

**Technology, Media & Telecom: Semiconductor Manufacturing**

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

**MEMC ELECTRONIC MATERIALS, INC. (WFR: \$15.76\* )**St. Peters, MO  
June 14, 2005**Market Perform**Price Target \$14.00  
Update**STOCK DATA**

52 Week Range	\$16.70-\$7.33
ADTV - 3 Month	1.9
Market Cap	\$3,295.8
Shares	223.9
Outstanding (Diluted)	

**EARNINGS DATA**

EPS (FD Operating)	2004A	2005E	2006E
Dec.			
1Q	\$0.16	\$0.23A	\$0.27
2Q	0.19	0.25	0.29
3Q	0.27	0.29	0.31
4Q	0.27	0.32	0.32
FY	\$0.89	\$1.09	\$1.19
P/E	14.8x	14.4x	13.2x

FY	2004A	2005E	2006E
Revenue	1,028.0	1,122.9	1,223.9

**FINANCIAL DATA**

	1Q05
Cash & Equivalents	\$116.32
Accounts Receivable	\$130.53
Inventories	\$135.27
Current Assets	\$410.34
Total Assets	\$1,067.97
Total Current Liabilities	\$223.76
Long-Term Debt	\$113.35
Total Debt	\$136.40
Total Stockholder Equity	\$519.71

Financial Values In Millions

**WFR: Adjusting Estimates to Reflect Better Demand Environment; Increasing Price Target****Summary and Recommendation**

As it is now widely known, wafer demand has been improving over the past several weeks, particularly at foundries. We note that demand for 200mm wafer sizes and below, which accounts for 70%-75% of the total wafer capacity at MEMC, has also stabilized in 2Q. Prospects for a better demand environment in 3Q now look better than a few months ago, driven by lean chip inventories throughout the supply chain, as well as a seasonally better second half when compared to the first half. We are increasing our revenue and earnings estimates and are raising our price target to \$14. However, we maintain our Market Perform rating. Although demand prospects are now brighter than before, we need further visibility to determine the extent of sequential demand improvement.

**Key Points**

- **Wafer-demand environment improving.** Prospects for better demand environment in 3Q now look better than a few months ago, mainly driven by lean chip inventories throughout the supply chain as well as a seasonally better second half when compared to the first half.
- **Pricing stable.** Although the demand environment for silicon wafers has improved, we believe wafer prices have remained stable. We note that internal utilization rates at wafer suppliers are currently ranging between 85% and 90% (200mm at the low end, while 300mm is at the high end); and, for ASPs to improve significantly from here, the internal utilization rate would need to increase well above 90%. We do not believe that the tight supply of polysilicon has resulted in increased wafer ASPs.
- **Adjusting estimates, increasing price target.** Our 2005 and 2006 revenue/EPS estimates have increased from \$1,100M/\$1.05 and \$1,196M/\$1.14 to \$1,195/\$1.09 and \$1,224M/\$1.19. Given the increased estimates, we are also increasing our price target from \$11.50 to \$14.00, or about 13x our new 2005 EPS estimate and 9x our new 2005 EV/EBITDA.

### ***Wafer Demand Improving***

As it is now widely known, wafer demand has been improving over the past several weeks, particularly at foundries. A number of MEMC's top customers, including Texas Instruments and Taiwan Semiconductor, have recently increased second-quarter wafer shipment expectations, which is positive for MEMC. Additionally, we also believe that third-quarter wafer demand has increased compared to that of the second quarter. We note that demand for 200mm wafer sizes and below, which accounts for 70%-75% of the total wafer capacity at MEMC, has also stabilized in the second quarter. Prospects for a better demand environment in the third quarter now look better than a few months ago, mainly driven by lean chip inventories throughout the supply chain as well as a seasonally better second half when compared to the first half.

