FINAL TRANSCRIPT

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WFR - Q4 2004 MEMC Electronic Materials Earnings Conference Call

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OVERVIEW

WFR reported 4Q04 sales of $268.4m. 2004 sales grew 32% and came in at over $1b. 4Q04 diluted EPS was $0.31. For 1Q05, WFR anticipates sales and margins to be approx. flat with 4Q04. Q&A Focus: Guidance, wafers, and expenses.

CORPORATE PARTICIPANTS

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MEMC Electronic Materials - Director of IR

Tom Linnen
MEMC Electronic Materials - CFO

Nabeel Gareeb
MEMC Electronic Materials - President and CEO

CONFERENCE CALL PARTICIPANTS

Ted Parmigiani
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Brett Hodess
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Fang Furury
J. & W. Seligman - Analyst

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Mosaic Asset Management - Analyst

Editor

PRESENTATION

Operator

Hello, and welcome to today's MEMC Conference Call.

(OPERATOR INSTRUCTIONS.)

I'm now turning the call over to Mr. Bill Michalek, Director of Investor Relations for MEMC. Sir, you may begin when ready.

Bill Michalek - *MEMC Electronic Materials - Director of IR*

Good afternoon and thank you for joining our fourth quarter earnings conference call. Nabeel Gareeb, President and CEO, and Tom Linnen, CFO, are with me today.

Before we begin, please note that this call will include forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from management's current expectations. These risks are described in the earnings release published today and in our 2003 Form 10-K.

I will now turn the call over to Tom Linnen, who will present an overview of the quarterly results.

Tom Linnen - *MEMC Electronic Materials - CFO*

Thanks, Bill. In the fourth quarter, MEMC's sales were $268.4 million, which is the midpoint of our guidance, and up 31 percent over the fourth quarter of 2003. Driven by higher volumes, sales for the year grew 32 percent and came in at over $1 billion.

Pricing remained stable in the fourth quarter, but cost of goods sold was impacted by a changing product mix, and production adjustments taken to optimized inventories. These factors caused gross margins to come in at 36.6 percent for the quarter. Gross margins finished the year at 35.9 percent, up 6 points from 2003's level of 29.8 percent.

Total operating expense was $28.5 million in the fourth quarter, up $1.3 million over the third quarter, due primarily to higher R&D expense. Research and development expense increased $968,000 from the third quarter due to a higher level of development activity associated with SOI and 300mm products.

Marketing and administration expense was also increased by $1.4 million over the third quarter level. One-time charges and higher consulting fees associated with Sarbanes-Oxley implementation caused the majority of the marketing and admin increase. The increase was largely offset by a $996,000 reversal of a prior restructuring charge.

Operating income in Q4 was $69.6 million, or 25.9 percent of sales. And the company finished the year with operating income of 25.3 percent of sales. Operating income for the year totaled $260 million, and increased 83 percent over 2003.

This increase in operating income is more than double the 32 percent increase in sales.

This strong operating income continued to drive outstanding cash flow for the company. Operating cash flow for the quarter was close to 40 percent of sales, and totaled $283 million for the year, or 27.5 percent of sales. This cash flow allowed us to continue debt repayment in the fourth quarter, and the Company redeemed its $67.7 million subordinated notes, including accrued interest. Redeeming this debt, due in late 2007, without penalty is a major milestone. It avoids high interest charges in future periods, and saves over $30 million in cash compared to the total principal plus interest due in 2007. Total debt repayment in 2004 exceeded $140 million.

MEMC reported $0.31 in diluted earnings per share for the fourth quarter. Included in this $0.31 number is a $0.05 non-operating gain associated with two events. First, a charge of $61.4 million was required, which related to the redemption of the subordinated debt. This was more than offset by two favorable income tax adjustment, one being the $47.8 million reversal of valuation allowances against deferred tax assets, followed by a reduction of the company's effective tax rate for 2004 to 17 percent.

Turning to our expectations for the first quarter, due to uncertainty associated with the size and mix of inventory shifts by our customers in the quarter, we anticipate our sales and margins in the 2005 first quarter will be approximately flat with the 2004 fourth quarter. We believe that operating expenses will decline slightly from the fourth quarter's $28.5 million. Interest expense will decline to $600,000 due to the redemption of the notes.

Let me now turn the call over to Nabeel.

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Thank you, Tom. This has been a very exciting year for MEMC and a progress filled fourth quarter.

Starting with the quarter. We believe that we gained market share this quarter. In addition, we redeemed our senior subordinated debt three years ahead of schedule, and made great strides in our 300mm and SOI programs. The redemption of the notes is a particularly significant event as it eliminates the 14 percent interest rate debt, and brings us closer to our goal of being debt free.

Reflecting on our accomplishments in 2004, we achieved many significant milestones. We crossed over the $1 billion mark in revenues, crossed the dollar-per-share mark in earnings, significantly ramped our 300mm business, paid off over $140 million of debt, hit record margin and profit levels, and have continued to position ourselves for the future through our acquisition of Taisil, and through our strong development efforts with respect to new materials.

Our 2004 results showed significant improvements for the third consecutive year through fluctuating market conditions. Revenue increased by 32 percent over 2003, earnings increased by over 90 percent, our gross margin was 610 basis points higher than last year, our operating margin was 700 basis points higher, and operating cash flow as a percent of sales was 2,300 basis points higher. These are phenomenal results and show the strength of our business model.

As mentioned in the press release, our 300mm expansion program is proceeding very well. By the end of the first quarter, we anticipate crossing over the 150,000 wafers per month mark of 300mm capacity. We will achieve 200,000 wafers per month within the summer period of 2005. This will keep us on track to our original plan and get us to approximately 350,000 wafers per month capacity by the end of 2006, using only existing infrastructure.

In line with this plan, we anticipate that the first 300mm wafers from our Taisil facility in Taiwan will be available in the early part of the third quarter of this year. That will make it the first facility producing 300mm wafers in Taiwan, and will be an excellent strategic resource for customers in the region, and a great platform for us to continue to strengthen our position in Asia.

Our new materials programs are continuing to advance and I'm excited about our prospects in this high growth market. I believe that MEMC will emerge as a leading player in this field in the second half of this decade by providing high capability and cost effective solutions to effectively commercialize this market.

