

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended

JUNE 30, 2009

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-30205

**CABOT MICROELECTRONICS CORPORATION**

(Exact name of registrant as specified in its charter)

DELAWARE  
(State of Incorporation)

36-4324765  
(I.R.S. Employer Identification No.)

870 NORTH COMMONS DRIVE  
AURORA, ILLINOIS  
(Address of principal executive offices)

60504  
(Zip Code)

Registrant's telephone number, including area code: (630) 375-6631

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

As of July 31, 2009, the Company had 23,428,632 shares of Common Stock, par value \$0.001 per share, outstanding.

CABOT MICROELECTRONICS CORPORATION

INDEX

**Part I. Financial Information**

**Page**

Item 1.	<a href="#">Financial Statements</a>	
	<a href="#">Consolidated Statements of Income (Loss)</a>	
	Three and Nine Months Ended June 30, 2009 and 2008	3
	<a href="#">Consolidated Balance Sheets</a>	
	June 30, 2009, and September 30, 2008	4
	<a href="#">Consolidated Statements of Cash Flows</a>	
	Nine Months Ended June 30, 2009 and 2008	5
	<a href="#">Notes to the Consolidated Financial Statements</a>	6
Item 2.	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	20
Item 3.	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	30
Item 4.	<a href="#">Controls and Procedures</a>	31

**Part II. Other Information**

Item 1.	<a href="#">Legal Proceedings</a>	32
Item 1A.	<a href="#">Risk Factors</a>	32
Item 2.	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	37
Item 6.	<a href="#">Exhibits</a>	37
	<a href="#">Signatures</a>	38

**PART I. FINANCIAL INFORMATION**  
**ITEM 1.****CABOT MICROELECTRONICS CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME (LOSS)**  
**(Unaudited and in thousands, except per share amounts)**

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Revenue	\$ 86,443	\$ 97,047	\$ 194,859	\$ 284,913
Cost of goods sold	<u>46,143</u>	<u>51,638</u>	<u>113,143</u>	<u>152,455</u>
Gross profit	40,300	45,409	81,716	132,458
Operating expenses:				
Research, development and technical	10,901	12,730	35,636	36,583
Selling and marketing	5,207	7,176	16,441	20,367
General and administrative	9,043	12,642	30,959	36,337
Purchased in-process research and development	(90)	-	1,410	-
Total operating expenses	<u>25,061</u>	<u>32,548</u>	<u>84,446</u>	<u>93,287</u>
Operating income (loss)	15,239	12,861	(2,730)	39,171
Other income (expense), net	(42)	1,239	1,311	4,563
Income (loss) before income taxes	15,197	14,100	(1,419)	43,734
Provision (benefit) for income taxes	<u>6,183</u>	<u>4,120</u>	<u>(436)</u>	<u>13,613</u>
Net income (loss)	<u>\$ 9,014</u>	<u>\$ 9,980</u>	<u>\$ (983)</u>	<u>\$ 30,121</u>
Basic earnings (loss) per share	<u>\$ 0.39</u>	<u>\$ 0.43</u>	<u>\$ (0.04)</u>	<u>\$ 1.29</u>
Weighted average basic shares outstanding	<u>23,113</u>	<u>23,132</u>	<u>23,066</u>	<u>23,411</u>
Diluted earnings (loss) per share	<u>\$ 0.39</u>	<u>\$ 0.43</u>	<u>\$ (0.04)</u>	<u>\$ 1.28</u>
Weighted average diluted shares outstanding	<u>23,154</u>	<u>23,163</u>	<u>23,066</u>	<u>23,441</u>

The accompanying notes are an integral part of these consolidated financial statements.

**CABOT MICROELECTRONICS CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**(Unaudited and in thousands, except share amounts)**

	<u>June 30,</u> <u>2009</u>	<u>September 30,</u> <u>2008</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 171,237	\$ 221,467
Short-term investments	-	4,950
Accounts receivable, less allowance for doubtful accounts of \$1,456 at June 30, 2009, and \$403 at September 30, 2008	49,218	41,630
Inventories	45,099	47,466
Prepaid expenses and other current assets	14,139	10,714
Deferred income taxes	3,994	4,365
Total current assets	<u>283,687</u>	<u>330,592</u>
Property, plant and equipment, net	123,738	115,843
Goodwill	38,875	7,069
Other intangible assets, net	19,021	8,712
Deferred income taxes	9,745	11,178
Other long-term assets	15,612	4,043
Total assets	<u>\$ 490,678</u>	<u>\$ 477,437</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 11,469	\$ 13,885
Capital lease obligations	1,189	1,129
Accrued expenses and other current liabilities	15,722	22,787
Total current liabilities	<u>28,380</u>	<u>37,801</u>
Capital lease obligations	1,618	2,518
Other long-term liabilities	10,166	2,885
Total liabilities	<u>40,164</u>	<u>43,204</u>
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock:		
Authorized: 200,000,000 shares, \$0.001 par value		
Issued: 26,108,654 shares at June 30, 2009, and 25,906,990 shares at September 30, 2008	26	26
Capital in excess of par value of common stock	209,070	198,022
Retained earnings	322,139	323,122
Accumulated other comprehensive income	9,606	3,054
Treasury stock at cost, 2,698,234 shares at June 30, 2009, and 2,683,809 shares at September 30, 2008	(90,327)	(89,991)
Total stockholders' equity	<u>450,514</u>	<u>434,233</u>
Total liabilities and stockholders' equity	<u>\$ 490,678</u>	<u>\$ 477,437</u>

The accompanying notes are an integral part of these consolidated financial statements.

**CABOT MICROELECTRONICS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited and amounts in thousands)**

	<b>Nine Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Cash flows from operating activities:		
Net income (loss)	\$ (983)	\$ 30,121
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,531	19,615
Share-based compensation expense	9,956	11,339
Deferred income tax expense (benefit)	2,200	(4,392)
Provision for doubtful accounts	1,012	(2)
Non-cash foreign exchange gain	(1,857)	(3,203)
Loss on disposal of property, plant and equipment	88	564
Impairment of property, plant and equipment	1,245	4
Purchased in-process research and development	1,410	-
Other	(3,081)	1,317
Changes in operating assets and liabilities:		
Accounts receivable	(5,911)	2,002
Inventories	6,865	(7,774)
Prepaid expenses and other assets	(1,718)	(3,659)
Accounts payable	(3,568)	(3,661)
Accrued expenses, income taxes payable and other liabilities	(8,002)	417
Net cash provided by operating activities	<u>16,187</u>	<u>42,688</u>
Cash flows from investing activities:		
Additions to property, plant and equipment	(6,990)	(15,549)
Proceeds from the sale of property, plant and equipment	-	40
Acquisition of business, net of cash acquired	(60,520)	-
Purchases of investments	-	(233,775)
Proceeds from the sale of investments	50	371,140
Net cash provided by (used in) investing activities	<u>(67,460)</u>	<u>121,856</u>
Cash flows from financing activities:		
Repurchases of common stock	(336)	(34,001)
Net proceeds from issuance of stock	1,091	1,501
Principal payments under capital lease obligations	(840)	(800)
Net cash used in financing activities	<u>(85)</u>	<u>(33,300)</u>
Effect of exchange rate changes on cash	1,128	1,040
Increase (decrease) in cash	(50,230)	132,284
Cash and cash equivalents at beginning of period	221,467	54,557
Cash and cash equivalents at end of period	<u>\$ 171,237</u>	<u>\$ 186,841</u>
Supplemental disclosure of non-cash investing and financing activities:		
Purchases of property, plant and equipment in accrued liabilities and accounts payable at the end of the period	\$ 233	\$ 1,514
Issuance of restricted stock	4,209	4,850
Assets acquired under capital leases	-	44

The accompanying notes are an integral part of these consolidated financial statements.

**CABOT MICROELECTRONICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited and in thousands, except share and per share amounts)**

**1. BACKGROUND AND BASIS OF PRESENTATION**

Cabot Microelectronics Corporation ("Cabot Microelectronics", "the Company", "us", "we" or "our") supplies high-performance polishing slurries and pads used in the manufacture of advanced integrated circuit (IC) devices within the semiconductor industry, in a process called chemical mechanical planarization (CMP). CMP polishes surfaces at an atomic level, thereby enabling IC device manufacturers to produce smaller, faster and more complex IC devices with fewer defects. We believe we are the world's leading supplier of slurries for IC devices. We also develop, manufacture and sell CMP slurries for polishing certain components in hard disk drives, specifically rigid disk substrates and magnetic heads, and we believe we are one of the leading suppliers in this area. In addition, we develop, produce and sell CMP polishing pads, which are used in conjunction with slurries in the CMP process. We also pursue a variety of other demanding surface modification applications outside of the semiconductor and hard disk drive industries for which our capabilities and knowledge may provide value in improved surface performance or productivity. For additional information, refer to Part 1, Item 1, "Business", in our annual report on Form 10-K for the fiscal year ended September 30, 2008.

The unaudited consolidated financial statements have been prepared by Cabot Microelectronics Corporation pursuant to the rules of the Securities and Exchange Commission (SEC) and accounting principles generally accepted in the United States of America. In the opinion of management, these unaudited consolidated financial statements include all normal recurring adjustments necessary for the fair presentation of Cabot Microelectronics' financial position as of June 30, 2009, cash flows for the nine months ended June 30, 2009, and June 30, 2008, and results of operations for the three and nine months ended June 30, 2009, and June 30, 2008. The results of operations for the three and nine months ended June 30, 2009 may not be indicative of the results to be expected for future periods, including the fiscal year ending September 30, 2009. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in Cabot Microelectronics' annual report on Form 10-K for the fiscal year ended September 30, 2008. We currently operate predominantly in one industry segment - the development, manufacture and sale of CMP consumables.

The consolidated financial statements include the accounts of Cabot Microelectronics and its subsidiaries. All intercompany transactions and balances between the companies have been eliminated as of June 30, 2009.

**2. BUSINESS COMBINATION**

On February 27, 2009, we completed the acquisition of Epoch Material Co., Ltd. (Epoch), which previously was a consolidated subsidiary of Etemal Chemical Co., Ltd. (Etemal). Epoch is a Taiwan-based company specializing in the development, manufacture and sale of copper CMP slurries and CMP cleaning solutions to the semiconductor industry, and color filter slurries to the liquid crystal display (LCD) industry. We paid \$59,391 to obtain 90% of Epoch's stock, plus \$728 of transaction costs, from our available cash balance. We expect to pay an additional \$6,600 to Etemal in August 2010 to acquire the remaining 10% of Epoch's stock and we have placed \$6,600 in an escrow account in Taiwan to be held for this purpose until the payment date. The escrow account is recorded as long-term restricted cash at June 30, 2009 and is included with other long-term assets on our Consolidated Balance Sheet. During this interim period, Etemal will continue to hold the remaining 10% ownership interest in Epoch. However, Etemal has waived rights to any interest in the earnings of Epoch during the interim period, including any associated dividends. Consequently, we have recorded a \$6,600 long-term liability on our Consolidated Balance Sheet at June 30, 2009 rather than recording a minority interest in Epoch.

**CABOT MICROELECTRONICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited and in thousands, except share and per share amounts)**

We account for all business combinations in accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141). Accordingly, the assets and liabilities of the acquired entity are recorded at their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the fair value of net assets and amounts assigned to identifiable intangible assets. Purchased in-process research and development (IPR&D), for which technological feasibility has not yet been established and no future alternative uses exist, is expensed immediately in accordance with SFAS 141.

The purchase price for Epoch was allocated to tangible assets, liabilities assumed, identified intangible assets acquired, as well as IPR&D, based on our preliminary estimation of their fair values. The excess of the purchase price over the aggregate fair values was recorded as goodwill and is generally fully deductible for tax purposes. The following table summarizes the purchase price allocation.

	<u>At June 30, 2009</u>
Current assets	\$ 11,453
Long-term assets	13,965
In-process research and development	1,410
Identified intangible assets	11,510
Goodwill	29,877
Total assets acquired	68,215
Total liabilities assumed	1,496
Net assets acquired	\$ 66,719

Results of Epoch's operations from February 27, 2009, through the end of the third fiscal quarter are included in our consolidated financial statements.