### ***Has Better Demand Environment Resulted in Improved ASPs?***

Although the demand environment for silicon wafers has improved, as explained above, we believe wafer prices have remained stable. We note that internal utilization rates at wafer suppliers are currently ranging between 85% and 90% (200mm at the low end, while 300mm is at the high end); and, for ASPs to improve significantly from here, the internal utilization rate would need to increase well above 90%. Although the wafer-demand environment has improved, as explained above, we also note that MEMC, along with its top customers, has also been increasing the 300mm capacity. This, according to our estimates, will result in 6%, 8%, and 3% sequential increases in total capacity at MEMC from 2Q05 to 4Q05. Therefore, for MEMC's internal capacity utilization to improve well above 90%, sequential wafer demand would need to improve well above the rate at which capacity is coming online at MEMC. Although the prospects for such improvement in demand are now brighter than before, we still need further visibility to determine the extent of sequential demand improvement.

Additionally, although there has recently been hype on the impact of shortages of polysilicon on wafer ASPs, we note that, until the internal utilization at MEMC reaches well above 90%, we do not expect such shortages to cause a significant impact on the overall ASPs. Some pundits are arguing that the increased demand from the solar cell industry (which consumes significant amount of polysilicon materials), as well as a lack of adequate polysilicon supply, has resulted in increased wafer ASPs. However, we note that the quality of the polysilicon used in the solar cell industry is different from that which is used in the semiconductor industry, and, thus, it does not impact wafer ASPs.

### ***Adjusting Estimates to Reflect Better Demand Environment; Increasing Price Target***

Given the better demand environment, we are increasing our revenue and earnings estimates across the board. For the second quarter, our revenue estimate has increased from \$267 million to \$270 million, which is at the high end of the company's guidance range of \$263 million to \$271 million. Our 2Q05 earnings estimate remains at \$0.25 per share. On the backdrop of better revenues in the second quarter and an improved demand environment for the third quarter, we are increasing our 3Q05 and 4Q05 revenue estimates from \$279 million and \$298 million to \$290 million and \$305 million, respectively. Therefore, our 3Q05 and 4Q05 EPS estimates have also increased from \$0.27 and \$0.31 to \$0.29 and \$0.32, respectively; we have also raised our full-year 2005 EPS estimate to \$1.09 from \$1.05

To the extent that our 2005 estimates have increased, we are also increasing our 2006 estimates (keeping sequential revenue growth the same as before). Thus, our 2006 revenue and EPS estimates have increased from \$1,196 million and \$1.14 to \$1,224 million and \$1.19, compared to the consensus of \$1,270 million and \$1.27, respectively.

Given the increased estimates, we are also raising our price target from \$11.50 to \$14, or about 13x our new 2005 EPS estimate and 9x our new 2005 EV/EBITDA.

## Risks

Given the current inventory overhang, we expect near-term risks to our current estimates, as a more prolonged inventory correction could affect wafer starts over the next six months.

MEMC recently extended the useful lives of certain assets to reflect their economic lives more accurately. This reevaluation resulted in a 2% favorable impact on gross profit, which somewhat affects comparisons. We, thus, would look for ongoing improvement in gross margin through better asset utilization and turnover to determine management's effectiveness.

Although Texas Pacific Group's (TPG) ownership in MEMC has been reduced from 90% to its current level of about 60%, 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.

Given MEMC's facility loans and the indenture for its senior subordinated secured notes, the company is required to fulfill a number of restrictive covenants. In the event of violation, the loan commitments under the revolving credit facility may terminate, and, thus, the loan and accrued interest outstanding would be lost.