In summary, I am very excited about our prospects for 2005 and for the next few years. I believe that our competitive positioning is very strong and that market dynamics will continue to disproportionately benefit MEMC. Our business model is strong, we continue to grow earnings at rates much faster than sales, continue to generate strong cash flows, and are strengthening every aspect of our business.

We will now take your questions. Operator?

QUESTIONS AND ANSWERS

TRANSCRIPT

Editor

(OPERATOR INSTRUCTIONS.) Ted Parmigiani, Lehman Brothers.

Ted Parmigiani - *Lehman Brothers - Analyst*

Just wanted to talk a little bit about, I guess the second half versus the current Q1 outlook. And basically, what I'm trying to get at is, if we look at Q3, we kind of saw--it must have been a pretty good--you know, not to over exaggerate it, but it must have been something like the best of all worlds, because you did about 275 and drove 40 percent gross margin.

Could you kind of walk us through how you get back to that? You know, I guess commenting also in that answer about Q1 pricing negotiations, and how much that is playing a role here. A pretty good outlook, but something that's still a little bit underneath the Q3 performance.

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

That's a good question, Ted. In terms of how to get back to the Q3 performance, I think time will take care of that. Fundamentally, as we have said, Q3 we jumped 400 basis points, which was significant. And our goal was that--our statement was that that rich mix would not necessarily repeat itself in Q4. That's basically what happened.

Unfortunately, we saw a little more adjustments than we anticipated in terms of mix. This is happening because the customers are adjusting their inventory or their stock requirements differently than their traditional order patterns. So, it's not a simple, predictable mix and that's overflowing into Q1 a little bit as well.

I suspect as 2005 evolves, unit consumption will continue to rise. We'll get back into similar situations in the second half of this year and over to next year. And with 300mm added into that mix, that will get us climbing on that track again. So, that's kind of the first answer.

The second one, in terms of Q1 pricing, yes, of course in an inventory correction situation, we do get some pricing pressure. But, we've based that into our guidance and that's all I'd like to say about it at this time.

Ted Parmigiani - *Lehman Brothers - Analyst*

Okay. Could you just, as a follow up to that, could you just kind of give a qualitative comparison on negotiations this year given kind of a different context versus last year, where it was kind of the expectation for a lot of growth as did occur. Can you kind of give us any granularity on differences there?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

I think last year the negotiations were, again, shortages, people realize them after they occur. So last year, if you're looking at annual negotiations, the negotiations for '04 were actually done in December of '03, which was a reasonably strong quarter, but nothing as strong as mid, you know, spring or early summer, if you will. So, yes, there's some pricing pressure. It's not significantly different from last year, if you will. But, I don't anticipate it to go significantly higher, either.

Ted Parmigiani - *Lehman Brothers - Analyst*

Okay. And Nabeel, just one more thing on capacity utilization for MEMC, as well as your understandings of the sector? Where it stands today?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Yes, capacity utilization for MEMC was just about, you know, just a little bit under 90 percent. I think probably the industry's probably about the same place, and I don't see that significantly changing moving forward, at least for Q1. Q1 will probably be a little bit higher. Q2 will again I think be higher, because unit growth I think for us will continue to manifest itself.

Operator

Brett Hodess, Merrill Lynch.

Brett Hodess - *Merrill Lynch - Analyst*

I've got a couple of questions. First, can you give us an update on what your cap spending plan will be this year to meet the 300mm ramp? And in addition to that, on the polysilicon side, we keep seeing reports that polysilicon's become tighter and prices have moved up there. I know you make your own, but can you give us an update on how you stand on that?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

I think in terms of CapEx, Brett, we hold to that guideline of about 15 percent of revenues. That's about the only guidance we provide. So, that's a pretty straightforward assumption. We're not going to change that. Based into that is the 300mm, SOI, string silicon, all those things, the 200mm upgrades for below 90 nanometer capability. All those things are included in that 15 percent assumption.

In terms of poly, you're absolutely right. We make the large majority of our own and consume it. And yes, we talked about this a little bit last year. A poly shortage did occur last year as the wafer market heated up. And we believe it's probably going to happen again. And those who make their own will be at a strategic advantage as opposed to those who don't, and they'll have to buy it on the open market for higher prices.

Brett Hodess - *Merrill Lynch - Analyst*

Okay. And then following on on the tax rate side. It dropped to 17 percent, so you got the benefit back in '04. What's the outlook for '05 at this point?

Tom Linnen - *MEMC Electronic Materials - CFO*

You know, in the future, I think there's probably going to be more discussions than in the past regarding effective tax rates because, as you can see, we have a very complex global tax structure, also tax planning and forecasting issues, where the reasonable profitability will occur. But right now, we continue to guide to the 20 percent rate for the year, which is up from the 17 percent rate realized in 2004.

Brett Hodess - *Merrill Lynch - Analyst*

Okay. And then one final question. Back on the pricing side. The differential between the 200mm and 300mm pricing at this point, are you seeing that narrow anymore or is that fairly stable at this point in time?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

I'd say it's reasonably stable. I mean, depending on when the capacity is, where it is and in an inventory situation, I think the delta is probably pretty stable.

Brett Hodess - *Merrill Lynch - Analyst*

Do you think that it'll stay that way for this year or for the better part of this year, Nabeel?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

I think so. I think so. You know, late '06, '07, there may be--at some point, because the balance is almost so perfect now, at some point it's got to become a little imbalanced for a little bit of time. But, I don't think that's this year.

Brett Hodess - *Merrill Lynch - Analyst*

So that would imply then that, as mix shifts towards 300mm, as the 300mm volume rises, that blended average prices will benefit from that.

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Absolutely.

Operator

[Fang Furury], J. & W. Seligman.

Fang Furury - *J. & W. Seligman - Analyst*

Just got a couple clarifying questions. First, on OpEx, how much do you expect operating expenses to decrease in Q1, and what do you kind of expect them to do during the year?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

I would say slight decrease in Q1, and we don't give guidance for the rest of the year. We'll do it quarter by quarter. But, our focus in R&D continues to increase, but I don't think there's any significant increases above our operating model.