The following unaudited pro forma consolidated results of operations have been prepared as if the acquisition of Epoch had occurred on October 1, 2008 and 2007:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues	\$ 86,443	\$ 105,656	\$ 199,607	\$ 313,459
Net income (loss)	\$ 8,858	\$ 12,301	\$ (2,059)	\$ 37,609
Net income (loss) per share:				
Basic	\$ 0.38	\$ 0.53	\$ (0.09)	\$ 1.61
Diluted	\$ 0.38	\$ 0.53	\$ (0.09)	\$ 1.60

The unaudited pro forma consolidated results of operations do not purport to be indicative of the results that would have been achieved if the acquisition had actually occurred as of the dates indicated, or of those results that may be achieved in the future. The unaudited pro forma consolidated results of operations include adjustments to net income to give effect to: expensing of IPR&D on October 1, 2008 and 2007; amortization of intangible assets acquired; depreciation of property, plant and equipment acquired; and income taxes.

**CABOT MICROELECTRONICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited and in thousands, except share and per share amounts)**

**3. FAIR VALUE OF FINANCIAL INSTRUMENTS**

On October 1, 2008, we adopted the provisions of Statement of Financial Accounting Standards No. 157, “Fair Value Measurement” (SFAS 157) for all financial assets and financial liabilities. SFAS 157 establishes a common definition for fair value in generally accepted accounting principles, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. On October 1, 2008, we also adopted FASB Staff Position (FSP) 157-3, “Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active” (FSP 157-3), which clarifies the application of SFAS 157 in an inactive market and illustrates how an entity would determine fair value when the market for a financial asset is not active. In accordance with FSP 157-2, “Effective Date of FASB Statement No. 157” (FSP 157-2), we have not yet adopted the provisions of SFAS 157 that relate to non-financial assets and non-financial liabilities.

SFAS 157 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 establishes a three-level hierarchy for disclosure based on the extent and level of judgment used to estimate fair value. Level 1 inputs consist of valuations based on quoted market prices in active markets for identical assets or liabilities. Level 2 inputs consist of valuations based on quoted prices for similar assets or liabilities, quoted prices for identical assets or liabilities in an inactive market, or other observable inputs. Level 3 inputs consist of valuations based on unobservable inputs that are supported by little or no market activity.

On October 1, 2008, we adopted the provisions of SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115” (SFAS 159). SFAS 159 allows measurement at fair value of eligible financial assets and financial liabilities that are not otherwise measured at fair value on an instrument-by-instrument basis (the “fair value option”). We did not elect the fair value option for any financial assets or financial liabilities that were not previously required to be measured at fair value.

The following table presents financial assets that we measured at fair value on a recurring basis at June 30, 2009. As permitted under the relevant pronouncements, we have chosen to not measure any of our financial liabilities at fair value in accordance with SFAS 157 and SFAS 159 as we believe our financial liabilities approximate their fair value due to their short-term, highly liquid characteristics. We have classified these assets in accordance with the fair value hierarchy set forth in SFAS 157. In instances where the inputs used to measure the fair value of an asset fall into more than one level of the hierarchy, we have classified them based on the lowest level input that is significant to the determination of the fair value.

	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	\$ 171,237	\$ -	\$ -	\$ 171,237
Auction rate securities (ARS)	-	-	8,116	8,116
<b>Total</b>	<b>\$ 171,237</b>	<b>\$ -</b>	<b>\$ 8,116</b>	<b>\$ 179,353</b>

Effective April 1, 2009, we adopted the provisions of FSP FAS 107-1 and APB 28-1, “Interim Disclosures About Fair Value of Financial Instruments” (FSP 107-1), which amends SFAS No. 107, “Disclosures About Fair Value of Financial Instruments”, to require disclosures about fair value of financial instruments in interim reporting periods as well as in annual financial statements. FSP 107-1 also amends APB Opinion No. 28, “Interim Financial Reporting”, to require fair value disclosures in summarized financial information at interim periods. Our cash and cash equivalents consist of various bank accounts used to support our operations and investments in institutional money-market funds which are traded in active markets. The recorded amounts of cash, accounts receivable and accounts payable approximate their fair values due to their short-term, highly liquid characteristics. The fair value of our long-term ARS is determined through a discounted cash flow analysis using a discount rate based on a market index comprised of tax exempt variable rate demand obligations, adding a risk factor to reflect current liquidity issues in the ARS market.



**CABOT MICROELECTRONICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited and in thousands, except share and per share amounts)**

Effective April 1, 2009, we adopted the provisions of FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (FSP 115-2), which amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities and improves the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. A debt security is considered to be impaired when the fair value of a debt security is less than its amortized cost at the balance sheet date. FSP 115-2 requires the impairment be segregated into amounts relating to credit loss and amounts relating to all other factors. A credit loss exists when the present value of the expected cash flows from a security is less than the amortized cost basis of the security. Under the guidance of FSP 115-2, an impairment is considered to be other-than-temporary when: 1) an entity intends to sell a debt security that is impaired; 2) when it is more likely than not that an entity will be required to sell the security before the recovery of its amortized cost basis; or 3) when a credit loss exists. An entity must recognize an impairment related to any of the three of these circumstances currently in earnings.

Effective April 1, 2009, we also adopted the provisions of FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (FSP 157-4), which provides additional guidance for estimating fair value in accordance with SFAS 157 when market activity has significantly decreased and when transactions in a market may be distressed. We applied the provisions of FSP 115-2 and FSP 157-4 in the valuation of our ARS at June 30, 2009.

Our ARS investments at June 30, 2009 consisted of two tax exempt municipal debt obligations. We experienced our first failed auction in February 2008, and since that time the auctions of our two ARS have continued to fail. Despite the failed auctions, there have been no defaults of the underlying securities and interest income on these holdings continues to be received on scheduled interest payment dates. Our ARS, when purchased, were generally issued by A-rated municipalities. However, the credit rating of one security (with a par value of \$3,400) was downgraded during our second quarter of fiscal 2008. Both of our ARS (including the downgraded security) are credit enhanced with bond insurance to obtain a credit rating of AAA.

Since an active market for ARS does not currently exist, we determine the fair value of these investments using a Level 3 discounted cash flow analysis and also consider other factors such as the reduced liquidity in the ARS market and nature of the insurance backing. Key inputs to our discounted cash flow model included projected cash flows from interest and principal payments and the weighted probabilities of future successful auctions or debt refinancing by the issuer. We also incorporate certain Level 2 market indices into the discounted cash flow analysis, including published rates such as the LIBOR rate, the LIBOR Swap Curve and a municipal swap index published by the Securities Industry and Financial Markets Association.

Based on our fair value assessment, we determined that one ARS continues to be impaired as of June 30, 2009. This security has a fair value of \$3,166 (par value \$3,400) and has been classified as a long-term asset in Other Long-Term Assets on the Consolidated Balance Sheet. We assessed the impairment in accordance with the provisions of FSP 115-2 and determined that the impairment was due to the lack of liquidity in the ARS market rather than to credit risk. We have maintained the \$234 temporary impairment that we first recorded in fiscal 2008. In addition, we believe that this ARS is not permanently impaired because in the event of default by the municipality, the insurance provider would pay interest and principal following the original repayment schedule and we do not intend to sell the security nor do we believe we will be required to sell the security before the value recovers, which may be at maturity. During our second fiscal quarter ended March 31, 2009, we were able to successfully monetize at par value \$50 of this security as the municipality refinanced a portion of its debt. We determined that the fair value of the other ARS was not impaired as of June 30, 2009. See Note 6 for more information on these investments.

**CABOT MICROELECTRONICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited and in thousands, except share and per share amounts)**

#### 4. INVENTORIES

Inventories consisted of the following:

	<u>June 30,</u> <u>2009</u>	<u>September 30,</u> <u>2008</u>
Raw materials	\$ 21,003	\$ 21,378
Work in process	3,808	4,628
Finished goods	20,288	21,460
Total	<u>\$ 45,099</u>	<u>\$ 47,466</u>

#### 5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill was \$38,875 as of June 30, 2009, and \$7,069 as of September 30, 2008. The increase in goodwill resulted from the \$29,877 of goodwill allocated to the acquisition of Epoch as discussed in Note 2, plus \$1,929 due to foreign exchange fluctuation of the New Taiwan Dollar related to Epoch.

In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), goodwill and indefinite lived intangible assets are tested for impairment annually in the fourth fiscal quarter or more frequently if indicators of potential impairment exist, using a fair-value-based approach. The recoverability of goodwill and other intangible assets with indefinite lives is measured at the reporting unit level, which is defined as either an operating segment or one level below an operating segment. We have consistently determined the fair value of our reporting units using a discounted cash flow analysis of our projected future results. The use of discounted projected future results is based on assumptions that are consistent with our estimates of future growth within the strategic plan used to manage the underlying business. Factors requiring significant judgment include assumptions related to future growth rates, discount factors and tax rates, among others. Changes in economic and operating conditions that occur after the annual impairment analysis or an interim impairment analysis that impact these assumptions may result in future impairment charges.

We completed our annual impairment test during our fourth quarter of fiscal 2008 and concluded that no impairment existed. However, based upon the continued uncertainty in the global economy, we concluded that sufficient indicators existed to perform an interim impairment analysis at June 30, 2009 for one of our reporting units that has a \$6,172 carrying value of goodwill and other intangible assets with indefinite lives. Our impairment analysis at June 30, 2009 included revised estimates of future revenue and income projections. These projections are based on management's view of market and economic data that we use to create future scenarios. Management combines these data with estimates of our mix of products sold, production costs and operating expenses. We discounted the resulting projected cash flows over a range of discount rates between 11% and 15%, including our weighted average cost of capital as well as the published cost of capital for a number of our peer companies. We determined our goodwill and intangible assets with indefinite lives associated with this reporting unit were not impaired as of June 30, 2009. A hypothetical 10% decline in our cash flow projections would have resulted in the calculated fair value of this reporting unit being less than its carrying value under our projection of a slow economic recovery scenario. This would have required us to complete additional goodwill impairment testing as defined in SFAS 142. Due to the ongoing uncertainty in market and economic conditions, management will continue to monitor and evaluate the carrying value of goodwill and intangible assets with indefinite lives. We will perform our annual impairment test during our fourth quarter of fiscal 2009.

**CABOT MICROELECTRONICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(Unaudited and in thousands, except share and per share amounts)

The components of other intangible assets are as follows:

	<u>June 30, 2009</u>		<u>September 30, 2008</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Other intangible assets subject to amortization:				
Product technology	\$ 8,063	\$ 1,741	\$ 5,380	\$ 1,210
Acquired patents and licenses	8,000	5,750	8,000	4,716
Trade secrets and know-how	2,550	2,550	2,550	2,550
Distribution rights, customer lists and other	11,029	1,770	1,457	1,389
<b>Total other intangible assets subject to amortization</b>	<b>29,642</b>	<b>11,811</b>	<b>17,387</b>	<b>9,865</b>
Total other intangible assets not subject to amortization*	1,190		1,190	
<b>Total other intangible assets</b>	<b>\$ 30,832</b>	<b>\$ 11,811</b>	<b>\$ 18,577</b>	<b>\$ 9,865</b>

\* Total other intangible assets not subject to amortization primarily consist of trade names.

Changes in the amounts recorded as other intangible assets included \$11,510 of intangible assets added as a result of our acquisition of Epoch and an increase of \$745 due to foreign exchange fluctuation of the New Taiwan Dollar. We acquired \$2,520 in product technology assets with an average useful life of seven years and we acquired \$8,990 of customer lists and other intangible assets with a weighted average useful life of approximately nine years. We also purchased \$1,410 of IPR&D related to one project. The IPR&D was initially recorded at \$1,500 during the quarter ended March 31, 2009, and adjusted downward by \$90 during the quarter ended June 30, 2009 as purchase accounting was completed. The amount allocated to IPR&D was determined through established valuation techniques and was expensed upon acquisition because technological feasibility had not yet been established and no alternative future uses existed.