## Company Profile

Incorporated in 1984, MEMC Electronic Materials, Inc. is engaged in the design, manufacture, and sale of electronic-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)	MAR04A	JUN04A	SEP04A	DEC04A	FY04	MAR05A	JUN05E	SEP05E	DEC05E	FY05	MAR06E	JUN06E	SEP06E	DEC06E	FY06
REVENUE	228.8	255.5	275.3	268.4	1,028.0	257.9	270.0	290.0	305.0	1,122.9	289.8	304.2	313.4	316.5	1,223.9
% Change Y/Y	215%	33.2%	40.5%	30.9%	31.6%	12.7%	5.7%	5.3%	13.6%	9.2%	12.4%	12.7%	8.1%	3.8%	9.0%
% Change Q/Q	11.6%	11.7%	7.7%	-2.5%		-3.9%	4.7%	7.4%	5.2%		-5.0%	5.0%	3.0%	1.0%	
TOTAL COGS	155.4	168.4	164.5	170.2	658.5	164.6	172.0	180.6	186.0	703.2	180.0	186.3	189.1	189.9	745.2
GROSS PROFIT	73.3	87.2	110.7	98.2	369.4	93.3	98.0	109.4	119.0	419.7	109.8	117.9	124.3	126.6	478.6
% Total Revenue	32.1%	34.1%	40.2%	36.6%	35.9%	36.2%	36.3%	37.7%	39.0%	37.4%	37.9%	38.8%	39.7%	40.0%	39.1%
R&D	8.9	9.3	9.4	10.4	38.0	11.4	10.5	10.5	10.5	42.9	10.0	10.5	11.0	11.1	42.5
% Total Revenue	3.9%	3.6%	3.4%	3.9%	3.7%	4.4%	3.9%	3.6%	3.4%	3.8%	3.5%	3.5%	3.5%	3.5%	3.5%
SG&A	17.2	17.8	17.8	19.2	71.9	18.2	18.2	18.5	20.7	75.6	20.3	21.9	22.6	22.8	87.5
% Total Revenue	7.5%	7.0%	6.5%	7.1%	7.0%	7.0%	6.7%	6.4%	6.8%	6.7%	7.0%	7.2%	7.2%	7.2%	7.2%
OPERATING PROFIT	47.2	60.0	83.6	68.6	259.5	63.7	69.3	80.4	87.7	301.2	79.5	85.5	90.7	92.8	348.5
% Total Revenue	20.7%	23.5%	30.4%	25.6%	25.2%	24.7%	25.7%	27.7%	28.8%	26.8%	27.4%	28.1%	29.0%	29.3%	28.5%
% Change Y/Y	44.4%	78.2%	128.9%	72.9%	81.9%	34.9%	15.4%	-3.8%	27.8%	16.1%	27.4%	23.4%	12.9%	5.7%	15.7%
% Change Q/Q	19.0%	27.1%	39.2%	-17.9%		-7.2%	8.7%	16.0%	9.1%		-9.4%	7.6%	6.1%	2.3%	
OTHER	6.5	(9.1)	(0.4)	2.4	(0.6)	(1.3)	(0.5)	(0.5)	(0.5)	(2.8)	(0.5)	(0.5)	(0.5)	(0.5)	(2.0)
PRETAX PROFIT	53.7	51.0	83.2	71.1	258.9	62.4	68.8	79.9	87.2	298.4	79.0	85.0	90.2	92.3	346.5
% Total Revenue	23.5%	19.9%	30.2%	26.5%	25.2%	24.2%	25.5%	27.6%	28.6%	26.8%	27.3%	27.9%	28.8%	29.2%	28.3%
% Change Y/Y	83.2%	47.5%	70.9%	64.0%	66.1%	16.2%	35.0%	-3.9%	22.8%	15.2%	26.5%	23.6%	12.9%	5.8%	16.1%
% Change Q/Q	24.0%	-5.1%	63.1%	-14.6%		-12.1%	10.2%	16.1%	9.2%		-9.5%	7.7%	6.1%	2.3%	
TAXES	13.4	12.7	20.8	10.6	57.6	9.4	10.3	12.0	13.1	44.8	15.8	17.0	18.0	18.5	69.3
Tax Rate	25.0%	25.0%	25.0%	15.0%	22.2%	15.0%	15.0%	15.0%	15.0%	15.0%	20.0%	20.0%	20.0%	20.0%	20.0%
OTHER AFTER TAX	17	(17.5)	-	(11.0)	(26.8)	(25.0)	-	-	-	(25.0)	-	-	-	-	-
MINORITY INTERESTS	2.7	3.0	2.7	2.4	10.7	1.8	2.0	2.0	2.0	7.8	2.0	2.0	2.0	2.0	8.0
NET INCOME - CONT OPS	35.9	43.1	59.7	59.0	197.7	51.3	56.5	65.9	72.2	245.9	61.2	66.0	70.2	71.8	269.2
% Total Revenue	15.7%	16.9%	21.7%	22.0%	19.2%	19.9%	20.9%	22.7%	23.7%	21.9%	21.1%	21.7%	22.4%	22.7%	22.0%
% Change Y/Y	81.9%	57.9%	69.7%	71.4%	69.5%	42.9%	31.1%	10.4%	22.4%	24.4%	19.2%	16.9%	6.5%	-0.5%	9.5%
% Change Q/Q	4.4%	20.0%	38.6%	-1.2%		-13.0%	10.1%	16.7%	9.5%		-15.2%	7.9%	6.3%	2.3%	
NET INCOME - TOTAL	35.9	60.6	59.7	70.0	226.2										