Fang Furury - *J. & W. Seligman - Analyst*

So then we'd go back to Q3 levels, or somewhere in-between Q3 and Q4?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Probably in-between.

Fang Furury - *J. & W. Seligman - Analyst*

Okay. And then on the other income side, I think you guys had--was that $5 million of other income gain? What was that and what will that be going forward, that line item?

Tom Linnen - *MEMC Electronic Materials - CFO*

They were unusual, one-time items relating--we usually put in there capital equipment gains and losses and other non-operating items. And they're just unusual, one-time reversals.

Going forward, I have nothing to forecast but zero. This doesn't say I'm not going to have an unusual event occur one time, and fortunately they've been favorable. But, I don't have anything planned in that number. Our other income, other expense should be, for forecasting purposes, is purely the interest expense and interest income which, together, should net now to about $600,000.

Fang Furury - *J. & W. Seligman - Analyst*

Okay. So that's net of $600,000 interest income or is that $600,000 of interest expense and--so is that saying $1.2 million of interest income and $600,000 of interest expense, or did I misunderstand that?

Tom Linnen - *MEMC Electronic Materials - CFO*

No, it nets to $600,000 of interest expense. Specifically, it's 1.7 approximately of interest expense and 1.1 of interest income.

Fang Furury - *J. & W. Seligman - Analyst*

Oh, I see. Okay. I missed that. And in terms of share count, where do you expect that going forward?

Tom Linnen - *MEMC Electronic Materials - CFO*

The share count will fluctuate based upon--only based upon the share price primarily due to the treasury [inaudible] and the company's share outstanding. And that's why you see the slight increase. So, other than--you know, right now we're at 222. As the price of the stock goes up, it'll go up slightly.

Fang Furury - *J. & W. Seligman - Analyst*

Okay. And then, ASPs. What was the change in ASPs in Q4 and what's implied in the guidance?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Well, in the guidance basically we have implied that the ASPs will be about flat and they were flat to slightly up in Q4, primarily due to the mix.

Fang Furury - *J. & W. Seligman - Analyst*

Okay. And if you take out the mix, what were ASPs doing?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Approximately flat.

Operator

Pierre Maccagno, Needham.

Pierre Maccagno - *Needham & Company - Analyst*

Can you add a little bit of color on the inventory correction regarding your customers memory versus analog? Any difference there?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Yes, Pierre. We try to be cautious on that, but basically, memory has not seen any significant corrections, if you will, since this entire process started, if you will, in the summer. It's primarily been in the non-memory sectors and, if you will, more so on the analog front than any other front. So, that's probably an accurate separation.

Pierre Maccagno - *Needham & Company - Analyst*

And do you think it will do this going into the next quarter?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

We see signs of it. We see signs of recovery, and that's why we believe that probably around sometime during the spring period--it's hard to tell if it's end of Q1, beginning of Q2--but sometime during the spring period this will probably come to a half and provide the recovery we're looking for.

Pierre Maccagno - *Needham & Company - Analyst*

Okay. And then for Tom, could you be a little more specific about the SG&A charge? What would that be?

Tom Linnen - *MEMC Electronic Materials - CFO*

Well, for one thing, we had higher than normal Sarbanes-Oxley consulting fees. It's not that we're going to have higher expenses going forward, but they were higher than normal in the fourth quarter. We had other one-time restructuring items that are not going to reoccur in the future.

Pierre Maccagno - *Needham & Company - Analyst*

I mean, just so we can normalize the earnings, how much would that be so we can take it out?

Tom Linnen - *MEMC Electronic Materials - CFO*

Again, if you look at the net number of the--operating expenses going down from the 28.5, or better yet, maybe if you look at marketing and administration expense and combine the restructuring reversal, then you'd have a better idea of what our run rate, or what our real expenses were in the fourth quarter. And they're going to come down slightly from there in marketing and admin.

Pierre Maccagno - *Needham & Company - Analyst*

Okay. And for the quarter, what was your actual effective tax rate? Was it 17 percent?

Tom Linnen - *MEMC Electronic Materials - CFO*

For the quarter, it was--well, we had an adjustment of the prior nine months when we recorded it at 25 percent. And that adjustment flowed into the fourth quarter and we adjusted it down to 17 percent. But in essence, for the quarter, it actually was--the amount we had to accrue was 17 percent.

Pierre Maccagno - *Needham & Company - Analyst*

So the quarter was 7 percent?

Tom Linnen - *MEMC Electronic Materials - CFO*

17 percent.

Pierre Maccagno - *Needham & Company - Analyst*

Oh, 17 percent. Okay.

Operator

Steven Chin, UBS.

Marissa Fernandez - *UBS Warburg - Analyst*

Hi. This is actually [Marissa Fernandez] for Steven. Congratulations on the quarter. And I have a couple of housekeeping questions. I was wondering if you could elaborate a little bit on what the unfavorable mix was in the fourth quarter that impacted your gross margins.

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

There's no real way to characterize it. It's really simply--well, we had a very favorable mix in third quarter. We felt that that favorable mix wouldn't repeat itself in fourth quarter. It became a little more unfavorable than we thought. You know, basically, if customers cancel one type of product because they were just trying to reduce inventory but not necessarily--that's not their demand pattern, that causes a shift in the mix. Then, as they're trying to manage inventories to make sure their inventories don't go out of control and you slow down production in factories, those sorts of things, that compounds it by giving you variance at the manufacturing margins. So, both two things were combined to give us the magnitude of the hit in Q4.

Marissa Fernandez - *UBS Warburg - Analyst*

Is that something to do with customers who buy more prime wafers rather than Epi wafers?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

No, no. That's not what we--you know, there would be some of that. There would be some of that in there, but that wouldn't be the majority. It would be the change in the ordering pattern from Q3 to Q4 as the corrections occur.

Marissa Fernandez - *UBS Warburg - Analyst*

Okay. And then you mentioned that capacity utilization rate in the fourth quarter was under 90 percent. I recall that in prior quarters it used to be the case that capacity utilization for 200mm wafers just above the average. Is that still the case?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

No, I would say that's not still the case.

