including three general categories of wafer: prime polished, epitaxial, and test/monitor. Its principal customers are semiconductor device manufacturers, including major memory, microprocessor, and application-specific integrated circuit (ASIC) manufacturers and foundries. MEMC's wafers are used as a starting material for the manufacture of various types of semiconductor devices, including microprocessor, memory, logic, and power devices. The company operates manufacturing facilities in Europe, Malaysia, Japan, South Korea, the United States, and Taiwan.

(FY DEC) 26 Oct 05	MAR04A	JUN04A	SEP04A	DEC04A	FY04	MAR05A	JUN05A	SEP05A	DEC05E	FY05	MAR06E	JUN06E	SEP06E	DEC06E	FY06
REVENUE	228.8	255.5	275.3	268.4	1,028.0	252.5	275.4	288.3	310.0	1,126.1	294.5	303.3	312.4	315.6	1,225.8
% Change Y/Y	21.5%	33.2%	40.5%	30.9%	31.6%	10.4%	7.8%	4.7%	15.5%	9.6%	16.7%	10.1%	8.4%	1.8%	8.9%
% Change Q/Q	11.6%	11.7%	7.7%	-2.5%		-5.9%	9.1%	4.7%	7.5%		-5.0%	3.0%	3.0%	1.0%	
TOTAL COGS	155.4	168.4	164.5	170.2	658.5	162.4	175.0	187.0	190.3	714.5	188.3	193.1	197.9	199.0	778.3
GROSS PROFIT	73.3	87.2	110.7	98.2	369.4	90.1	100.4	101.3	119.8	411.6	106.2	110.3	114.6	116.6	447.6
% Total Revenue	32.1%	34.1%	40.2%	36.6%	35.9%	35.7%	36.5%	35.1%	38.6%	36.6%	36.0%	36.4%	36.7%	36.9%	36.5%
R&D	8.9	9.3	9.4	10.4	38.0	11.4	11.0	13.9	10.5	46.8	10.0	10.5	10.9	11.0	42.5
% Total Revenue	3.9%	3.6%	3.4%	3.9%	3.7%	4.5%	4.0%	4.8%	3.4%	4.2%	3.4%	3.5%	3.5%	3.5%	3.5%
SG&A	17.2	17.8	17.8	19.2	71.9	18.2	18.3	18.1	19.5	74.1	20.6	21.8	22.5	22.7	87.7
% Total Revenue	7.5%	7.0%	6.5%	7.1%	7.0%	7.2%	6.7%	6.3%	6.3%	6.6%	7.0%	7.2%	7.2%	7.2%	7.2%
OPERATING PROFIT	47.2	60.0	83.6	68.6	259.5	60.6	71.1	69.2	89.8	290.6	75.5	77.9	81.1	82.8	317.4
% Total Revenue	20.7%	23.5%	30.4%	25.6%	25.2%	24.0%	25.8%	24.0%	29.0%	25.8%	25.6%	25.7%	26.0%	26.2%	25.9%
% Change Y/Y	44.4%	78.2%	128.9%	72.9%	81.9%	28.2%	18.4%	-17.1%	30.8%	12.0%	24.7%	9.6%	17.2%	-7.7%	9.2%
% Change Q/Q	19.0%	27.1%	39.2%	-17.9%		-11.8%	17.4%	-2.6%	29.6%		-15.8%	3.2%	4.1%	2.1%	