Amortization expense on our other intangible assets was \$597 and \$1,936 for the three and nine months ended June 30, 2009, respectively. Amortization expense was \$720 and \$2,160 for the three and nine months ended June 30, 2008, respectively. Estimated future amortization expense for the five succeeding fiscal years is as follows:

<u>Fiscal Year</u>	<u>Estimated Amortization Expense</u>
Remainder of 2009	\$ 586
2010	2,344
2011	2,337
2012	2,337
2013	2,337

**CABOT MICROELECTRONICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(Unaudited and in thousands, except share and per share amounts)

**6. OTHER LONG-TERM ASSETS**

Other long-term assets consisted of the following:

	<u>June 30,</u> <u>2009</u>	<u>September 30,</u> <u>2008</u>
Long-term investments	\$ 8,116	\$ 3,216
Long-term restricted cash	6,600	-
Other long-term assets	896	827
Total	<u>\$ 15,612</u>	<u>\$ 4,043</u>

As discussed in Note 3 of this Form 10-Q, our two ARS that we owned as of June 30, 2009 are classified as long-term assets. The securities are credit enhanced with bond insurance to a AAA credit rating and all interest payments continue to be received on a timely basis. Although we believe these securities will ultimately be collected in full, we believe that it is not likely that we will be able to monetize the securities in our next business cycle (which for us is generally one year). One of these securities with a fair value and par value of \$4,950 had been classified as a short-term investment at September 30, 2008. Since the auctions on this security have continued to fail for more than one year, we reclassified the \$4,950 to other long-term assets on our Consolidated Balance Sheet during the quarter ended March 31, 2009. We maintained a \$234 pretax reduction (\$151 net of tax) in fair value on the other ARS, which is consistent with the fair value reduction as of September 30, 2008. We assessed the impairment in accordance with the provisions of FSP 115-2 and determined that the impairment was temporary as it was related to the illiquid ARS market rather than credit risk. In addition, we continue to believe this decline in fair value is temporary based on the nature of the underlying debt, the presence of AAA-rated bond insurance, our expectation that the issuer may refinance its debt, the fact that all interest payments have been received, and our intention not to sell the security nor be required to sell the security until the value recovers, which may be at maturity, given our current cash position, our expected future cash flow, and our unused debt capacity.

As discussed in Note 2 of this Form 10-Q, we completed the acquisition of Epoch during the quarter ended March 31, 2009. The terms of this acquisition required us to place \$6,600 in an escrow account representing the cash we expect to pay to Eternal in August 2010 for the remaining 10% ownership interest in Epoch. This cash in escrow is recorded as long-term restricted cash in Other Long-Term Assets on our Consolidated Balance Sheet as of June 30, 2009.

**7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consisted of the following:

	<u>June 30,</u> <u>2009</u>	<u>September 30,</u> <u>2008</u>
Accrued compensation	\$ 5,997	\$ 16,206
Goods and services received, not yet invoiced	4,723	2,060
Warranty accrual	344	863
Taxes, other than income taxes	1,124	998
Other	3,534	2,660
Total	<u>\$ 15,722</u>	<u>\$ 22,787</u>

The decrease in accrued compensation resulted primarily from the payment of our annual bonus related to fiscal year ended September 30, 2008 and a reduction in the bonus accrual for fiscal 2009 compared to the prior fiscal year.

**CABOT MICROELECTRONICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited and in thousands, except share and per share amounts)**

**8. DERIVATIVE FINANCIAL INSTRUMENTS**

On January 1, 2009, we adopted the provisions of SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" (SFAS 161), which requires enhanced disclosures about an entity's derivatives and hedging activities. We are required to provide enhanced disclosures about (a) how and why derivative instruments are used, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) and related interpretations, and (c) how derivative instruments and related hedged items affect our financial position, financial performance and cash flows.

Periodically we enter into forward foreign exchange contracts in an effort to mitigate the risks associated with currency fluctuations on certain foreign currency balance sheet exposures. Our foreign exchange contracts do not qualify for hedge accounting under SFAS No. 133, as amended by SFAS No. 149, "Amendment of Statement 133 on Instruments and Hedging Activities", and SFAS No. 52, "Foreign Currency Translation" (SFAS 52); therefore, the gains and losses resulting from the impact of currency exchange rate movements on our forward foreign exchange contracts are recognized as other income or expense in the accompanying consolidated income statements in the period in which the exchange rates change. We do not use derivative financial instruments for trading or speculative purposes. In addition, all derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. At June 30, 2009, we had one forward foreign exchange contract selling Japanese Yen related to an intercompany note with one of our subsidiaries in Japan and for the purpose of hedging the risk associated with a net transactional exposure in Japanese Yen.

The fair value of our derivative instrument included in the Consolidated Balance Sheet was as follows:

	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		Fair Value at June 30, 2009	Fair Value at September 30, 2008	Fair Value at June 30, 2009	Fair Value at September 30, 2008
Derivatives not designated as hedging instruments under SFAS 133					
Foreign exchange contracts	Prepaid expenses and other current assets	\$ -	\$ 26	\$ -	\$ -
	Accrued expenses and other current liabilities	\$ -	\$ -	\$ 166	\$ -

The following table summarizes the effect of our derivative instrument on our Consolidated Statement of Income (Loss) for the three and nine months ended June 30:

	Statement of Income (Loss) Location	Gain (Loss) Recognized in Statement of Income (Loss)			
		Three Months Ended		Nine Months Ended	
		June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Derivatives not designated as hedging instruments under SFAS 133					
Foreign exchange contracts	Other income, net	\$ (29)	\$ 2,294	\$ (2,035)	\$ (1,779)

**CABOT MICROELECTRONICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited and in thousands, except share and per share amounts)**

## 9. CONTINGENCIES

While we are not involved in any legal proceedings that we believe will have a material impact on our consolidated financial position, results of operations or cash flows, we periodically become a party to legal proceedings in the ordinary course of business. For example, in January 2007, we filed a legal action against DuPont Air Products NanoMaterials LLC (DA Nano), a CMP slurry competitor, in the United States District Court for the District of Arizona, charging that DA Nano's manufacturing and marketing of CMP slurries infringe five CMP slurry patents that we own. The affected DA Nano products include certain products used for tungsten CMP. We filed our infringement complaint as a counterclaim in response to an action filed by DA Nano in the same court in December 2006 that seeks declaratory relief and alleges non-infringement, invalidity and unenforceability regarding some of the patents at issue in our complaint against DA Nano. DA Nano filed its complaint following our refusal of its request that we license to it our patents raised in its complaint. DA Nano's complaint does not allege any infringement by our products of intellectual property owned by DA Nano. On July 25, 2008, the District Court issued its patent claim construction, or "Markman" Order ("Markman Order") in the litigation. In a Markman ruling, a district court hearing a patent infringement case interprets and rules on the scope and meaning of disputed patent claim language regarding the patents in suit. We believe that a Markman decision is often a significant factor in the progress and outcome of patent infringement litigation. In the Markman Order, the District Court adopted interpretations that we believe are favorable to Cabot Microelectronics on all claim terms that were in dispute in the litigation. On January 27, 2009, we filed a motion for summary judgment on DA Nano's infringement of certain of the patents at issue in the suit, because we believe the evidence demonstrates that there is no dispute of material fact as to DA Nano's infringement of all of these patents with DA Nano's accused products used for tungsten CMP. On the same date, DA Nano filed a motion for summary judgment on non-infringement and invalidity of certain of the patents at issue in the suit. Although no trial date has been set, prior to the parties' filing of their respective summary judgment motions, we had expected trial in this matter to occur sometime during calendar 2009. However, the existence of the respective motions for summary judgment is expected to cause a later trial date. While the outcome of this and any legal matter cannot be predicted with certainty, we believe that our claims and defenses in the pending action are meritorious, and we intend to pursue and defend them vigorously.

Refer to Note 16 of "Notes to the Consolidated Financial Statements" in Item 8 of Part II of our annual report on Form 10-K for the fiscal year ended September 30, 2008, for additional information regarding commitments and contingencies.

## PRODUCT WARRANTIES

We maintain a warranty reserve that reflects management's best estimate of the cost to replace product that does not meet customers' specifications and performance requirements, and costs related to such replacement. The warranty reserve is based upon a historical product replacement rate, adjusted for any specific known conditions or circumstances. Additions and deductions to the warranty reserve are recorded in cost of goods sold. Our warranty reserve requirements changed during the first nine months of fiscal 2009 as follows:

Balance as of September 30, 2008	\$	863
Reserve for product warranty during the reporting period		716
Adjustments to pre-existing warranty reserve		(758)
Settlement of warranty		(477)
Balance as of June 30, 2009	\$	<u>344</u>

**CABOT MICROELECTRONICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited and in thousands, except share and per share amounts)**

**10. SHARE-BASED COMPENSATION PLANS**

We record share-based compensation expense under the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R) using the straight-line approach. We currently issue share-based payments under the following programs: our Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan, as amended and restated September 23, 2008 ("2000 Equity Incentive Plan"); our Cabot Microelectronics Corporation Employee Stock Purchase Plan (ESPP), which was amended to become the Cabot Microelectronics Corporation 2007 Employee Stock Purchase Plan and approved by our shareholders on March 4, 2008; and, pursuant to our 2000 Equity Incentive Plan, our Directors' Deferred Compensation Plan, as amended September 26, 2006 and our 2001 Executive Officer Deposit Share Program. For additional information regarding these programs, refer to Note 11 of "Notes to the Consolidated Financial Statements" included in Item 8 of Part II of our annual report on Form 10-K for the fiscal year ended September 30, 2008. In conjunction with certain cost reduction initiatives we implemented in the second quarter of fiscal 2009, the ESPP was amended to suspend the 15% discount from the fair market value of our stock that employees previously received on their ESPP purchases. Pursuant to the amended ESPP, effective with the six-month period beginning January 1, 2009, the ESPP shares are now purchased at a price equal to the lower of the closing price at the beginning or end of each semi-annual offering period.

We record share-based compensation expense for all of our share-based awards including stock options, restricted stock, restricted stock units and employee stock purchases. We use the Black-Scholes model to estimate the grant date fair value of our stock options and employee stock purchases. This model requires the input of highly subjective assumptions, including the price volatility of the underlying stock and the expected term of our stock options. We estimate the expected volatility of our stock based on a combination of our stock's historical volatility and the implied volatilities from actively-traded options on our stock. We calculate the expected term of our stock options using the simplified method as discussed in Topic 14 of the Staff Accounting Bulletin Series, "Share-Based Payment", due to our limited amount of historical option exercise data, and we add a slight premium to this expected term for employees who meet the definition of retirement eligible pursuant to their grants during the contractual term. The fair value of our restricted stock and restricted stock unit awards represents the closing price of our common stock on the date of grant. Share-based compensation expense related to stock option grants, restricted stock and restricted stock unit awards is recorded net of expected forfeitures. Our estimated forfeiture rate is primarily based on historical experience, but may be revised in future periods if actual forfeitures differ from the estimate.

Share-based compensation expense under SFAS 123R for the three and nine months ended June 30, 2009, and 2008, was as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Cost of goods sold	\$ 217	\$ 302	\$ 770	\$ 827
Research, development and technical	228	306	850	908
Selling and marketing	258	383	952	1,116
General and administrative	2,123	2,909	7,384	8,488
Total share-based compensation expense	2,826	3,900	9,956	11,339
Tax benefit	1,010	1,389	3,557	4,039
Total share-based compensation expense, net of tax	\$ 1,816	\$ 2,511	\$ 6,399	\$ 7,300

For additional information regarding the estimation of fair value, refer to Note 11 of "Notes to the Consolidated Financial Statements" included in Item 8 of Part II of our annual report on Form 10-K for the fiscal year ended September 30, 2008.

**CABOT MICROELECTRONICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited and in thousands, except share and per share amounts)**

**11. OTHER INCOME (EXPENSE), NET**

Other income, net, consisted of the following:

	<b>Three Months Ended June 30,</b>		<b>Nine Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Interest income	\$ 106	\$ 996	\$ 996	\$ 4,513
Interest expense	(79)	(97)	(259)	(303)
Other income (expense)	(69)	340	574	353
Total other income (expense), net	<u>\$ (42)</u>	<u>\$ 1,239</u>	<u>\$ 1,311</u>	<u>\$ 4,563</u>

The decrease in interest income during the three and nine months ended June 30, 2009 was primarily due to lower interest rates earned on our lower average cash and ARS balances compared to the same periods in fiscal 2008.

**12. COMPREHENSIVE INCOME**

The components of comprehensive income were as follows:

	<b>Three Months Ended June 30,</b>		<b>Nine Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net income (loss)	\$ 9,014	\$ 9,980	\$ (983)	\$ 30,121
Other comprehensive income:				
Net unrealized gain on derivative instruments	8	9	25	27
Foreign currency translation adjustment	2,590	(2,754)	6,487	2,608
Unrealized gain (loss) on investments	-	184	-	(151)
Minimum pension liability adjustment	13	5	40	14
Total comprehensive income	<u>\$ 11,625</u>	<u>\$ 7,424</u>	<u>\$ 5,569</u>	<u>\$ 32,619</u>

The foreign currency translation adjustments during the three and nine months ended June 30, 2009 and 2008 resulted primarily from the changes in the exchange rates of the U.S. dollar relative to the Japanese Yen.