Marissa Fernandez - *UBS Warburg - Analyst*

So, you don't think [inaudible] is past reserves?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Yeah, but I mean, I would say that 300mm utilization is stronger than 200mm utilization, but it's not--I mean, it's not significantly different. I mean, you'd probably end up splitting hairs.

Marissa Fernandez - *UBS Warburg - Analyst*

Okay. And finally, have you seen any significant change in the mix of monitor wafers for 300mm?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

No, we haven't seen a significant shift. You know, I think there's a little bit of confusion on that topic. What sometimes happens is people are thinking, well, gee, as the 300mm consumption matures, that mix should become a lot more favorable on prime. We've always had a reasonably favorable mix on prime. But, what also tends to occur is that people start producing or developing devices with the next node. And as you do that, well then they start using more test and monitor wafers for the next node and the current node, obviously, the prime mix increases.

So, you know, for an industry ratio of 60:40, 70:30, that's typical. I don't think that that's going to go away to an 80:20 or a 90:10 in the next year or two, because they're going to kind of keep coming out with new nodes of development. Now, as the volume of 300mm increases in aggregate, that will, obviously, the percentage of that part of the total will obviously decline. But that may take another couple of years or so.

Operator

Steve O'Rourke, Deutsche Bank.

Steve O'Rourke: Nabeel, a couple--just a question here. There have been a number of announcements [inaudible] on increasing capacity over the next two years. Do you see that there is some potential risk of even periodic oversupply that could result in inordinate pricing pressures, or is the industry managing this very well?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

That's a good question, Steve. You know, we've gotten that question several times. I think it's three-fold. Number one, if the data is available, I think the industry is capable of managing it, which is why recently we're thinking about keeping our expansion plans under wraps. I think back in the October conference call I said we wouldn't say anything. But we wanted to make sure we, after thinking about it a little bit more, we said at least once a year in an earnings release we'll telegraph what we're doing so everybody kind of knows what we're doing, especially from an investor relations perspective. Our shareholders sometimes get concerned that, gee, you might be lagging behind, what have you.

Second, I don't believe that there will be--there will be no pressure in my mind. There will be some periods of oversupply, some period of undersupply; that's natural. I mean, nothing goes in balance completely. But, I don't believe that that's in '05. Maybe in the latter part of '06 there may be some risk of that.

But so far, everything we do from a bottoms-up, fabs-up model, which is a third part of the answer really, leads us to believe that all the editions that everybody's announced are really reasonably well matched by the fab expansions that our customers have announced. Now, in a [inaudible] orders or don't install on time or don't ramp on time or have delays, then I would say that makes a difference.

But also since we've got an existing infrastructure, we can manage our expansions. And that's why we've given those as approximate figures. If it turns out the demand is not there, well, we'll slow it down. If it turns out that the demand is there, we can even accelerate it faster than what we've articulated.

Steve O'Rourke: Fair enough. Then shifting gears a little bit, you talked a little bit about SOI development work and R&D expenses coming up with it. What kind of revenue does that contribute now? What kind of a revenue ramp are you looking for there and what kind of margins would you see on that type of a product compared to your standard margins?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

There's no significant revenue associated with new materials at this stage, and we wouldn't break that out. We depict that in our investor presentation as basically a growth opportunity over the second half of the decade. And we think we can be very, very powerful, both from a capability and a cost effectiveness standpoint, because that's what it will take to commercialize this part of the market.

So, at this stage, we're basically in development, qualification, samples. Over the next year or two we'll be ramping, and then I think you'll see us as a major force in that area.

Operator

Krishna Shankar, JMP Securities.

Krishna Shankar - *JMP Securities - Analyst*

Yes, in terms of--can you comment a little bit on pricing, what you've seen in terms of 200mm trends versus 300mm trends, and how you expect pricing trends for those two classes of wafers in 2005?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Krishna, I don't know that I would be able to separate it out significantly. I mean, again, it depends. You know, we see more inventory corrections on 200mm. We haven't seen as much of an inventory correction, if you will, on 300mm. So obviously, the pricing pressure gets a little bit higher on the 200mm diameters and below.

But other than that, as part of this inventory correction, I don't see anything significant changing because I think, as that consumption rate climbs back up, and we're starting to see that on customers, a 200mm will end up in the same situation it was a year ago, where there's not more blanket capacity being added. The 300mm, the capacity's being added, but it's in pretty good balance, at least for the time being and probably through the rest of this year. So, there will be the nominal price pressures, but I don't see anything abnormal occurring for either one of those diameters.

Krishna Shankar - *JMP Securities - Analyst*

Okay. And in terms of setting up the learning curve on 300mm manufacturing, in the past you indicated that the 200mm wafers, being a very mature technology, they were essentially a lot more profitable to manufacture, just given the learning curve experience. Where do you stand in terms of the learning curve on 300mm wafer production?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Well, I don't recall saying that 200--in any event, I'm not--I don't recall the exact statements you made, but very specifically, we think we're very far along the 300mm curve. And I think we've stated in the past that 300mm margins for us are higher than 200mm margins on an incremental basis. So, we feel pretty comfortable that we're very far along--and you have to be to be running at 100,000 plus wafer per month rate run rate. Otherwise, you'd be losing your shirt.

Krishna Shankar - *JMP Securities - Analyst*

Great. And I guess you have the flexibility to switch between those two wafer types, just given your ability to mix and match production between the two wafer sizes?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

No. No. I don't recall saying that, either. I mean, the 300mm equipment for the most part is pretty specific to that diameter.

Krishna Shankar - *JMP Securities - Analyst*

Sure, I understand. But just in terms of your ability to incrementally add capacity to each of your production plants, you have flexibility to add [inaudible] growing capacity for either one at all the plants?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Oh, I see. In terms of facility infrastructure. I'm sorry, yes. Yes. That's pretty flexible. As a matter of fact, there's specific dedicated sites for 300mm. We have obviously our facility in Japan in Utsunomiya that we were putting 300mm in. And we just designated basically Taisil as the second facility, which we think is going to be a phenomenal advantage for us and our customers.