OTHER	6.5	(9.1)	(0.4)	2.4	(0.6)	(0.7)	(1.5)	(1.5)	(1.0)	(4.7)	(1.0)	(0.8)	(0.5)	(0.5)	(2.8)
PRETAX PROFIT	53.7	51.0	83.2	71.1	258.9	59.9	69.6	67.7	88.8	285.9	74.5	77.2	80.6	82.3	314.7
% Total Revenue	23.5%	19.9%	30.2%	26.5%	25.2%	23.7%	25.3%	23.5%	28.6%	25.4%	25.3%	25.4%	25.8%	26.1%	25.7%
% Change Y/Y	83.2%	47.5%	70.9%	64.0%	66.1%	11.4%	36.5%	-18.6%	24.9%	10.4%	24.5%	10.9%	19.1%	-7.3%	10.0%
% Change Q/Q	24.0%	-5.1%	63.1%	-14.6%		-15.7%	16.2%	-2.7%	31.1%		-16.0%	3.6%	4.4%	2.1%	
TAXES	13.4	12.7	20.8	10.6	57.6	9.0	8.7	9.0	13.3	39.9	9.7	10.0	10.5	10.7	40.9
Tax Rate	25.0%	25.0%	25.0%	15.0%	22.2%	15.0%	12.4%	13.3%	15.0%	14.0%	13.0%	13.0%	13.0%	13.0%	13.0%
OTHER AFTER TAX	1.7	(17.5)	-	(11.0)	(26.8)	(6.2)	-	(40.0)	-	(46.2)	-	-	-	-	-
MINORITY INTERESTS	2.7	3.0	2.7	2.4	10.7	1.8	2.0	1.5	2.0	7.2	2.0	2.0	2.0	2.0	8.0
NET INCOME - CONT OPS	35.9	43.1	59.7	59.0	197.7	49.1	58.9	57.3	73.4	238.7	62.8	65.2	68.1	69.6	265.7
% Total Revenue	15.7%	16.9%	21.7%	22.0%	19.2%	19.5%	21.4%	19.9%	23.7%	21.2%	21.3%	21.5%	21.8%	22.1%	21.7%
% Change Y/Y	81.9%	57.9%	69.7%	71.4%	69.5%	36.8%	36.8%	-4.1%	24.5%	20.8%	27.9%	10.6%	19.0%	-5.2%	11.3%
% Change Q/Q	4.4%	20.0%	38.6%	-1.2%		-16.7%	19.9%	-2.8%	28.3%		-14.4%	3.7%	4.6%	2.1%	
NET INCOME - TOTAL	35.9	60.6	59.7	70.0	226.2	55.3	58.9	97.3	73.4	284.9	62.8	65.2	68.1	69.6	265.7
% Total Revenue	15.7%	23.7%	21.7%	26.1%	22.0%	21.9%	21.4%	33.7%	23.7%	25.3%	21.3%	21.5%	21.8%	22.1%	21.7%
% Change Y/Y	81.9%	122.2%	69.7%	103.4%	94.0%	54.1%	-2.8%	62.8%	4.9%	26.0%	13.6%	10.6%	-29.9%	-5.2%	-6.7%
% Change Q/Q	4.4%	68.8%	-1.5%	17.2%		-20.9%	6.5%	65.1%	-24.5%		-14.4%	3.7%	4.6%	2.1%	
SHARES	222.1	221.0	220.4	222.1	221.4	223.9	224.7	227.1	227.5	225.8	227.9	228.3	228.7	229.1	228.5
EPS - CONT OPS	$ 0.16	$ 0.19	$ 0.27	$ 0.27	$ 0.89	$ 0.22	$ 0.26	$ 0.25	$ 0.32	$ 1.06	$ 0.28	$ 0.29	$ 0.30	$ 0.30	$ 1.16
% Change Y/Y	72.5%	55.6%	72.3%	72.1%	67.5%	35.7%	34.5%	-7.0%	21.5%	18.4%	25.7%	8.8%	18.2%	-5.9%	10.0%
% Change Q/Q	4.8%	20.6%	39.0%	-2.0%		-17.4%	19.5%	-3.9%	28.0%		-14.6%	3.5%	4.4%	2.0%	