**CABOT MICROELECTRONICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited and in thousands, except share and per share amounts)**

**13. INCOME TAXES**

Our effective income tax rate was 40.7% for the three months ended June 30, 2009 and our effective income tax benefit rate was 30.7% for the nine months ended June 30, 2009, compared to an effective income tax rate of 29.2% and 31.1% for the three and nine months ended June 30, 2008, respectively. The effective tax rate during the quarter ended June 30, 2009 reflects additional expense recognition due to the Company shifting from a net loss or tax benefit position for the quarter ended March 31, 2009 to a net income or tax expense position for the quarter ended June 30, 2009. The decrease in the effective rate for the nine months ended June 30, 2009 was primarily due to the reinstatement of the research and experimentation tax credit in the fourth quarter of fiscal 2008, partially offset by a decrease in tax-exempt interest income.

During the fiscal quarter ended June 30, 2009, we reduced our liability for uncertain tax positions, as defined by Financial Interpretation No. 48, by \$136 as the federal statute of limitations relating to our fiscal 2005 tax return had expired. There have been no other material changes to this liability during the nine months ended June 30, 2009.

**14. EARNINGS (LOSS) PER SHARE**

SFAS No. 128, "Earnings per Share", requires companies to provide a reconciliation of the numerator and denominator of the basic and diluted earnings per share computations. Basic and diluted earnings per share were calculated as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Numerator:				
Earnings (loss) available to common shares	\$ 9,014	\$ 9,980	\$ (983)	\$ 30,121
Denominator:				
Weighted average common shares (Denominator for basic calculation)	23,113,062	23,131,800	23,066,229	23,411,038
Weighted average effect of dilutive securities:				
Share-based compensation	40,931	30,890	-	29,488
Diluted weighted average common shares (Denominator for diluted calculation)	23,153,993	23,162,690	23,066,229	23,440,526
Earnings (loss) per share:				
Basic	\$ 0.39	\$ 0.43	\$ (0.04)	\$ 1.29
Diluted	\$ 0.39	\$ 0.43	\$ (0.04)	\$ 1.28

For the three months ended June 30, 2009 and 2008, approximately 3.9 million and 2.8 million shares, respectively, attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because the exercise price of the options was greater than the average market price of our common stock and, therefore, their inclusion would have been anti-dilutive.

For the nine months ended June 30, 2009 and 2008, approximately 3.9 million and 2.7 million shares, respectively, attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because the exercise price of the options was greater than the average market price of our common stock and, therefore, their inclusion would have been anti-dilutive.

**CABOT MICROELECTRONICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited and in thousands, except share and per share amounts)**

**15. NEW ACCOUNTING PRONOUNCEMENTS**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (SFAS 141R), which replaces SFAS No. 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires acquisition-related costs to be charged to expense as incurred. SFAS 141R is effective for us October 1, 2009 and will apply prospectively to business combinations completed on or after that date.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interest in Consolidated Financial Statements, an Amendment of ARB 51” (SFAS 160), which changes the accounting and reporting for minority equity interests in subsidiaries. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent’s equity, and purchases or sales of equity interests that do not result in a change of control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the statement of operations and, upon loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS 160 is effective for us beginning October 1, 2009 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. We are currently assessing the potential impact that the adoption of this pronouncement would have on our results of operations, financial position or cash flows. Currently, there are no interests in any of our subsidiaries that are treated as minority interests for accounting purposes. In conjunction with our acquisition of Epoch from Eternal, Eternal will continue to hold the remaining 10% ownership interest in Epoch until August 2010. However, Eternal has waived rights to any interest in the earnings of Epoch during the interim period, including any associated dividends, so Eternal’s retained ownership is not accounted for as a minority interest.

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events” (SFAS 165), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for interim and annual periods ending on or after June 15, 2009. We adopted SFAS 165 during the fiscal quarter ended June 30, 2009 and performed an evaluation of subsequent events through August 7, 2009, which is the date the financial statements were issued.

In June 2009, the FASB issued SFAS No. 166, “Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140” (SFAS 166), which prescribes the information that a reporting entity must provide in its financial reports about the transfer of financial assets. SFAS 166 amends SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities” (SFAS 140) by removing the concept of a qualifying special-purpose entity from SFAS 140 and removes the exception from applying the provisions of Financial Interpretation No. 46(R) to variable interest entities that are qualifying special-purpose entities. SFAS 166 is effective for transfers of financial assets occurring on or after January 1, 2010. We are currently assessing the potential impact that the adoption of this pronouncement will have on our results of operations, financial position or cash flows.

In June 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46(R)” (SFAS 167), which amends FASB Interpretation No. 46, “Consolidation of Variable Interest Entities (revised December 2003 – an interpretation of ARB No. 51)” (FIN 46(R)) to require an entity to determine whether its variable interest or interests give it a controlling financial interest in a variable interest entity (VIE). SFAS 167 defines the primary beneficiary of a VIE as the enterprise that has both: 1) the power to direct the activities of a VIE that most significantly impact the entity’s economic performance; and 2) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. SFAS 167 also amends FIN 46(R) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE. SFAS 167 is effective for annual reporting periods beginning after November 15, 2009 and for interim reporting periods within the first annual reporting period. We do not currently have any interests or arrangements that are considered variable interest entities.

**CABOT MICROELECTRONICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited and in thousands, except share and per share amounts)**

In June 2009, the FASB approved the “FASB Accounting Standards Codification” (the Codification) as the single source of authoritative nongovernmental Generally Accepted Accounting Principles (GAAP) in the United States. The Codification is effective for interim and annual periods ending after September 15, 2009. In accordance with the approval of the Codification, the FASB issued SFAS No. 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162”, which replaces SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles”, to establish the Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in preparation of financial statements in conformity with generally accepted accounting principles in the United States. SFAS 168 will change the references we make to accounting literature, but we do not believe the adoption of this pronouncement will have a material impact on our results of operations, financial position or cash flows.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following "Management's Discussion and Analysis of Financial Condition and Results of Operations", as well as disclosures included elsewhere in this Form 10-Q, include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. This Act provides a safe harbor for forward-looking statements to encourage companies to provide prospective information about themselves so long as they identify these statements as forward-looking and provide meaningful cautionary statements identifying important factors that could cause actual results to differ from the projected results. All statements other than statements of historical fact we make in this Form 10-Q are forward-looking. In particular, the statements herein regarding future sales and operating results; Company and industry growth, contraction or trends; growth or contraction of the markets in which the Company participates; international events or various economic factors; product performance; the generation, protection and acquisition of intellectual property, and litigation related to such intellectual property; new product introductions; development of new products, technologies and markets; the acquisition of or investment in other entities; uses and investment of the Company's cash balance; the construction of facilities by the Company; and statements preceded by, followed by or that include the words "intends", "estimates", "plans", "believes", "expects", "anticipates", "should", "could" or similar expressions, are forward-looking statements. Forward-looking statements reflect our current expectations and are inherently uncertain. Our actual results may differ significantly from our expectations. We assume no obligation to update this forward-looking information. The section entitled "Risk Factors" describes some, but not all, of the factors that could cause these differences.

This section, "Management's Discussion and Analysis of Financial Condition and Results of Operations", should be read in conjunction with Cabot Microelectronics' annual report on Form 10-K for the fiscal year ended September 30, 2008, including the consolidated financial statements and related notes thereto.

### THIRD QUARTER OF FISCAL 2009 OVERVIEW

While the global economic recession continued in our third quarter of fiscal 2009, we believe a combination of improved underlying demand and inventory replenishment within the semiconductor industry positively impacted demand for our products during the quarter. Industry analysts have suggested that this inventory replenishment is expected to be largely completed by the end of September 2009. We are uncertain as to whether or how long this upturn may continue as we do not yet have clear evidence of broad-based improvement in end user demand for electronic goods, which is necessary for sustained long-term growth for the industry and for our Company. There are many factors that make it difficult for us to predict future revenue trends for our business, including: the duration of the global economic downturn and the timing and pace of a recovery; the cyclical nature of the semiconductor industry; the short order to delivery time for our products and the associated lack of visibility to future customer orders; quarter to quarter changes in customer orders regardless of industry strength; and potential future acquisitions by us.

Revenue for our third quarter of fiscal 2009 was \$86.4 million, which represented a decrease of 10.9%, or \$10.6 million, from the third quarter of fiscal 2008 and an increase of 90.4%, or \$41.0 million, from the previous fiscal quarter. We believe the decrease in revenue from fiscal 2008 reflects the adverse impact of the global economic recession, while the significant increase from last quarter is primarily due to the improvement in underlying demand and inventory replenishment noted above, as well as traditional seasonal industry strength.

Gross profit expressed as a percentage of revenue for our third quarter of fiscal 2009 was 46.6%, and 41.9% on a year-to-date basis. Gross profit decreased slightly from 46.8% reported in the third quarter of fiscal 2008 primarily due to a lower-valued product mix, partially offset by lower fixed manufacturing costs. Gross profit increased from 28.0% reported in our prior fiscal quarter primarily due to a significant increase in the utilization of our manufacturing capacity based on the significant increase in sales from the prior quarter. Our year-to-date gross profit continues to reflect the negative impact of the global economic recession and the reduction in demand for our products that we experienced during the first half of the fiscal year. We may continue to experience fluctuations in our quarterly gross profit due to a number of factors, including the extent to which we utilize our manufacturing capacity and fluctuations in our product mix.

Operating expenses were \$25.1 million in our third quarter of fiscal 2009, compared to \$32.5 million in the third quarter of fiscal 2008 and \$30.0 million in the previous fiscal quarter. The decrease in operating expenses in the third quarter of fiscal 2009 from the comparable period of fiscal 2008 was primarily due to lower staffing related costs and decreased professional fees, including costs to enforce our intellectual property. The decrease in operating expenses from the prior quarter was primarily due to the absence of \$3.6 million of specific, pre-tax expenses recorded in our second fiscal quarter, including a \$1.5 million write-off of in-process research and development expenses related our acquisition of Epoch Material Co., Ltd. (Epoch), a \$1.1 million impairment of certain research and development equipment, and a \$1.0 million increase in our reserve for bad debt expense due to the impact of the global economic conditions on customer collections. To a lesser extent, the decrease in operating expenses from the prior quarter was due to lower staffing-related costs and lower professional fees. The reduction in operating expenses was also positively impacted by our ongoing cost reduction actions that we implemented during the first half of fiscal 2009. We currently expect operating expenses will be at the low end of our previous guidance range of \$115 million to \$120 million for full year fiscal 2009, including the operating expenses of Epoch.

Diluted earnings per share for our third fiscal quarter was \$0.39, a decrease from diluted earnings per share of \$0.43 reported in the third quarter of fiscal 2008, and an increase from the diluted loss per share of \$(0.44) reported in the previous fiscal quarter as a result of the factors discussed above.

#### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES AND EFFECTS OF RECENT ACCOUNTING PRONOUNCEMENTS**

We discuss our critical accounting estimates and effects of recent accounting pronouncements in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Item 7 of Part II of our annual report on Form 10-K for the fiscal year ended September 30, 2008. We believe there have been no material changes in our critical accounting estimates during the first nine months of fiscal 2009 except for the determination of our allowance for doubtful accounts and our analysis of potential impairment of goodwill and intangible assets. See Notes 3, 8 and 15 of the Notes to the Consolidated Financial Statements for a discussion of new accounting pronouncements.

Our allowance for doubtful accounts is based on historical collection experience, adjusted for any known conditions or circumstances. The global economic recession has had adverse effects on our ability to collect accounts receivable from some of our customers. The recession has also caused two of our customers to file for bankruptcy or insolvency. We recorded a \$1.0 million increase in our allowance for doubtful accounts during the quarter ended March 31, 2009 to account for the increased uncertainty in customer collections. We will continue to closely monitor the financial solvency of our customers and, if the global economic recession continues, we may have to record additional increases to our allowance for doubtful accounts.