Krishna Shankar - *JMP Securities - Analyst*

And finally on Taisil, given the high amount of capital spending, both in terms of new fabs and foundry activity, both in Taiwan and China, can you comment on--I guess Taisil's integrated pretty successfully. And can you comment on incremental opportunities with new customers, both in Taiwan and Mainland China going forward?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Well, I think--you know, that was one of the reasons for the acquisition of the remaining portion of Taisil. And it's turned out to be the strategic advantage we thought it would be. And I think with 300mm installation there, it will give us even more leverage in that region of the world. And hopefully, our customers will take advantage of it and will be happy about it.

We are a supplier to, I guess, just about every major fab customer, fab producer or device producer in that region of the world. And I think this will just serve to further enhance that.

Operator

Paul Leming, Soleil Securities.

Paul Leming - *Soleil Securities - Analyst*

I've got a couple of questions. First, could you give us what your actual cash tax payments were for 2004 and what you anticipate them being for 2005?

Tom Linnen - *MEMC Electronic Materials - CFO*

They were minimal in 2004. They will slightly increase in 2005. But for the large part, we are not making significant--we do not need to make significant income tax payments because of the NOLs and other tax attributes that we have around the world.

Paul Leming - *Soleil Securities - Analyst*

Not really trying to back you into specific earnings forecast, but are the NOLs sufficient to keep the cash tax payments at fairly minimal levels as far out as '06?

Tom Linnen - *MEMC Electronic Materials - CFO*

In 2006, in the United States particularly, yes. It's possible in '06 [inaudible] some cash payments. But we--.

Paul Leming - *Soleil Securities - Analyst*

It's fair to say '06 is all of the things--well, that might not be the right way to phrase it. But, given the outlook for the business today, somewhere in '06 you probably begin to exhaust the NOLs.

Tom Linnen - *MEMC Electronic Materials - CFO*

Possibly by the end of '06. I'm not trying to be coy, it's just that the tax planning opportunities, it's a very complex area and how taxes are arranged is difficult to predict. Clearly, through 2005 and into 2006, well into 2006, I don't see significant tax payments being made in the United States.

Paul Leming - *Soleil Securities - Analyst*

Fair enough. The second thing I wanted to touch on, going back to some of the questions that were asked earlier about polysilicon, could you just talk a little bit about your need to invest in that area as the company grows. Do you have the capacity in place today where you don't have to do much investment for another 12, 18, 24 months? Or is that an area that you're having to invest in incrementally as you grow the business?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Well, we certainly need to do the incremental investment and we are doing it. So, all of that is based into the CapEx guidance. You need to do the classic things, add some capability, add some capacity, do some de-bottlenecking. So all of that is ongoing and is planned to be ongoing, because with out that we can't feed our growth.

Paul Leming - *Soleil Securities - Analyst*

Is there any point in time that you become constrained at Pasadena in terms of being able to continue expanding capacity there, or is that really a pretty open-ended opportunity as you look out to the future?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Well, so far we haven't found anything that--anything's doable. It's a matter of money, right? So the key--really your question is, at what point does it become uneconomical? And I think if you look at just Pasadena as a standalone, that may not make a lot of sense. But you've got to look at Pasadena together with the wafer supply. So, it's that vertical integration that gives us that advantage to be able to say, yes, this makes a lot of sense based on the revenues and the margins from the end sales of the products to our customers. And that's really--so I think on physical standpoint, there's nothing really physically preventing us on site from expansion. I'm sure there are limitations, obviously, like there are on any given site. But, I don't see them for the foreseeable future.

Paul Leming - *Soleil Securities - Analyst*

And that's what I really was after. The next question I wanted to touch on is you indicated really the inventory correction has been very heavily concentrated in the analog end of the industry, and I think to some extent, into discrete devices. But, we really haven't seen much of a downturn in logic and memory.

Do you have any concerns as you look out into '05 that, perhaps as analog volumes begin to come back that, there's some risk of the inventory cycle going into the logic and memory side of the business?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

I don't think so. Specifically, my comments have been primarily stated in the past, have been memory and non-memory, if you will. So memory was pretty strong. Non-memory was weak in different areas. Some areas were weaker than others. And that includes logic, analog, processors. I mean, I'm lumping those three together.

I believe that as this--I don't think that memory is going to see any significant unit pressure downwards in '05. The content of memory in every device imaginable you can think of only goes up. And I believe that, yes, there may be some capacity increases at our customers that may place pricing pressures on their units, but that will continue to provide demand for our wafers. I don't know of a single memory company that's talking about unit sales being down in '05.

Paul Leming - *Soleil Securities - Analyst*

Fair enough. Last question I wanted to touch on. In your opening remarks, you talked about market dynamics looking forward disproportionately benefiting MEMC. And I was wondering if you could just put a little color behind those comments. Is it more than things like SOI and Advanced Materials? Or is that really the bulk of what you believe is going to disproportionately benefit the company in future years?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Well, I think the disproportionate benefit comes from two things. One is our business model, because our business model allows us to generate the cash to invest in the future. And if you look at some of our competitors, they've got pretty heavy loads of debt so they have to pay off the debt plus invest in obviously things like 300mm. And then on top of that, you have to invest in things like SOI and string silicon. Those are pretty significant compounding factors, in addition to the technical challenges of making sure you can product products that are capable of achieving--enabling our customers to have devices at 65 nanometers and 45 nanometers.

So, those are compounding requirements that we think we will be able to address as part of our business strategy, while some of our competitors will struggle with that, especially in terms of the cash generation piece. And that, we think, is where our strategic advantage and our competitive edge comes in. And that's why we think it will disproportionately benefit us, because of our ability to not only invest it, but also harvest the gains on the return on investment and return on assets on it.

Operator

Mehdi Hosseini, Friedman, Billings, Ramsey.

Mehdi Hosseini - *Friedman, Billings, Ramsey - Analyst*

I'm going to have a couple of questions for you. When you look at your customer forecast, is there a big significant change prior to the Chinese New Year compared to after Chinese New Year? That's my first question.

Also, if you could pour some color on the value or the [inaudible] of the consigned wafers?

And my third question has to do with the demand environment. You talked about units in [inaudible] memory is going to be up, it's going to be really strong. I'm just curious. As the 200mm capacity shifted to 300, [inaudible] vendor are going to drop prices in the 200mm line. And that's [inaudible] demand. Is that something that you're building into your forecast? Do you think there's going to be enough of a price decline in the 200mm to stimulate demand and therefore benefits you positively? Thank you.