EPS - TOTAL	$ 0.16	$ 0.27	$ 0.27	$ 0.32	$ 1.02	$ 0.25	$ 0.26	$ 0.43	$ 0.32	$ 1.26	$ 0.28	$ 0.29	$ 0.30	$ 0.30	$ 1.16
% Change Y/Y	72.5%	118.9%	72.3%	104.2%	91.7%	52.9%	-4.4%	58.0%	2.4%	23.5%	11.6%	8.8%	-30.4%	-5.9%	-7.8%
% Change Q/Q	4.8%	69.6%	-1.2%	16.3%		-21.6%	6.1%	63.3%	-24.6%		-14.6%	3.5%	4.4%	2.0%	

WFR Cash Flow Model

($ Millions)	1Q04A	2Q04A	3Q04A	4Q04A	1Q05A	2Q05A	3Q05	4Q05E	1Q06E	2Q06E	3Q06E	4Q06E
Net Income from Operations	35.91	60.60	59.72	69.97	55.34	58.91	97.25	73.44	62.85	65.15	68.14	69.60
Depreciation & Amortization	9.92	10.24	11.44	12.53	13.34	14.30	14.74	16.00	17.00	17.00	17.00	17.00
(Incr) Decr in Accounts Receivable	(16.23)	(19.61)	(13.01)	11.15	10.19	(1.57)	5.27	(9.05)	3.57	(7.29)	(4.19)	(1.44)
(Incr) Decr in Inventories	(13.56)	10.49	(7.22)	(7.79)	(7.70)	0.41	2.47	(10.30)	0.68	(4.26)	(4.39)	(1.51)
(Incr) Decr in Other Current Assets	(9.40)	10.10	1.32	(9.61)	1.50	0.96	(10.04)	0.00	0.00	0.00	0.00	0.00
Incr (Decr) in Current Liab. (Excl. debt)	40.86	10.51	(6.26)	30.96	(20.31)	(27.10)	(34.60)	0.00	0.00	0.00	0.00	0.00
=Cash from Operations	47.50	82.33	46.00	107.22	52.36	45.91	75.09	70.08	84.09	70.60	76.56	83.66
(Incr) Decr in Other Non-Current Assets	(54.32)	(2.39)	0.01	0.01	(0.03)	0.02	(0.11)	0.00	0.00	0.00	0.00	0.00
Capital Spending (Net of sales)	(29.00)	(44.00)	(25.50)	(51.73)	(54.40)	(51.20)	(32.20)	(28.00)	(50.00)	(50.00)	(46.00)	(42.00)
=Cash from Investing	(83.32)	(46.39)	(25.49)	(51.72)	(54.43)	(51.18)	(32.31)	(28.00)	(50.00)	(50.00)	(46.00)	(42.00)
Incr (Decr) in Non-curr Liab. (Excl. debt)	(23.55)	(7.57)	(1.17)	(7.57)	5.05	9.56	14.19	0.00	0.00	0.00	0.00	0.00
Additional Debt	83.42	(31.94)	(40.19)	(78.90)	(4.08)	(6.46)	(7.79)	0.00	0.00	0.00	0.00	0.00
Common Stock/Other Equity	(0.18)	5.78	0.60	18.06	22.29	(15.03)	(6.26)	0.00	0.00	0.00	0.00	0.00
=Cash from Financing	59.68	(33.73)	(40.75)	(68.41)	23.26	(11.93)	0.15	0.00	0.00	0.00	0.00	0.00
=Increase/(Decrease) in Cash	23.87	2.20	(20.25)	(12.91)	21.19	(17.20)	42.93	42.08	34.09	20.60	30.56	41.66