As discussed in Note 3 of the Notes to the Consolidated Financial Statements, effective April 1, 2009, we adopted the provisions of FASB Staff Position (FSP) FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (FSP 115-2), and we adopted the provisions of FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (FSP 157-4). FSP 115-2 requires an entity to record an other-than-temporary impairment when a credit loss exists; that is when the present value of the expected cash flows from a debt security is less than the amortized cost basis of the security. Any impairments related to a credit loss are recorded currently in earnings. FSP 157-4 provides guidance for estimating fair value when market activity has significantly decreased as is the case in the current auction rate securities (ARS) market. We have recorded a temporary impairment of \$0.2 million, net of tax, in the value of one of our ARS in other comprehensive income and we have classified \$8.1 million of ARS in other long-term assets on our Consolidated Balance Sheet as of June 30, 2009. The calculation of fair value and the balance sheet classification for our ARS requires critical judgments and estimates by management, including the appropriate discount rate and the probability that a security may be monetized through a future successful auction or refinancing of the underlying debt. We performed a discounted cash flow analysis using a discount rate based on a market index comprised of tax exempt variable rate demand obligations, and we applied a risk factor to reflect current loss of liquidity in the ARS market. We then assigned probabilities of holding each security for less than or equal to one year, five years, and to maturity to calculate a fair value for each security. The impairment we have maintained is considered temporary as it relates to the loss of liquidity in the ARS market.

In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), goodwill and indefinite lived intangible assets are tested for impairment annually in the fourth fiscal quarter or more frequently if indicators of potential impairment exist, using a fair-value-based approach. The recoverability of goodwill and other intangible assets with indefinite lives is measured at the reporting unit level, which is defined as either an operating segment or one level below an operating segment. We have consistently determined the fair value of our reporting units using a discounted cash flow analysis of our projected future results. The use of discounted projected future results is based on assumptions that are consistent with our estimates of future growth within the strategic plan used to manage the underlying business. Factors requiring significant judgment include assumptions related to future growth rates, discount factors and tax rates, among others. Changes in economic and operating conditions that occur after the annual impairment analysis or an interim impairment analysis that impact these assumptions may result in future impairment charges.

We completed our annual impairment test during our fourth quarter of fiscal 2008 and concluded that no impairment existed. However, based upon the continued uncertainty in the global economy, we concluded that sufficient indicators existed to perform another interim impairment analysis at June 30, 2009 for one of our reporting units that has a \$6.2 million carrying value of goodwill and other intangible assets with indefinite lives. Our impairment analysis at June 30, 2009 included revised estimates of future revenue and income projections. These projections are based on management's view of market and economic data that we use to create future scenarios. Management combines this market data with estimates of our mix of products sold, production costs and operating expenses. We discounted the resulting projected cash flows over a range of discount rates between 11% and 15%, including our weighted average cost of capital as well as the published cost of capital for a number of our peer companies. We determined our goodwill and intangible assets with indefinite lives were not impaired as of June 30, 2009. A hypothetical 10% decline in our cash flow projections would have resulted in the calculated fair value of this reporting unit being less than its carrying value under our projection of a slow economic recovery scenario. This would have required us to complete additional goodwill impairment testing as defined in SFAS 142. Due to the ongoing uncertainty in market and economic conditions, management will continue to monitor and evaluate the carrying value of goodwill and intangible assets with indefinite lives.

## RESULTS OF OPERATIONS

### THREE MONTHS ENDED JUNE 30, 2009, VERSUS THREE MONTHS ENDED JUNE 30, 2008

#### REVENUE

Revenue was \$86.4 million for the three months ended June 30, 2009, which represented a 10.9%, or \$10.6 million, decrease from the three months ended June 30, 2008. Of this decrease, \$7.1 million was due to a lower priced product mix and \$4.8 million was due to decreased sales volume. These decreases were partially offset by a \$0.9 million benefit due to the effect of foreign exchange rate changes. We believe the decrease in revenue from fiscal 2008 reflects the continued impact of the global economic downturn. However, we experienced an upturn in our business during the third quarter of fiscal 2009 that we believe reflects an improvement in underlying demand as well as a replenishment of inventory within the semiconductor industry. We are uncertain as to whether or how long this upturn may continue, as long-term growth is largely dependent on sustained improvement in the end user demand for electronic goods, into which we have limited visibility.

#### COST OF GOODS SOLD

Total cost of goods sold was \$46.1 million for the three months ended June 30, 2009, which represented a decrease of 10.6%, or \$5.5 million, from the three months ended June 30, 2008. The decrease in cost of goods sold was primarily due to \$6.2 million from decreased sales volume due to the global economic recession, \$3.8 million in lower fixed manufacturing costs and \$1.5 million in higher manufacturing yields, partially offset by a \$6.6 million increase due to a higher-cost product mix.

We implemented a number of cost savings initiatives during the first half of fiscal 2009. For example, we shortened work schedules in our manufacturing operations on a global basis to more closely match production with demand, but we maintained the flexibility to increase our production levels to meet the increased customer demand for our products that we experienced during the third quarter of fiscal 2009. A number of other cost savings initiatives remain in effect including: reduced annual, merit-based salary increases, a modest work force reduction, a restriction on travel and the suspension of certain employee benefits, among others. These cost-saving actions are intended to improve our operating effectiveness during the current economic recession. We will consider additional cost containment measures as needed if the soft economic environment continues or worsens.

Fumed metal oxides, such as fumed silica and fumed alumina, are significant raw materials that we use in many of our CMP slurries. In an effort to mitigate our risk to rising raw material costs and to increase supply assurance and quality performance requirements, we have entered into multi-year supply agreements with a number of suppliers. For more financial information about our supply contracts, see "Tabular Disclosure of Contractual Obligations" in this filing as well as in Item 7 of Part II of our annual report on Form 10-K for the fiscal year ended September 30, 2008.

Our need for additional quantities or different kinds of key raw materials in the future has required, and will continue to require, that we enter into new supply arrangements with third parties. Future arrangements may result in costs which are different from those in the existing agreements. In addition, energy costs may also impact the cost of raw materials, packaging, freight and labor costs. We also expect to continue to invest in our operations excellence initiative to improve product quality, reduce variability and improve product yields in our manufacturing process.

#### GROSS PROFIT

Our gross profit as a percentage of revenue was 46.6% for the three months ended June 30, 2009, as compared to 46.8% for the three months ended June 30, 2008. The slight decrease was primarily due to a lower-valued product mix, partially offset by lower fixed manufacturing costs. We may continue to experience fluctuations in our quarterly gross profit due to a number of factors, including the factors mentioned above as well as the extent to which we utilize our manufacturing capacity.

## **RESEARCH, DEVELOPMENT AND TECHNICAL**

Total research, development and technical expenses were \$10.9 million for the three months ended June 30, 2009, which represented a decrease of 14.4%, or \$1.8 million, from the three months ended June 30, 2008. The decrease was primarily due to \$1.1 million in lower staffing-related costs, \$0.4 million in lower depreciation and amortization, and \$0.2 million in lower travel-related costs. The cost reduction initiatives we instituted during the first half of fiscal 2009 helped us achieve these cost savings.

Our research, development and technical efforts are focused on the following main areas:

- Research related to fundamental CMP technology;
- Development and formulation of new and enhanced CMP consumable products;
- Process development to support rapid and effective commercialization of new products;
- Technical support of CMP products in our customers' manufacturing facilities; and
- Evaluation of new polishing applications outside of the semiconductor industry.

## **SELLING AND MARKETING**

Selling and marketing expenses were \$5.2 million for the three months ended June 30, 2009, which represented a decrease of 27.4%, or \$2.0 million, from the three months ended June 30, 2008. The decrease was primarily due to \$1.1 million in lower staffing-related costs, \$0.4 million in lower travel-related costs, \$0.1 million in lower professional fees and \$0.1 million in lower advertising and trade show costs. Our cost reduction measures that we implemented in the first half of fiscal 2009 helped us achieve these cost savings.

## **GENERAL AND ADMINISTRATIVE**

General and administrative expenses were \$9.0 million for the three months ended June 30, 2009, which represented a decrease of 28.5%, or \$3.6 million, from the three months ended June 30, 2008. The decrease resulted primarily from \$1.7 million in lower staffing-related costs, primarily due to reduced expenses related to our annual bonus plan and share-based compensation expenses, \$1.7 million in lower professional fees, including costs to enforce our intellectual property, and \$0.2 million in lower travel-related costs.

## **PURCHASED IN-PROCESS RESEARCH AND DEVELOPMENT**

Purchased in-process research and development (IPR&D) expense was a credit of \$0.1 million for the three months ended June 30, 2009, resulting from an adjustment to the estimated fair value of the IPR&D upon completion of the purchase accounting related to the acquisition of Epoch.

## **OTHER INCOME (EXPENSE), NET**

Other expense was \$0.1 million for the three months ended June 30, 2009 compared to \$1.2 million of other income in the three months ended June 30, 2008. The decrease in other income was primarily due to \$0.9 million of lower interest income resulting from lower interest rates on our lower balances of cash and short-term investments, and \$0.4 million in foreign exchange losses. We monetized the majority of our short-term investments in ARS during fiscal 2008 and reinvested these funds into money market investments which earn interest at lower rates. See Note 3 of the Notes to the Consolidated Financial Statements for more information on our ARS.



## **PROVISION FOR INCOME TAXES**

Our effective income tax rate was 40.7% for the three months ended June 30, 2009 compared to a 29.2% effective income tax rate for the three months ended June 30, 2008. The effective tax rate during the quarter ended June 30, 2009 reflects additional tax expense recognition due to the Company moving from a net loss or tax benefit position for the quarter ended March 31, 2009 to a net income or tax expense position for the quarter ended June 30, 2009. The increase in the effective rate in fiscal 2009 also reflects a decrease in tax-exempt interest income from fiscal 2008 and tax adjustments recorded on the fiscal 2008 tax return filed during the quarter ended June 30, 2009.

## **NET INCOME (LOSS)**

Net income was \$9.0 million for the three months ended June 30, 2009, which represented a decrease of 9.7%, or \$1.0 million from the three months ended June 30, 2008, as result of the factors discussed above.

## **NINE MONTHS ENDED JUNE 30, 2009, VERSUS NINE MONTHS ENDED JUNE 30, 2008**

### **REVENUE**

Revenue was \$194.9 million for the nine months ended June 30, 2009, which represented a 31.6%, or \$90.1 million, decrease from the nine months ended June 30, 2008. Of this decrease, \$92.4 million was due to decreased sales volume driven by the significant weakening of demand for our products due to the global economic recession that we experienced during the first half of fiscal 2009, and \$1.3 million due to a lower-priced product mix. These decreases were partially offset by a \$3.4 million increase in revenue due to the effect of foreign exchange rate changes.

### **COST OF GOODS SOLD**

Total cost of goods sold was \$113.1 million for the nine months ended June 30, 2009, which represented a decrease of 25.8%, or \$39.3 million, from the nine months ended June 30, 2008. Of this decrease, \$53.0 million was due to decreased sales volume due to the global economic recession, \$8.6 million was due to lower fixed manufacturing costs and \$4.5 million was due to higher manufacturing yields in our CMP slurry and pad production. These cost decreases were partially offset by a \$12.8 million increase due to a higher-cost product mix, \$12.0 million cost increase due to lower utilization of our manufacturing capacity on the decreased level of sales and a \$2.7 million increase due to the effect of foreign exchange rate changes.

As discussed above, in response to the significant decrease in demand for our products due to the global economic recession, we implemented a number of cost reduction initiatives. A number of these initiatives remain in effect and are intended to improve our operating effectiveness during the current economic recession. We will consider additional cost containment measures as needed if the soft economic environment continues or worsens.

### **GROSS PROFIT**

Our gross profit as a percentage of revenue was 41.9% for the nine months ended June 30, 2009, compared to 46.5% for the nine months ended June 30, 2008. The decrease was primarily due to the underutilization of our manufacturing capacity on the significantly lower level of sales and a higher-cost product mix, partially offset by lower fixed manufacturing costs and favorable production yields.

## **RESEARCH, DEVELOPMENT AND TECHNICAL**

Total research, development and technical expenses were \$35.6 million for the nine months ended June 30, 2009, which represented a decrease of 2.6%, or \$0.9 million, from the nine months ended June 30, 2008. The decrease was primarily related to \$1.7 million in lower staffing-related costs, \$0.4 million in lower depreciation expense and \$0.3 million in lower travel-related costs. These cost decreases were partially offset by \$1.1 million in pre-tax impairments recorded during our second quarter of fiscal 2009 on certain research and development equipment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" and \$0.4 million in higher expenses for laboratory supplies.

## **SELLING AND MARKETING**

Selling and marketing expenses were \$16.4 million for the nine months ended June 30, 2009, which represented a decrease of 19.3%, or \$3.9 million, from the nine months ended June 30, 2008. The decrease was primarily due to \$2.0 million in lower staffing-related costs, \$0.8 million in lower travel-related costs, \$0.3 million in lower professional fees and \$0.3 million in lower advertising and trade show costs.