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

I think in terms of the Chinese New Year--actually, it's interesting. I would've thought that some of the things would have gone away or people would have pushed things out. We're actually getting some indications people want some of the wafers before Chinese New Year. So, that's just small indications that things are starting to--we see some signs on the horizon of some recovery.

In terms of the forecasts, they're pretty linear throughout the quarter. They actually, to some degree, take a slight positive turn at the end of the quarter, which is why I think back to the statement that it will probably be sometime in spring that this entire correction process has come to a reasonable halt. Analog may have a little bit of a trail behind that, but even in that area we're seeing up ticks, even at this stage.

The second question for the consigned, about a third of our sales are consigned inventory. That inventory level, if you will, hasn't significantly shifted one way or the other. You know, it goes up and down and sideways and then some customers get added to consigned inventory programs as well so that shifts. But, normalized for all of that, it hasn't shifted significantly other than our proactively managing it.

And then the last question on demand environment on 200mm, I believe really what's happening--and I'm looking past this inventory correction. This was happening early in '04 as well. We will continue to see that people will take some of their 200mm assets, and if they can do it, they will upgrade that capability to be able to go below 100 nanometers. And especially in memory, that's the cheapest way of producing wafers, if you can.

So, people will do that. They will also, like you said, drop prices to stimulate demand, but they'll also get the next generation capability and that would be able to perhaps command a higher price on that same set of assets. Either way, it will generate more demand for 200mm wafers. And again, we'll be back to the same situation we were in early '04. So, I'm pretty optimistic about that in terms of late '05, early '06 as well.

Mehdi Hosseini - *Friedman, Billings, Ramsey - Analyst*

Just as a follow up, has that kind of scenario, has that made any impact on the timing of your contracts? Last year some of your contracts were six months. Going forward, do you see contracts being renewed every six months?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Our pricing agreements are broken into three buckets: annual, semi-annual and quarterly. And I'd say about 20 to 25 percent of them are annual. And then of the remainder, probably half quarterly, half semi-annual. So, I don't see any significant changes to that but, obviously, customers can do what they need to do. But, I don't see any significant changes to the terms of those. I think if we start getting back into some constraints, which we probably will in the later half of this year, I think people will start asking for longer term arrangements and then we'll see what happens.

Mehdi Hosseini - *Friedman, Billings, Ramsey - Analyst*

If I may just have one question regarding the SG&A. Tom, can you just explain to me what the reversal of that $1 million charge reversal was about? I quite didn't understand.

Tom Linnen - *MEMC Electronic Materials - CFO*

Sure. In prior years, in early 2000, when the company was going through significant restructuring, 2001, 2002, restructuring charges were taken. Under accounting rules, those restructuring charges are taken under some pretty specific identification of what that money is going to be used for, principally severance arrangements and payroll reductions and employment reductions areas. As it turned out, the actual cost of what we spent was less than the specific restructuring charges we took. We had no longer have any restructuring left in those areas that we identified at that time, and that money's able to be reversed.

Operator

[Neil Jacobs], [Boldry] Capital.

Neil Jacobs - *Boldry Capital - Analyst*

Curious if you care to share any new financial margin targets? You seem to have been able to surpass the goals you had prior set I guess a year and a half, two years ago. Could you just update us on where you are on that front and how we should think about that over the long term?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

That's a good question, Neil. I've been asked that question, especially in Q3 when we went through that 40 percent mark on gross margin and 30 points on operating profit. And I think Ted was alluding to that earlier.

At that time, and on the call at the end of Q3, I said that what we wanted to do was basically run this way for about a six month period and see how the market conditions play out, and then perhaps revise our operating model a bit. But I think in our operating model, I basically was projecting 23 to 25 plus points of operating profit, and we're doing better than that a little bit now.

I think it's still pretty strong. There's opportunity on the upside. That's why we have to make sure that our models are a little bit on the conservative side to ensure that we can keep it. If it's a steady state model, if conditions are better than that, obviously we do better than that.

There's opportunity on the free cash flow side of that model again, as well, to have a little bit of the upside. But, we'll provide that guidance probably in another quarter or two, I would say, if we're going to make any tweaks to that model. But certainly, we're operating above the baseline of it.

Neil Jacobs - *Boldry Capital - Analyst*

Got it. And then secondly, you've made obviously substantial progress on the balance sheet. How should we think about that on a go forward basis? If you generate the same level of cash you have over the last couple of years, over the next couple of years, you'll be debt free. And you stated your target goal of being debt free in '05. What are you going to do with the cash?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Yes, our goal is exactly--that's an excellent question. Our goal is exactly that. We want to be debt free by the end of '05. Any free cash flow we generate, we use towards paying off debt. And then beyond that, there's lots of opportunities. You know, you can talk about things like stock buy backs. You can talk about things like interesting alliances. I mean, there's all sorts of opportunities open up. But, step number one is generate the free cash flow, make sure you're focused on doing it, make sure you pay down your debt, and then all the options open up.

Operator

Tim Arcuri, Smith Barney.

Tim Arcuri - *Smith Barney - Analyst*

I've just got a couple of questions. Number one, can you help me understand, as you move this year and next year and the year after, what the test monitor mix is? Right now, there's a large percentage of the industry's wafers that are going to test monitor because of the ramp of all these new fabs. So, can you help us understand, is that 35 or 40 percent now? And it's kind of headed to 30 next year and maybe 25 the following year? Is that the right way to model that out?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

I think, Tim, somebody asked that question earlier. I think you're probably in the ballpark in terms of that 35 to 40 percent overall this year. But, I don't think it's going to decline as rapidly as the numbers you're quoting. Because I think you're absolutely right, new fabs are being built, so it's consuming a lot of that, but I think also it's also new nodes. And so I think it's going to be interesting to see how that plays out. I suspect we'll eventually get to an 80:20 mix. I suspect it will. Will that happen in the next year or two? I think it may take a little longer than that.

Tim Arcuri - *Smith Barney - Analyst*

Okay, tremendously helpful. Can you also maybe extend the model? I guess this is for Tom. Can you extend--maybe you could go out to, say, $300 million. Can you give us an idea of kind of what the model looks like at those sort of revenue levels?