+Beginning Cash	130.70	140.62	129.49	103.31	92.31	116.32	101.00	143.25	185.33	219.43	240.03	270.59
+Adjustment	(13.94)	(13.33)	(5.93)	1.91	2.81	1.88	(0.68)	0.00	0.00	0.00	0.00	0.00
=End Cash	140.62	129.49	103.31	92.31	116.32	101.00	143.25	185.33	219.43	240.03	270.59	312.25
FREE CASH FLOW												
Quarterly	18.50	38.33	20.50	55.49	(2.04)	(5.29)	42.89	42.08	34.09	20.60	30.56	41.66
% Y/Y	96%	452%	919%	133%	-111%	-114%	109%	-24%	-1775%	-490%	-29%	-1%
% Q/Q	-22%	107%	-47%	171%	-104%	160%	-911%	-2%	-19%	-40%	48%	36%
FY-End				$ 133				$ 78				$ 127
% Y/Y				214.8%				-41.5%				63.4%
FCF Margin	8%	15%	7%	21%	-1%	-2%	15%	14%	12%	7%	10%	13%
YE-FCF Margin				13%				7%				10%
ASSETS												
Cash & equivalents	140.62	129.49	103.31	92.31	116.32	101.00	143.25	185.33	219.43	240.03	270.59	312.25
Acounts receivable, net	119.25	138.86	151.87	140.73	130.53	132.11	126.84	135.89	132.32	139.62	143.81	145.24
Inventories, net	123.05	112.56	119.78	127.56	135.27	134.85	132.38	142.68	142.01	146.27	150.65	152.16
Other current assets	31.54	16.44	20.12	29.72	28.22	27.26	37.30	37.30	37.30	37.30	37.30	37.30
Total Current Assets	414.45	397.36	395.08	390.33	410.34	395.21	439.77	501.21	531.05	563.21	602.35	646.95
PPE	361.55	392.71	387.28	444.67	476.34	503.86	510.46	522.46	555.46	588.46	617.46	642.46
Other non-current assets	76.06	106.74	98.94	147.54	181.29	180.47	226.28	226.28	226.28	226.28	226.28	226.28
Total Assets	852.06	896.81	881.29	982.54	1,067.97	1,079.55	1,176.51	1,249.95	1,312.80	1,377.95	1,446.09	1,515.70
LIABILITIES & SHAREHOLDERS' EQUITY												
Short term debt	86.90	57.45	21.87	24.40	23.06	21.71	15.44	15.44	15.44	15.44	15.44	15.44
Other current liabilities	166.88	179.12	167.63	191.23	200.71	177.20	169.46	169.46	169.46	169.46	169.46	169.46
Total Current Liabilities	253.78	236.57	189.50	215.62	223.76	198.91	184.90	184.90	184.90	184.90	184.90	184.90
Long term debt	127.61	125.12	120.51	116.08	113.35	108.23	106.71	106.71	106.71	106.71	106.71	106.71