## **GENERAL AND ADMINISTRATIVE**

General and administrative expenses were \$31.0 million for the nine months ended June 30, 2009, which represented a decrease of 14.8%, or \$5.4 million, from the nine months ended June 30, 2008. The decrease resulted primarily from \$3.6 million in lower staffing-related costs, primarily due to reduced expenses related to our annual bonus plan and lower share-based compensation expense, and \$2.6 million in lower professional fees, including costs to enforce our intellectual property. These cost savings were partially offset by a \$1.0 million increase in our reserve for bad debt expense due to the impact of adverse economic conditions on customer collections, including customer bankruptcies, which we recorded during our second quarter of fiscal 2009.

## **PURCHASED IN-PROCESS RESEARCH AND DEVELOPMENT**

Purchased in-process research and development (IPR&D) expense was \$1.4 million for the nine months ended June 30, 2009, resulting from the acquisition of Epoch in the second quarter of fiscal 2009.

## **OTHER INCOME (EXPENSE), NET**

Other income was \$1.3 million for the nine months ended June 30, 2009, compared to \$4.6 million in the nine months ended June 30, 2008. The decrease in other income was primarily due to \$3.5 million in lower interest income resulting from lower interest rates on our lower balances of cash and short-term investments, partially offset by \$0.2 million in foreign exchange gains. We monetized the majority of our short-term investments in ARS during fiscal 2008 and reinvested these funds into money market investments which generally earn interest at lower rates. See Note 3 of the Notes to the Consolidated Financial Statements for more information on our ARS.

## **PROVISION FOR INCOME TAXES**

Our effective income tax benefit rate was 30.7% for the nine months ended June 30, 2009 compared to a 31.1% effective tax rate for the nine months ended June 30, 2008. The change in the effective tax rate from fiscal 2008 was primarily due to the reinstatement of the research and experimentation credit in the fourth quarter of fiscal 2008, partially offset by a decrease in tax-exempt interest income.

## NET INCOME (LOSS)

Net loss was \$1.0 million for the nine months ended June 30, 2009 compared to net income of \$30.1 million for the nine months ended June 30, 2008, as a result of the factors discussed above.

## LIQUIDITY AND CAPITAL RESOURCES

We generated \$16.2 million in cash flows from operating activities in the first nine months of fiscal 2009, compared to \$42.7 million in cash from operating activities in the first nine months of fiscal 2008. Our cash provided by operating activities in the first nine months of fiscal 2009 originated from \$29.5 million in non-cash items partially offset by a net loss of \$1.0 million and a \$12.3 million decrease in cash flow due to a net increase in working capital. The decrease in cash from operations compared to the first nine months of fiscal 2008 was primarily due to decreased net income in the period, the timing of accounts payable and accrued liability payments, including the payment of our annual bonus related to fiscal 2008, and increased accounts receivable due to substantial revenue growth in the third quarter of fiscal 2009, partially offset by a decrease in inventory levels in fiscal 2009.

In the first nine months of fiscal 2009, cash flows used in investing activities were \$67.5 million representing \$60.5 million used for our acquisition of Epoch, net of \$6.2 million in cash acquired, and \$7.0 million in purchases of property, plant and equipment. In the first nine months of fiscal 2008, cash flows provided by investing activities were \$121.9 million. We had net sales of short-term investments of \$137.4 million as we liquidated a majority of our ARS during the quarter ended March 31, 2008. This cash inflow was partially offset by \$15.5 million in cash used for purchases of property, plant and equipment, primarily for the purchase and installation of a 300-millimeter polishing tool and related metrology equipment at our Asia Pacific technology center and building improvements and equipment to enhance our pad production capabilities. We estimate that our total capital expenditures in fiscal 2009 will be approximately \$10 million.

In the first nine months of fiscal 2009, cash flows used in financing activities were \$0.1 million, representing \$0.8 million in principal payments on capital leases and \$0.3 million in repurchases of common stock pursuant to the terms of our Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan for shares withheld to cover payroll taxes on the vesting of restricted stock granted under the Equity Incentive Plan, partially offset by \$1.1 million received from the issuance of common stock under our Equity Incentive Plan and Cabot Microelectronics Corporation 2007 Employee Stock Purchase Plan. We did not repurchase any shares under our share repurchase program during the first nine months of fiscal 2009. In the first nine months of fiscal 2008, cash flows used in financing activities were \$33.3 million, primarily as a result of \$34.0 million in repurchases of common stock under our share repurchase program. In January 2008, our Board of Directors authorized a share repurchase program for up to \$75.0 million of our outstanding common stock. Share repurchases are made from time to time, depending on market conditions, at management's discretion. As of June 30, 2009, we have \$50.0 million remaining on this share repurchase program. We fund share purchases under this program from our available cash balance. We view this program as a flexible and effective means to return cash to stockholders.

We have an unsecured revolving credit facility of \$50.0 million with an option to increase the facility up to \$80.0 million. Pursuant to an amendment we entered into in October 2008, the agreement extends to November 2011, with an option to renew for two additional one-year terms. Under this agreement, interest accrues on any outstanding balance at either the lending institution's base rate or the Eurodollar rate plus an applicable margin. We also pay a non-use fee. This amendment did not include any other material changes to the terms of the credit agreement. Loans under this facility are intended primarily for general corporate purposes, including financing working capital, capital expenditures and acquisitions. The credit agreement also contains various covenants. No amounts are currently outstanding under this credit facility and we believe we are currently in compliance with the covenants.

As discussed in Note 2 of the Notes to the Consolidated Financial Statements in this Form 10-Q, we completed our acquisition of Epoch during our second quarter of fiscal 2009. The total cash outlay was \$60.5 million representing \$59.4 million in cash paid to Epoch's shareholders on the first closing date of February 27, 2009, \$0.7 million in cash paid for transaction costs and \$6.6 million held in an escrow account to be paid to Eternal on the second closing date, in August 2010, partially offset by \$6.2 million in cash acquired with Epoch.

Despite the ongoing capital and credit market uncertainty, we believe that our current balance of cash and long-term investments, cash generated by our operations and available borrowings under our revolving credit facility will be sufficient to fund our operations, expected capital expenditures, including merger and acquisition activities, and share repurchases for the foreseeable future. However, we plan to further expand our business and continue to improve our technology; therefore, we may need to raise additional funds in the future through equity or debt financing, strategic relationships or other arrangements. The current uncertainty in the capital and credit markets may hinder our ability to secure additional financing in the type or amount necessary to pursue these objectives.

#### OFF-BALANCE SHEET ARRANGEMENTS

At June 30, 2009, and September 30, 2008, we did not have any unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which might have been established for the purpose of facilitating off-balance sheet arrangements.

#### TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following summarizes our contractual obligations at June 30, 2009, and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

#### CONTRACTUAL OBLIGATIONS (In millions)

	<u>Total</u>	<u>Less Than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>After 5 Years</u>
Purchase obligations	\$ 37.9	\$ 35.6	\$ 2.3	\$ -	\$ -
Acquisition related	6.6	-	6.6	-	-
Capital lease obligations	2.8	1.2	1.6	-	-
Operating leases	2.8	1.2	1.6	-	-
Other long-term liabilities	3.6	-	-	-	3.6
Total contractual obligations	<u>\$ 53.7</u>	<u>\$ 38.0</u>	<u>\$ 12.1</u>	<u>\$ -</u>	<u>\$ 3.6</u>

We operate under a fumed silica supply agreement with Cabot Corporation under which we are generally obligated to purchase at least 90% of our six-month volume forecast for certain of our slurry products, to purchase certain non-material minimum quantities every six months, and to pay for the shortfall if we purchase less than these amounts. This agreement was amended in April 2008 to extend the termination date to December 2012 and to change the pricing and some other non-material terms of the agreement. The agreement will automatically renew unless either party gives certain notice of non-renewal. We currently anticipate we will not have to pay any shortfall under this agreement. We also operate under a fumed alumina supply agreement with Cabot Corporation that runs through December 2011, under which we are obligated to pay certain fixed, capital and variable costs. Purchase obligations include an aggregate amount of \$21.8 million of contractual commitments for fumed silica and fumed alumina under these contracts.

[index](#)

As discussed in Note 2 of the Notes to the Consolidated Financial Statements in this Form 10-Q, we completed the first closing of our acquisition of Epoch during our second quarter of fiscal 2009. Under the share purchase agreement, we paid \$59.4 million to obtain 90% of Epoch's stock from Eternal Chemical Co., Ltd. (Eternal). We expect to pay an additional \$6.6 million to Eternal on the second closing date, in August 2010, and we have placed the \$6.6 million in an escrow account for this purpose to be held until then. The escrow account is recorded as long-term restricted cash at June 30, 2009 and is included with other long-term assets on our Consolidated Balance Sheet. During this interim period, Eternal will continue to hold the remaining 10% ownership interest in Epoch; however, Eternal has waived rights to any interest in Epoch earnings during the interim period, including any associated dividends. Consequently, we have recorded a \$6.6 million long-term liability on our Consolidated Balance Sheet at June 30, 2009 rather than recording a minority interest in Epoch.

Refer to Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Part II of our annual report on Form 10-K for the fiscal year ended September 30, 2008, for additional information regarding our contractual obligations.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **EFFECT OF CURRENCY EXCHANGE RATES AND EXCHANGE RATE RISK MANAGEMENT**

We conduct business operations outside of the United States through our foreign operations. Some of our foreign operations maintain their accounting records in their local currencies. Consequently, period to period comparability of results of operations is affected by fluctuations in exchange rates. The primary currencies to which we have exposure are the Japanese Yen and, to a lesser extent, the Taiwan Dollar, British Pound and the Euro. From time to time we enter into forward contracts in an effort to manage foreign currency exchange exposure. However, we may be unable to hedge these exposures completely. During the nine months ended June 30, 2009, we recorded \$0.4 million in foreign currency translation gains that are included in other income on our Consolidated Statement of Income. We also recorded \$6.5 million in currency translation gains, net of tax, that are included in other comprehensive income on our Consolidated Balance Sheet. These gains primarily are the result of general weakening of the U.S. dollar relative to the Japanese Yen. Approximately 22% of our revenue is transacted in currencies other than the U.S. dollar. We do not currently enter into forward exchange contracts or other derivative instruments for speculative or trading purposes.

#### **MARKET RISK AND SENSITIVITY ANALYSIS RELATED TO FOREIGN EXCHANGE RATE RISK**

We have performed a sensitivity analysis assuming a hypothetical 10% adverse movement in foreign exchange rates. As of June 30, 2009, the analysis demonstrated that such market movements would not have a material adverse effect on our consolidated financial position, results of operations or cash flows over a one-year period. Actual gains and losses in the future may differ materially from this analysis based on changes in the timing and amount of foreign currency rate movements and our actual exposures.

#### **MARKET RISK RELATED TO INVESTMENTS IN AUCTION RATE SECURITIES**

At June 30, 2009, we owned two auction rate securities (ARS) with a total estimated fair value of \$8.1 million (\$8.3 million par value) which we classified as other long-term assets on our Consolidated Balance Sheet. General uncertainties in the global credit markets caused widespread ARS auction failures as the number of securities submitted for sale exceeded the number of securities buyers were willing to purchase. As a result, the short-term liquidity of the ARS market has been adversely affected.

In the third quarter of fiscal 2009, we maintained the \$0.2 million pre-tax and net of tax reduction that we had recorded in fiscal 2008 in stockholders' equity in accumulated other comprehensive income to reflect a decline in fair value of our ARS which we believe is temporary as it relates to the loss of liquidity in the ARS market rather than to credit loss as previously defined in Management's Discussion and Analysis of Financial Condition and Results of Operations under the section titled "Critical Accounting Policies and Estimates and Effects of Recent Accounting Pronouncements". We believe that we will be able to monetize the remaining two securities at par, either through successful auctions, refinancing of the underlying debt by the issuers, or holding the securities to maturity. However, if auctions involving our ARS continue to fail, if issuers are unable to refinance the underlying securities, if the issuing municipalities are unable to pay debt obligations and the bond insurance fails, or if credit ratings decline or other adverse developments occur in the credit markets, then we may not be able to monetize these securities in the foreseeable future and we may also be required to further adjust the carrying value of these instruments through an impairment charge that may be deemed other-than-temporary. See Notes 3 and 6 of the Notes to the Consolidated Financial Statements and the "Risk Factors" set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q for more information.

## ITEM 4. CONTROLS AND PROCEDURES

### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of June 30, 2009.