Tom Linnen - *MEMC Electronic Materials - CFO*

You said $300 million, I'm sorry, for what?

Tim Arcuri - *Smith Barney - Analyst*

I'm just saying, like, if you took your current cost structure and if you superimposed a $300 million revenue on your current cost structure, what would gross margin and OpEx and such look like?

Tom Linnen - *MEMC Electronic Materials - CFO*

Oh, I see. Yes, that would be guidance that I wouldn't be prepared to give at this stage. But I would say if you stick with our operating model, obviously, which we're doing better than, I think you'd be pretty safe. Obviously, when you get to $300 million per quarter, there'll be a higher mix of 300mm, which gives us higher margins. And obviously, we'd be producing more product, which would mean more variances on absorption on the manufacturing front. So, I think that would improve the margins, barring any extraordinary market circumstances.

Tim Arcuri - *Smith Barney - Analyst*

Okay, so I guess I need to ask it in a different way. Do you think it's--you had a lot of tailwind at your back in Q3 when you did 40 percent at 275. Do you think that 40 percent is achievable at 300, ex those tailwinds you have?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Yeah, I wouldn't want to go and give that guidance, Tim. I think if you knew the internal targets we had, I think you'd be surprised. But, fundamentally, we stick by the long-term business model. I think what we don't want to do is get ahead of ourselves too fast. I mean, just our business model alone, I hope you agree will, you know, that 25-plus points of operating profit is pretty strong, compared to all the results people are reporting.

So, I would like to just stick with that as the conservative. And then beyond that, yes, there's opportunity for upside, yes, as the market gets more constrained there will be opportunities to re-broach those levels and perhaps even on a more sustained basis. So I don't want to rule that out. I don't want to say no, but I also don't want to guide to it, because then we get into all sorts of difficulties.

Operator

[Scott Nerembersky], Mosaic Asset Management.

Scott Nerembersky - *Mosaic Asset Management - Analyst*

Just a couple of questions. How fast do you think the polysilicon supply is actually growing?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Actually, we don't think it's growing fast enough to keep pace with the wafer growth.

Scott Nerembersky - *Mosaic Asset Management - Analyst*

So you think that wafer consumption is--so let's say 10 percent a year or something like that, that it's definitely less than that?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

I think so.

Scott Nerembersky - *Mosaic Asset Management - Analyst*

I mean, given that, aren't we gonna sort of run into a problem here somewhere down the road?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

I believe so, yeah. We've been talking about it for a year, that this is gonna be an issue. Because it was an issue last year in the summer quarter. There were spot shortages and we could hear it, feel it, see it, our competitors experienced it. Some of our competitors experienced it. So, we think that will probably repeat itself at some point. It's hard to say when, because in that interim people have added some capacity, there is public announcements of that capacity being added. The solar market continues to consume more poly as well. So, I think it's--the solar market is growing at a very rapid rate. So I think that confluence of those events is gonna make for some interesting dynamics in the second half of this year.

Scott Nerembersky - *Mosaic Asset Management - Analyst*

And then a follow-up question on the solar. How much of the revenues were from that market? Can you give us a ballpark on that? And I guess just looking at that, what do you think the margin structure of that looks like relative to say the margin structure of the semiconductor-related business?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Scott, we don't break that out, so I wouldn't feel comfortable giving that guidance. It's not significant, because it's the poly sold under that. We don't sell the direct wafers.

But in terms of the margin structure, the margin structure for that versus semiconductor grade poly is almost equivalent because of the constraints now. Probably a couple of years ago it was different. And then obviously as you get into the wafering part of the business, it becomes different again and then into the cells and the modules, et cetera, it's different again.

Scott Nerembersky - *Mosaic Asset Management - Analyst*

Can you not use--my understanding was that the grade that you use in semiconductors has much higher tolerance in terms of impurities. I mean, in the solar stuff versus the semiconductor stuff. In other words, it doesn't need to be the same type tolerance.

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

That's true. And it also depends a little bit on if you use the regular chunk poly or you use powder or do you use granular, et cetera. So there's several different processes in the solar industry that are tuned to the different types of poly.

Scott Nerembersky - *Mosaic Asset Management - Analyst*

So wouldn't it then, in effect, drive your yield up on poly?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Yes, it's back to, well, if it's not higher grade does it give you more throughput? And if it does, is the pricing equivalent? You know, so the pricing may not be the same and so the cost is not the same. Well maybe the margins are equivalent.

Scott Nerembersky - *Mosaic Asset Management - Analyst*

Okay. So net-net the margins are roughly the same.

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Yes.

Scott Nerembersky - *Mosaic Asset Management - Analyst*

Okay. And then just a housekeeping question on the headcount for the company, sort of at the year-end and where you think that ends up sort of at the end of '05?

Tom Linnen - *MEMC Electronic Materials - CFO*

Headcount? I would have--we don't have the specific. I should be much better prepared for headcount, but I think it was roughly in the 5500 range and we don't anticipate significant changes from that headcount moving forward.

Scott Nerembersky - *Mosaic Asset Management - Analyst*

Got it. And I know you said expenses OpEx would be down slightly in 1Q versus 4Q. Don't you have though like a scheduled salary increase that happens in 1Q? And how do we think about that in terms of what you said about the expenses being down, if that actually happens?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Yeah, I think the salary increases are absolutely built into that. It's just the actually one-time events that occurred that caused it to go up. And the salary events aren't as meaningful as those significant one-time events.

Tom Linnen - *MEMC Electronic Materials - CFO*

And salary events here also are usually spread out throughout the year, based on reviews on the anniversary dates and they're not a first quarter event.

Scott Nerembersky - *Mosaic Asset Management - Analyst*

Okay. So if I'm just looking at R&D versus SG&A, then SG&A might be down more, right, and the R&D might still be flat or up? Is that right overall?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Yeah, that's probably a pretty good assumption.

Tom Linnen - *MEMC Electronic Materials - CFO*

Yes.

Operator

Ted Parmigiani, Lehman Brothers.