Other non-current liabilities	241.33	239.40	217.22	208.76	211.15	208.81	230.34	230.34	230.34	230.34	230.34	230.34
Total Liabilities	622.72	601.08	527.24	540.46	548.26	515.96	521.95	521.95	521.95	521.95	521.95	521.95
Total Shareholders' Equity	229.34	295.73	354.05	442.08	519.71	563.59	654.59	728.02	790.87	856.03	924.17	993.77
Total Liabilities & Shareholders' Equity	852.06	896.81	881.29	982.54	1,067.97	1,079.55	1,176.53	1,249.97	1,312.82	1,377.97	1,446.11	1,515.72
LIQUIDITY RATIOS												
Current Ratio	1.63	1.68	2.08	1.81	1.83	1.99	2.38	2.71	2.87	3.05	3.26	3.50
Quick Ratio	1.02	1.13	1.35	1.08	1.10	1.17	1.46	1.74	1.90	2.05	2.24	2.47
Net Working Capital	$ 161	$ 161	$ 206	$ 175	$ 187	$ 196	$ 255	$ 316	$ 346	$ 378	$ 417	$ 462
Long-term Debt/Equity	0.56	0.42	0.34	0.26	0.22	0.19	0.16	0.15	0.13	0.12	0.12	0.11
Total Debt/Equity	94%	62%	40%	32%	26%	23%	19%	17%	15%	14%	13%	12%
Operating Income/Assets Ex Cash	5%	6%	8%	7%	5%	6%	6%	7%	6%	6%	6%	6%
Operating Income/Assets Ex Cash (12 mo)	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
BOOK & CASH VALUE												
Book Value Per Share	$1.03	$1.34	$1.61	$1.99	$2.32	$2.51	$2.88	$3.20	$3.47	$3.75	$4.04	$4.34
Tangible Book Value/Share	$1.03	$1.34	$1.61	$1.99	$2.32	$2.51	$2.88	$3.20	$3.47	$3.75	$4.04	$4.34
Cash Per Share	$0.63	$0.59	$0.47	$0.42	$0.52	$0.45	$0.63	$0.81	$0.96	$1.05	$1.18	$1.36
Net Cash Per Share	($0.33)	($0.24)	($0.18)	($0.22)	($0.09)	($0.13)	$0.09	$0.28	$0.43	$0.52	$0.65	$0.83

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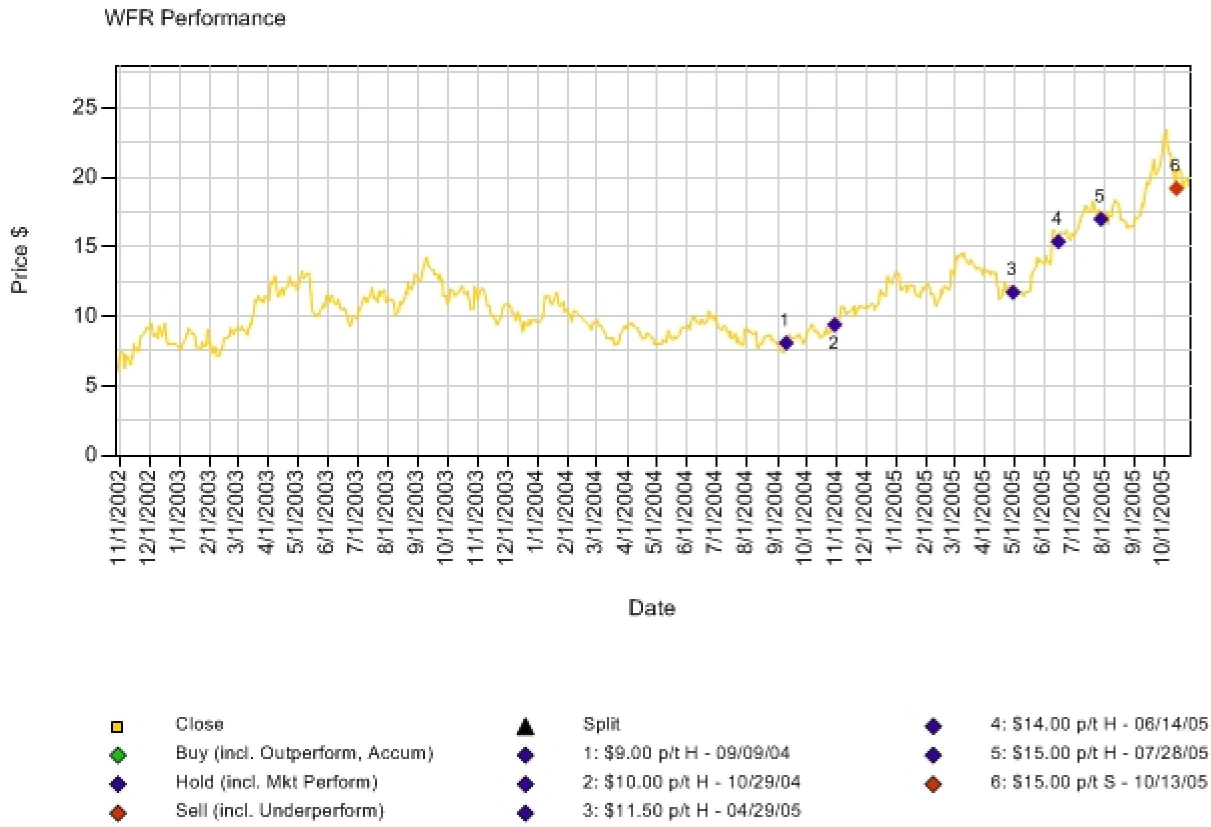
WFR Performance
25
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Price $
11/1/2002
12/1/2002
1/1/2003
2/1/2003
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5/1/2003
6/1/2003
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Close
Buy (incl. Outperform, Accum)
Hold (incl. Mkt Perform)
Sell (incl. Underperform)
Split
1: $9.00 p/t H - 09/09/04
2: $10.00 p/t H - 10/29/04
3: $11.50 p/t H - 04/29/05
4: $14.00 p/t H - 06/14/05
5: $15.00 p/t H - 07/28/05
6: $15.00 p/t S - 10/13/05