While we believe the present design of our disclosure controls and procedures is effective enough to make known to our senior management in a timely fashion all material information concerning our business, we intend to continue to improve the design and effectiveness of our disclosure controls and procedures to the extent we believe necessary in the future to provide our senior management with timely access to such material information, and to correct deficiencies that we may discover in the future, as appropriate.

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company acquired Epoch Material Co., Ltd. (Epoch) in a purchase business combination on February 27, 2009. Consequently, management has excluded Epoch from its assessment of internal control over financial reporting as of June 30, 2009 and we are currently in the process of incorporating the internal controls and procedures of Epoch into our internal control over financial reporting. We will report on our assessment of our combined operations within the time period provided by the Sarbanes-Oxley Act of 2002 and the applicable SEC rules and regulations concerning business combinations. There were no other changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### INHERENT LIMITATIONS ON EFFECTIVENESS OF CONTROLS

Because of inherent limitations, our disclosure controls or our internal control over financial reporting may not prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must take into account the benefits of controls relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include possible faulty judgment in decision making and breakdowns due to a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

While we are not involved in any legal proceedings that we believe will have a material impact on our consolidated financial position, results of operations or cash flows, we periodically become a party to legal proceedings in the ordinary course of business. For example, in January 2007, we filed a legal action against DuPont Air Products NanoMaterials LLC (DA Nano), a CMP slurry competitor, in the United States District Court for the District of Arizona, charging that DA Nano's manufacturing and marketing of CMP slurries infringe five CMP slurry patents that we own. The affected DA Nano products include certain products used for tungsten CMP. We filed our infringement complaint as a counterclaim in response to an action filed by DA Nano in the same court in December 2006 that seeks declaratory relief and alleges non-infringement, invalidity and unenforceability regarding some of the patents at issue in our complaint against DA Nano. DA Nano filed its complaint following our refusal of its request that we license to it our patents raised in its complaint. DA Nano's complaint does not allege any infringement by our products of intellectual property owned by DA Nano. On July 25, 2008, the District Court issued its patent claim construction, or "Markman" Order ("Markman Order") in the litigation. In a Markman ruling, a district court hearing a patent infringement case interprets and rules on the scope and meaning of disputed patent claim language regarding the patents in suit. We believe that a Markman decision is often a significant factor in the progress and outcome of patent infringement litigation. In the Markman Order, the District Court adopted interpretations that we believe are favorable to Cabot Microelectronics on all claim terms that were in dispute in the litigation. On January 27, 2009, we filed a motion for summary judgment on DA Nano's infringement of certain of the patents at issue in the suit, because we believe the evidence demonstrates that there is no dispute of material fact as to DA Nano's infringement of all of these patents with DA Nano's accused products used for tungsten CMP. On the same date, DA Nano filed a motion for summary judgment on non-infringement and invalidity of certain of the patents at issue in the suit. Although no trial date has been set, prior to the parties' filing of their respective motions of summary judgment, we had expected trial in this matter to occur sometime during calendar 2009. However, the existence of the respective summary judgment motions for summary judgment is expected to cause a later trial date. While the outcome of this and any legal matter cannot be predicted with certainty, we believe that our claims and defenses in the pending action are meritorious, and we intend to pursue and defend them vigorously.

### **ITEM 1A. RISK FACTORS**

We do not believe there have been any material changes in our risk factors since the filing of our Annual Report on Form 10-K for the fiscal year ended September 30, 2008 other than the risks related to worldwide economic and industry conditions as described below. However, we may update our risk factors in our SEC filings from time to time for clarification purposes or to include additional information, at management's discretion, even when there have been no material changes.

#### **RISKS RELATING TO OUR BUSINESS**

##### **DEMAND FOR OUR PRODUCTS FLUCTUATES AND OUR BUSINESS MAY BE ADVERSELY AFFECTED BY WORLDWIDE ECONOMIC AND INDUSTRY CONDITIONS**

Our business is affected by economic and industry conditions and our revenue is dependent upon semiconductor demand. Semiconductor demand, in turn, is impacted by semiconductor industry cycles, and these cycles can dramatically affect our business. These cycles may be characterized by decreases in product demand, excess customer inventories, and accelerated erosion of prices. The global economy is currently in recession and we first began to see significant adverse effects of this in our fourth quarter of fiscal 2008 as the reduction in end user demand for IC devices caused semiconductor manufacturers to reduce their production, which reduced the demand for our CMP consumable products. We believe weakness of the U.S. and global economy and stress in the financial markets have persisted, and this has caused a significant decrease in demand for our products during the first nine months of fiscal 2009, as our revenue for that period decreased over 31% from the first nine months of fiscal 2008. Although demand for our products increased significantly during our third quarter of fiscal 2009 from the level achieved during the second quarter, it is uncertain if this increase in demand will continue. If global economic conditions remain uncertain or deteriorate further, we may experience additional material adverse impacts on our results of operations and financial condition.



A prolonged global recession may have other adverse effects on our Company such as:

- The ability of our customers to pay their obligations to us may be adversely affected causing a negative impact on our cash flows and our results of operations as evidenced by the bankruptcy filing of two of our smaller customers in the second quarter of fiscal 2009.
- The carrying value of our goodwill and other intangible assets may decline in value, which could harm our financial position and results of operations.
- Our suppliers may not be able to fulfill their obligations to us, which could harm our production process and our business.

Some additional factors that affect demand for our products include customers' production of logic versus memory devices, their transition from 200 mm to 300 mm wafers, customers' specific integration schemes, share gains and losses and pricing changes by us and our competitors.

**WE HAVE A NARROW PRODUCT RANGE AND OUR PRODUCTS MAY BECOME OBSOLETE, OR TECHNOLOGICAL CHANGES MAY REDUCE OR LIMIT INCREASES IN THE CONSUMPTION OF CMP SLURRIES AND PADS**

Our business is substantially dependent on a single class of products, CMP slurries, which account for the majority of our revenue. Our business in CMP pads is also developing and growing. Our business would suffer if these products became obsolete or if consumption of these products decreased. Our success depends on our ability to keep pace with technological changes and advances in the semiconductor industry and to adapt, improve and customize our products for advanced IC applications in response to evolving customer needs and industry trends. Since its inception, the semiconductor industry has experienced rapid technological changes and advances in the design, manufacture, performance and application of IC devices, and our customers continually pursue lower cost of ownership of materials consumed in their manufacturing processes, including CMP slurries and pads. We expect these technological changes and advances, and this drive toward lower costs, will continue in the future. Potential technology developments in the semiconductor industry, as well as our customers' efforts to reduce consumption of CMP slurries and pads and possible reuse or recycling of slurries, could render our products less important to the IC device manufacturing process.

**A SIGNIFICANT AMOUNT OF OUR BUSINESS COMES FROM A LIMITED NUMBER OF LARGE CUSTOMERS AND OUR REVENUE AND PROFITS COULD DECREASE SIGNIFICANTLY IF WE LOST ONE OR MORE OF THESE CUSTOMERS**

Our customer base is concentrated among a limited number of large customers. One or more of these principal customers could stop buying CMP consumables from us or could substantially reduce the quantity of CMP consumables they purchase from us. Our principal customers also hold considerable purchasing power, which can impact the pricing and terms of sale of our products. Any deferral or significant reduction in CMP consumables sold to these principal customers, or a significant number of smaller customers, could seriously harm our business, financial condition and results of operations.

During the nine months ended June 30, 2009 and 2008, our five largest customers accounted for approximately 41% and 44% of our revenue; respectively. Taiwan Semiconductor Manufacturing Company (TSMC) was our largest customer during each of these periods, accounting for approximately 16% and 17% of our revenue for the nine months ended June 30, 2009 and 2008, respectively. In fiscal 2008, our five largest customers accounted for approximately 44% of our revenue; with TSMC accounting for approximately 17% of our revenue.

**OUR BUSINESS COULD BE SERIOUSLY HARMED IF OUR COMPETITORS DEVELOP SUPERIOR SLURRY PRODUCTS, OFFER BETTER PRICING TERMS OR SERVICE, OR OBTAIN CERTAIN INTELLECTUAL PROPERTY RIGHTS**

Competition from other CMP slurry manufacturers could seriously harm our business and results of operations. Competition from other providers of CMP slurries could continue to increase, and opportunities exist for other companies to emerge as potential competitors by developing their own CMP slurry products. Increased competition has and may continue to impact the prices we are able to charge for our slurry products as well as our overall business. In addition, our competitors could have or obtain intellectual property rights which could restrict our ability to market our existing products and/or to innovate and develop new products.

**ANY PROBLEM OR DISRUPTION IN OUR SUPPLY CHAIN, INCLUDING SUPPLY OF OUR MOST IMPORTANT RAW MATERIALS, OR IN OUR ABILITY TO MANUFACTURE AND DELIVER OUR PRODUCTS TO OUR CUSTOMERS, COULD ADVERSELY AFFECT OUR RESULTS OF OPERATIONS**

We depend on our supply chain to enable us to meet the demands of our customers. Our supply chain includes the raw materials we use to manufacture our products, our production operations, and the means by which we deliver our products to our customers. Our business could be adversely affected by any problem or interruption in our supply of the key raw materials we use in our CMP slurries and pads, including fumed silica, or any problem or interruption that may occur during production or delivery of our products, such as weather-related problems or natural disasters.

For instance, Cabot Corporation continues to be our primary supplier of particular amounts and types of fumed silica. We believe it would be difficult to promptly secure alternative sources of key raw materials, including fumed silica, in the event one of our suppliers becomes unable to supply us with sufficient quantities of raw materials that meet the quality and technical specifications required by our customers. In addition, contractual amendments to the existing agreements with, or non-performance by, our suppliers, including any significant financial distress our suppliers may suffer during the current economic recession, could adversely affect us. Also, if we change the supplier or type of key raw materials we use to make our CMP slurries or pads, or are required to purchase them from a different manufacturer or manufacturing facility or otherwise modify our products, in certain circumstances our customers might have to requalify our CMP slurries and pads for their manufacturing processes and products. The requalification process could take a significant amount of time and expense to complete and could motivate our customers to consider purchasing products from our competitors, possibly interrupting or reducing our sales of CMP consumables to these customers.

**WE ARE SUBJECT TO RISKS ASSOCIATED WITH OUR FOREIGN OPERATIONS**

We currently have operations and a large customer base outside of the United States. Approximately 83% and 81% of our revenue was generated by sales to customers outside of the United States for the nine months ended June 30, 2009, and the fiscal year ended September 30, 2008, respectively. We encounter risks in doing business in certain foreign countries, including, but not limited to, adverse changes in economic and political conditions, fluctuation in exchange rates, compliance with a variety of foreign laws and regulations, as well as difficulty in enforcing business and customer contracts and agreements, including protection of intellectual property rights.

**WE MAY PURSUE ACQUISITIONS OF, INVESTMENTS IN, AND STRATEGIC ALLIANCES WITH OTHER ENTITIES, WHICH COULD DISRUPT OUR OPERATIONS AND HARM OUR OPERATING RESULTS IF THEY ARE UNSUCCESSFUL**

We expect to continue to make investments in companies, either through acquisitions, investments or alliances, in order to supplement our internal growth and development efforts. Acquisitions and investments, including our acquisition of Epoch Material Co., Ltd., a Taiwan-based company, the first closing of which we completed in the fiscal quarter ended March 31, 2009, involve numerous risks, including the following: difficulties in integrating the operations, technologies, products and personnel of acquired companies; diversion of management's attention from normal daily operations of the business; increased risk associated with foreign operations; potential difficulties in entering markets in which we have limited or no direct prior experience and where competitors in such markets have stronger market positions; potential difficulties in operating new businesses with different business models; potential difficulties with regulatory or contract compliance in areas in which we have limited experience; initial dependence on unfamiliar supply chains or relatively small supply partners; insufficient revenues to offset increased expenses associated with acquisitions; potential loss of key employees of the acquired companies; or inability to effectively cooperate and collaborate with our alliance partners.

Further, we may never realize the perceived or anticipated benefits of a business combination or investments in other entities. Acquisitions by us could have negative effects on our results of operations, in areas such as contingent liabilities, gross profit margins, amortization charges related to intangible assets and other effects of accounting for the purchases of other business entities. Investments in and acquisitions of technology-related companies are inherently risky because these businesses may never develop, and we may incur losses related to these investments. In addition, we may be required to write down the carrying value of acquisitions or investments to reflect other than temporary declines in their value, which could harm our business and results of operations.