Ted Parmigiani - *Lehman Brothers - Analyst*

Just a follow-up here on one of the statements you talked about before, regarding the gross margin benefit year on year from '04 over '03. You talk about cost reductions. And I'm just trying to get an idea here. How would you--?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Ted, are you still there? I think he cut out. Operator?

Operator

Krishna Shankar, JMP Securities.

Krishna Shankar - *JMP Securities - Analyst*

Yes, is your revenue mix between analogue, memory, foundry, and microprocessor types customers fairly balanced? In other words are they thought of comparable or is one segment significantly different from the others?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

We don't break that out in that much specifics, but I would say we're more dependent on memory than we are on the other sectors. And that's about as far as I would want to go to quantify it.

Krishna Shankar - *JMP Securities - Analyst*

Okay. And what was capital spending and depreciation for fiscal '04?

Tom Linnen - *MEMC Electronic Materials - CFO*

Depreciation expense for fiscal '04 came in at $44 million, which was 4.3 percent of sales. I might mention that that's only up slightly from--as a percent of the sales from 2003, when depreciation expense was 4 percent. So it only went up from 4.0 to 4.3 percent. We pride ourselves on asset efficiency. And the P&L benefit can be seen in the low year to year increase in depreciation expense as a percent of sales.

Krishna Shankar - *JMP Securities - Analyst*

And capital spending?

Tom Linnen - *MEMC Electronic Materials - CFO*

Again, the guidance we gave in that area, and that's where we finished the year, is 15 percent of revenues. And that's all inclusive. In other words, the SOI, 300mm, 200mm upgrades, et cetera.

Operator

Ted Parmigiani, Lehman Brothers.

Ted Parmigiani - *Lehman Brothers - Analyst*

Hear me this time?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Yes, yes.

Ted Parmigiani - *Lehman Brothers - Analyst*

Okay, great. I just wanted to see if you could clarify cost reductions, Nabeel, in '04 versus what the impact may be in '05, how that might be changing, assuming that most of the kind of low-hanging fruit, if you will, from the beginning of managing MEMC has been accomplished, if you will. What could '05 cost reductions do in terms of a benefit to gross margin? And by that, I also, I guess, would include, let's say for example, more mix going through Taisil, which is, I guess generally known to be a more efficient operation?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

I think, Ted, that's a good question. There's probably several impacts on gross margin. One obviously is the cost reduction. There are opportunities, continue to be opportunities on cash cost reduction bases. You know, yields aren't at 100 percent, for example. Equipment efficiencies aren't at 100 percent. So I'm a true believe in the ultimate cost is 0 and the ultimate margin is 100 percent. And I think we just drive to that philosophy and we look for continuous improvement every day. So I think there's opportunities there. That's on a continuous improvement basis.

I think the second part to that is, as volume, for example on 300mm grow and our asset efficiency on that investment plays out, that mix will also contribute in a more enhanced fashion, because we'll get the volume absorption for the investments we're making, because that always lags it a little bit. As capacity comes on you don't ramp it instantly. It takes a month, two months, three months, four months, whatever it is to ramp that capacity. So, we'll see that contribute to some degree as well.

So I think those two combinations. And in terms of the Taisil, I think the Taisil opportunity is more from a 300mm. They were running--we had their margins pretty well baked into our aggregate, if you will, for '04. You saw the results of that. I think moving forward, it will be more about 300mm installation there and ramp there, which again, will play into that point number two.

So, I think there's opportunity there. We're just trying to be cautious for this year and, you know, the next couple of quarters to make sure we get through whatever this correction period is and then we'll just keep marching along.

Ted Parmigiani - *Lehman Brothers - Analyst*

Right. Just a quick question on the debt reduction. Is there any kind of timing you have laid out here that you could share with us, when you think that may be accomplished?

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

In terms of the debt reduction?

Ted Parmigiani - *Lehman Brothers - Analyst*

Right.

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

I think as it comes due. And I don't think it's in any--help me out here, Tom.

Tom Linnen - *MEMC Electronic Materials - CFO*

Yes, we have minimal amounts, very honestly, due under scheduled payments in the 2005 time period. So it will--the debt payment that we'll make will be prepayments, in essence. And that will, as the cash materializes, we'll pick the higher interest notes and we'll move away from them, we'll prepay them. I would say, first half and second half. I don't think it necessarily has to be all--it won't necessarily have to wait until all year-end.

Operator

Steven Chin, UBS.

Marissa Fernandez - *UBS Warburg - Analyst*

Hi, it's Marissa Fernandez again. I have a quick follow-up question. Can you tell us what the status of your pension plan was at the end of '04?

Tom Linnen - *MEMC Electronic Materials - CFO*

I'm sorry, the status of the pension plan?

Marissa Fernandez - *UBS Warburg - Analyst*

Of the pension plan, yes.

Tom Linnen - *MEMC Electronic Materials - CFO*

We're in, you know, compliance with all the governed regulations as to the payments that are necessary to be made. We'll see on the balance sheet, we still have an unfunded liability of $116 million. I think the question that's also asked, what is our periodic benefit expense associated with it on annual, is about $6 to $7 million.

Marissa Fernandez - *UBS Warburg - Analyst*

I was interested in the unfunded status. Is that what we see in the balance sheet or is it different?

Tom Linnen - *MEMC Electronic Materials - CFO*

No. We have a pension liability on the balance sheet of $116 million. And again, all those pension plans are in accordance with the provisions of the federal law. And there's not issues in there, other than that's a liability that we recognize that either from investment gains in the portfolio that we manage, and/or cash payments, that that liability over an extended period of time that has to be taken care of. The liability is not being increased for the most part. There are no new people being added to the plan, it's been capped. Now there are still employees whose retirement may increase under the plan. But, it's not a significant exposure. No changes from prior periods.

Operator

Paul Leming, Soleil Securities.

Paul Leming - *Soleil Securities - Analyst*

My question's been answered. Thank you.

Operator

Thank you. And at this time I would like to turn the call back over to management for closing remarks. This does conclude our Q&A session.

Nabeel Gareeb - *MEMC Electronic Materials - President and CEO*

Thank you all for participating today and for your continued support. We believe that we are well-positioned for the future and we look forward to speaking with you again next quarter. Thanks again and goodnight.

(OPERATOR INSTRUCTIONS.)