WFR Cash Flow Model												
	(\$ Millions)											
	1Q04A	2Q04A	3Q04A	4Q04	1Q05	2Q05E	3Q05E	4Q05E	1Q06E	2Q06E	3Q06E	4Q06E
Net Income from Operations	35.91	60.60	59.72	69.97	76.31	56.48	65.92	72.16	61.17	66.03	70.19	71.83
Depreciation & Amortization	9.92	10.24	11.44	12.53	13.34	12.15	13.05	13.73	14.49	15.21	15.67	15.82
(Incr) Decr in Accounts Receivable	(16.23)	(19.61)	(13.01)	(11.15)	10.19	(11.49)	(10.52)	(7.89)	11.20	(7.48)	(4.70)	(1.61)
(Incr) Decr in Inventories	(13.56)	10.49	(7.22)	(7.79)	(7.70)	(9.72)	(7.56)	2.14	7.52	(7.14)	(4.50)	(1.55)
(Incr) Decr in Other Current Assets	(9.40)	10.10	1.32	(9.61)	150	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(Incr) Decr in Other Liab. (Excl. debt)	27.31	11.01	(6.26)	31.86	(20.31)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
=Cash from Operations	33.95	82.83	46.00	108.12	73.34	47.42	60.88	80.13	94.38	66.63	76.66	84.49
(Incr) Decr in Other Non-Current Assets	(57.23)	0.01	0.06	0.01	(0.03)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital Spending (Net of sales)	(23.00)	(44.00)	(25.50)	(51.73)	(54.40)	(38.00)	(38.00)	(40.00)	(45.36)	(45.00)	(46.00)	(46.00)
=Cash from Investing	(86.23)	(43.99)	(25.44)	(51.72)	(54.43)	(38.00)	(38.00)	(40.00)	(45.36)	(45.00)	(46.00)	(46.00)
Incr (Decr) in Non-curr Liab. (Excl. debt)	(23.55)	(7.57)	(11.7)	(8.47)	5.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Additional Debt	83.42	(31.94)	(40.19)	(78.30)	(4.08)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Common Stock/Other Equity	(0.18)	5.78	0.60	18.06	1.31	0.00	0.00	0.00	0.00	0.00	0.00	0.00
=Cash from Financing	59.68	(33.73)	(40.75)	(69.31)	2.28	0.00	0.00	0.00	0.00	0.00	0.00	0.00
=Increase/(Decrease) in Cash	7.41	5.10	(20.20)	(12.91)	21.19	9.42	22.88	40.13	48.02	21.63	30.66	38.49
+Beginning Cash	130.70	140.62	129.49	103.31	92.31	116.32	125.74	148.62	188.75	236.76	258.40	289.05
+Adjustment	(0.40)	(13.79)	(5.94)	1.91	2.81	0.00	0.00	0.00	0.00	0.00	0.00	0.00
=End Cash	137.70	131.93	103.35	92.31	116.32	125.74	148.62	188.75	236.76	258.40	289.05	327.55
FREE CASH FLOW												
Quarterly	4.95	38.83	20.50	56.39	18.94	9.42	22.88	40.13	48.02	21.63	30.66	38.49
% Y/Y	-58%	868%	133%	120%	-282%	-78%	12%	-29%	154%	130%	34%	-4%
% Q/Q	-81%	684%	-47%	175%	-68%	-50%	143%	75%	20%	-55%	42%	-26%
FY-End				\$ 121				\$ 91				\$ 139
% Y/Y	2%	15%	7%	21%	7%	3%	8%	13%	17%	7%	10%	12%
FY-End				122%				82%				112%
ASSETS												
Cash & equivalents	140.62	129.49	103.31	92.31	116.32	125.74	148.62	188.75	236.76	258.40	289.05	327.55
Accounts receivable, net	119.25	138.86	151.87	140.73	130.53	142.03	152.55	160.44	149.24	156.70	161.40	163.02
Inventories, net	123.05	116.56	119.78	127.56	135.27	144.99	152.55	150.41	142.89	150.03	154.54	156.08
Other current assets	31.54	16.44	20.12	29.72	28.22	28.22	28.22	28.22	28.22	28.22	28.22	28.22
Total Current Assets	414.45	397.36	395.08	390.33	410.34	440.37	481.93	527.81	557.12	593.35	633.21	674.86
PPE	361.55	392.71	387.28	444.67	476.34	502.19	527.14	553.41	585.29	615.07	645.41	675.58
Other non-current assets	76.06	106.74	98.94	147.54	181.29	181.29	181.29	181.29	181.29	181.29	181.29	181.29
Total Assets	852.06	896.81	881.29	982.54	1,067.97	1,124.45	1,190.37	1,262.52	1,323.69	1,389.72	1,459.91	1,531.74
LIABILITIES & SHAREHOLDERS' EQUITY												
Short term debt	86.90	57.45	21.87	24.40	23.06	23.06	23.06	23.06	23.06	23.06	23.06	23.06
Other current liabilities	166.88	179.12	167.63	191.23	200.71	200.71	200.71	200.71	200.71	200.71	200.71	200.71
Total Current Liabilities	253.78	236.57	189.50	215.62	223.76	223.76	223.76	223.76	223.76	223.76	223.76	223.76
Long term debt	127.61	125.12	120.51	116.08	113.35	113.35	113.35	113.35	113.35	113.35	113.35	113.35
Other non-current liabilities	241.33	239.40	217.22	208.76	211.15	211.15	211.15	211.15	211.15	211.15	211.15	211.15
Total Liabilities	622.72	601.08	527.24	540.46	548.26	548.26	548.26	548.26	548.26	548.26	548.26	548.26
Total Shareholders' Equity	229.34	295.73	354.05	442.08	519.71	576.19	642.10	714.26	775.43	841.46	911.65	983.48
Total Liabilities & Shareholders' Equity	852.06	896.81	881.29	982.54	1,067.97	1,124.45	1,190.37	1,262.52	1,323.69	1,389.72	1,459.91	1,531.74
LIQUIDITY RATIOS												
Current Ratio	163	168	2.08	1.81	183	197	2.15	2.36	2.49	2.65	2.83	3.02
Quick Ratio	102	113	1.35	1.08	110	120	1.25	1.56	1.73	1.86	2.01	2.19
Net Working Capital	\$ 161	\$ 161	\$ 206	\$ 175	\$ 187	\$ 217	\$ 258	\$ 304	\$ 333	\$ 370	\$ 409	\$ 451
Long-term Debt/Equity	0.56	0.42	0.34	0.26	0.22	0.20	0.18	0.16	0.15	0.13	0.12	0.12
Total Debt/Equity	94%	62%	40%	32%	26%	24%	21%	19%	18%	16%	15%	14%
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	\$103	\$134	\$161	\$199	\$232	\$257	\$286	\$317	\$344	\$372	\$4.03	\$4.34
Tangible Book Value/Share	\$103	\$134	\$161	\$199	\$232	\$257	\$286	\$317	\$344	\$372	\$4.03	\$4.34
Cash Per Share	\$0.63	\$0.59	\$0.47	\$0.42	\$0.52	\$0.56	\$0.68	\$0.84	\$1.05	\$1.14	\$1.28	\$1.44
Net Cash Per Share	(\$0.33)	(\$0.24)	(\$0.18)	(\$0.22)	(\$0.09)	(\$0.05)	\$0.05	\$0.23	\$0.45	\$0.54	\$0.67	\$0.84
Proprietary to Friedman, Billings, Ramsey and Co., Inc. - Mehdi Hosseini - 415,248,2931												



# IMPORTANT INFORMATION CONCERNING FRIEDMAN, BILLINGS, RAMSEY & CO., INC.

## Company Specific Disclosures

Specific disclosures are applicable to tickers indicated.

MEMC ELECTRONIC MATERIALS, INC. (WFR)

<http://www.fbrcorp.com/d.asp?GVKEY=060992&IID=01>

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- Outperform — FBRC expects that the subject company will outperform similar companies within its industry over the next 12–18 months. We recommend that investors buy the securities at the current valuation.
- Market Perform — FBRC expects that the subject company will perform in line with similar companies within its industry. We recommend that investors maintain their current positions and add on weakness as the valuation or fundamentals become more favorable.
- Underperform — FBRC expects that the subject company will underperform similar companies within its industry. We recommend that investors reduce their positions until the valuation or fundamentals become more compelling.

Rating	FBRC Research Distribution <sup>1</sup>	FBRC Banking Services in the past 12 months <sup>1</sup>
Buy (Outperform)	50.8 %	21.7 %
Hold (Market Perform)	43.4 %	5.2 %
Sell (Underperform)	5.9 %	0.0 %

<sup>(1)</sup>As of midnight on the business day immediately prior to the date of this publication.

A description of the five-tiered rating system used prior to October 11, 2002, can be found at <http://www.fbrcorp.com/disclosurespre10702.asp>.

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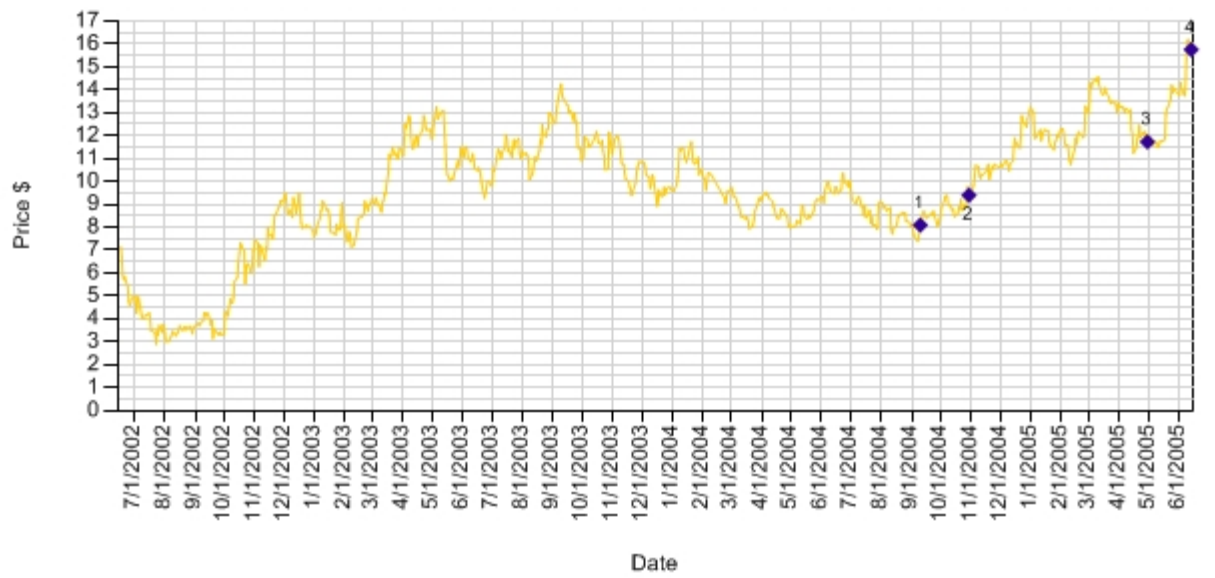
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# WFR Performance



- |                               |                            |                             |
|-------------------------------|----------------------------|-----------------------------|
| Close                         | Sell (incl. Underperform)  | 2: \$10.00 p/t H - 10/29/04 |
| Buy (incl. Outperform, Accum) | Split                      | 3: \$11.50 p/t H - 04/29/05 |
| Hold (incl. Mkt Perform)      | 1: \$9.00 p/t H - 09/09/04 | 4: \$14.00 p/t H - 06/14/05 |