**BECAUSE WE HAVE LIMITED EXPERIENCE IN BUSINESS AREAS OUTSIDE OF CMP SLURRIES, EXPANSION OF OUR BUSINESS INTO NEW PRODUCTS AND APPLICATIONS MAY NOT BE SUCCESSFUL**

An element of our strategy has been to leverage our current customer relationships and technological expertise to expand our CMP business from CMP slurries into other areas, such as CMP polishing pads. Additionally, pursuant to our Engineered Surface Finishes business, we are pursuing a number of surface modification applications, such as high precision optics. Expanding our business into new product areas could involve technologies, production processes and business models in which we have limited experience, and we may not be able to develop and produce products or provide services that satisfy customers' needs or we may be unable to keep pace with technological or other developments. Also, our competitors may have or obtain intellectual property rights which could restrict our ability to market our existing products and/or to innovate and develop new products.

**BECAUSE WE RELY HEAVILY ON OUR INTELLECTUAL PROPERTY, OUR FAILURE TO ADEQUATELY OBTAIN OR PROTECT IT COULD SERIOUSLY HARM OUR BUSINESS**

Protection of intellectual property is particularly important in our industry because we develop complex technical formulas for CMP products that are proprietary in nature and differentiate our products from those of our competitors. Our intellectual property is important to our success and ability to compete. We attempt to protect our intellectual property rights through a combination of patent, trademark, copyright and trade secret laws, as well as employee and third-party nondisclosure and assignment agreements. Due to our international operations, we pursue protection in different jurisdictions, which may provide varying degrees of protection, and we cannot provide assurance that we can obtain adequate protection in each such jurisdiction. Our failure to obtain or maintain adequate protection of our intellectual property rights for any reason, including through the patent prosecution process or in the event of litigation related to such intellectual property, such as the current litigation between us and DuPont Air Products Nanomaterials described in "Legal Proceedings" in this Form 10-Q, could seriously harm our business. In addition, the costs of obtaining or protecting our intellectual property could negatively affect our operating results.

**WE MAY NOT BE ABLE TO MONETIZE OUR INVESTMENTS IN AUCTION RATE SECURITIES IN THE SHORT TERM AND WE COULD EXPERIENCE A DECLINE IN THEIR MARKET VALUE, WHICH COULD ADVERSELY AFFECT OUR FINANCIAL RESULTS**

We owned auction rate securities (ARS) with an estimated fair value of \$8.1 million (\$8.3 million par value) at June 30, 2009. We classified these investments as Other Long-Term Assets on our Consolidated Balance Sheet as of June 30, 2009. If auctions involving our ARS continue to fail, if issuers of our ARS are unable to refinance the underlying securities, if issuers are unable to pay debt obligations and related bond insurance fails, or if credit ratings decline or other adverse developments occur in the credit markets, then we may not be able to monetize these securities in the foreseeable future. We may also be required to further adjust the carrying value of these instruments through an impairment charge that may be deemed other-than-temporary which would adversely affect our financial results.

**OUR INABILITY TO ATTRACT AND RETAIN KEY PERSONNEL COULD CAUSE OUR BUSINESS TO SUFFER**

If we fail to attract and retain the necessary managerial, technical and customer support personnel, our business and our ability to maintain existing and obtain new customers, develop new products and provide acceptable levels of customer service could suffer. We compete with other industry participants for qualified personnel, particularly those with significant experience in the semiconductor industry. The loss of services of key employees could harm our business and results of operations.

**RISKS RELATING TO THE MARKET FOR OUR COMMON STOCK**

**THE MARKET PRICE MAY FLUCTUATE SIGNIFICANTLY AND RAPIDLY**

The market price of our common stock has fluctuated and could continue to fluctuate significantly as a result of factors such as: economic and stock market conditions generally and specifically as they may impact participants in the semiconductor and related industries; changes in financial estimates and recommendations by securities analysts who follow our stock; earnings and other announcements by, and changes in market evaluations of, us or participants in the semiconductor and related industries; changes in business or regulatory conditions affecting us or participants in the semiconductor and related industries; announcements or implementation by us, our competitors, or our customers of technological innovations, new products or different business strategies; and trading volume of our common stock.

**ANTI-TAKEOVER PROVISIONS UNDER OUR CERTIFICATE OF INCORPORATION AND BYLAWS AND OUR RIGHTS PLAN MAY DISCOURAGE THIRD PARTIES FROM MAKING AN UNSOLICITED BID FOR OUR COMPANY**

Our certificate of incorporation, our bylaws, our rights plan and various provisions of the Delaware General Corporation Law may make it more difficult to effect a change in control of our Company. For example, our amended and restated certificate of incorporation authorizes our Board of Directors to issue up to 20 million shares of blank check preferred stock and to attach special rights and preferences to this preferred stock, which may make it more difficult or expensive for another person or entity to acquire control of us without the consent of our Board of Directors. Also our amended and restated certificate of incorporation provides for the division of our Board of Directors into three classes as nearly equal in size as possible with staggered three-year terms.

We have adopted change in control arrangements covering our executive officers and other key employees. These arrangements provide for a cash severance payment, continued medical benefits and other ancillary payments and benefits upon termination of service of a covered employee's employment following a change in control, which may make it more expensive to acquire our Company.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****ISSUER PURCHASES OF EQUITY SECURITIES**

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)</b>
Apr. 1 through Apr. 30, 2009	74	\$24.52	-	\$50,003
May 1 through May 31, 2009	-	-	-	\$50,003
Jun. 1 through Jun. 30, 2009	-	-	-	\$50,003
<b>Total</b>	<b>74</b>	<b>\$24.52</b>	<b>-</b>	<b>\$50,003</b>

In January 2008, we announced that the Board of Directors had authorized a share repurchase program for up to \$75.0 million of our outstanding common stock. Shares are repurchased from time to time, depending on market conditions, in open market transactions, at management's discretion. We fund share repurchases from our existing cash balance. The program, which became effective on the authorization date, may be suspended or terminated at any time, at the Company's discretion. We view the program as a flexible and effective means to return cash to stockholders. No shares were repurchased under this program during the fiscal quarter ended June 30, 2009.

Separate from this share repurchase program, the shares purchased during the third quarter of fiscal 2009 were purchased pursuant to the terms of our Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan as shares withheld from award recipients to cover payroll taxes on the vesting of shares of restricted stock granted under the Equity Incentive Plan.

**ITEM 6. EXHIBITS**

The exhibit numbers in the following list correspond to the number assigned to such exhibits in the Exhibit Table of Item 601 of Regulation S-K:

<b>Exhibit Number</b>	<b>Description</b>
10.57	Adoption agreement, as amended April 1, 2009, of Cabot Microelectronics Corporation 401(k) Plan.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CABOT MICROELECTRONICS CORPORATION

Date: August 7, 2009

/s/ WILLIAM S. JOHNSON

William S. Johnson  
Vice President and Chief Financial Officer  
[Principal Financial Officer]

Date: August 7, 2009

/s/ THOMAS S. ROMAN

Thomas S. Roman  
Corporate Controller  
[Principal Accounting Officer]

THE CORPORATE PLAN  
FOR RETIREMENT<sup>SM</sup>

**(PROFIT SHARING/401(K) PLAN)**

A FIDELITY PROTOTYPE PLAN

Non-Standardized Adoption Agreement No. 001  
For use With  
Fidelity Basic Plan Document No. 02

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**ADOPTION AGREEMENT  
ARTICLE 1  
NON-STANDARDIZED PROFIT SHARING/401(K) PLAN**

**1.01 PLAN INFORMATION**

**(a) Name of Plan:**

This is the Cabot Microelectronics Corporation 401(k) Plan (the "Plan")

**(b) Type of Plan:**

- (1)  401(k) Only  
(2)  401(k) and Profit Sharing  
(3)  Profit Sharing Only

**(c) Administrator Name (if not the Employer):**

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Address:

Telephone Number:

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The Administrator is the agent for service of legal process for the Plan.

**(d) Plan Year End** (month/day): 12/31

**(e) Three Digit Plan Number:** 001

**(f) Limitation Year** (check one):

- (1)  Calendar Year  
(2)  Plan Year  
(3)  Other:

**(g) Plan Status** (check appropriate box(es)):

- (1)  New Plan Effective Date:  
(2)  Amendment Effective Date: 4/1/2009

This is (check one):

- (A)  an amendment and restatement of a Basic Plan Document No. 02 Adoption Agreement previously executed by the Employer; or  
(B)  a conversion to a Basic Plan Document No. 02 Adoption Agreement.

The original effective date of the Plan: 5/1/2000

- (3)  This is an amendment and restatement of the Plan and the Plan was not amended prior to the effective date specified in Subsection 1.01(g)(2) above to comply with the requirements of the Acts specified in the Snap Off Addendum to the Adoption Agreement. The provisions specified in the Snap Off Addendum are effective as of the dates specified in the Snap Off Addendum, which dates may be prior to the Amendment Effective Date. Please read and complete, if necessary, the Snap Off Addendum to the Adoption Agreement.
- (4)  **Special Effective Dates** - Certain provisions of the Plan shall be effective as of a date other than the date specified above. Please complete the Special Effective Dates Addendum to the Adoption Agreement indicating the affected provisions and their effective dates.
- (5)  **Plan Merger Effective Dates.** Certain plan(s) were merged into the Plan and certain provisions of the Plan are effective with respect to the merged plan(s) as of a date other than the date specified above. Please complete the Special Effective Dates Addendum to the Adoption Agreement indicating the plan(s) that have merged into the Plan and the effective date(s) of such merger(s).



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**1.02 EMPLOYER**

(a) **Employer Name:** Cabot Microelectronics Corporation  
**Address:** 870 Commons Drive  
Aurora, IL 60504  
**Contact's Name:** Michelle Nunamaker  
**Telephone Number:** (630) 375-5559  
**(1) Employer's Tax Identification Number:** 36-4324765  
**(2) Employer's fiscal year end:** 9/30  
**(3) Date business commenced:** 10/06/1999

(b) **The term "Employer" includes the following Related Employer(s) (as defined in Subsection 2.01(rr)) (list each participating Related Employer and its Employer Tax Identification Number):**

<b>Employer:</b>	<b>Tax ID:</b>
Cabot Microelectronics Polishing Corporation	20-3398308
QED Technologies International	20-5040463

**1.03 TRUSTEE**

(a) **Trustee Name:** Fidelity Management Trust Company  
**Address:** 82 Devonshire Street  
Boston, MA 02109

**1.04 COVERAGE**

*All Employees who meet the conditions specified below shall be eligible to participate in the Plan:*

(a) **Age Requirement** (check one):

- (1)  no age requirement.
- (2)  must have attained age: 21.0 (not to exceed 21).

(b) **Eligibility Service Requirement**

(1) **Eligibility to Participate in Plan** (check one):

- (A)  no Eligibility Service requirement.
- (B)             (not to exceed 11) months of Eligibility Service requirement (no minimum number Hours of Service can be required).
- (C)  one year of Eligibility Service requirement (at least 1,000 Hours of Service are required during the Eligibility Computation Period).
- (D)  two years of Eligibility Service requirement (at least 1,000 Hours of Service are required during each Eligibility Computation Period). *(Do not select if Option 1.01(b)(1), 401(k) Only, is checked, unless a different Eligibility Service requirement applies to Deferral Contributions under Option 1.04(b)(2).)*

**Note:** If the Employer selects the two year Eligibility Service requirement, then contributions subject to such Eligibility Service requirement must be 100% vested when made.

(2)  **Special Eligibility Service requirement for Deferral Contributions and/or Matching Employer Contributions:**

(A) The special Eligibility Service requirement applies to (check the appropriate box(es)):

- (i)  Deferral Contributions.
- (ii)  Matching Employer Contributions.

**(B)** The special Eligibility Service requirement is: \_ (Fill in (A), (B), or (C) from Subsection 1.04(b)(1) above).

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(c) **Eligible Class of Employees** (check one):

**Note:** The Plan may not cover employees who are residents of Puerto Rico. These employees are automatically excluded from the eligible class, regardless of the Employer's selection under this Subsection 1.04(c).

- (1)  includes all Employees of the Employer.
- (2)  includes all Employees of the Employer except for (check the appropriate box(es)):
  - (A)  employees covered by a collective bargaining agreement.
  - (B)  Highly Compensated Employees as defined in Code Section 414(q).
  - (C)  Leased Employees as defined in Subsection 2.01(cc).
  - (D)  nonresident aliens who do not receive any earned income from the Employer which constitutes United States source income.
  - (E)  other: independent contractors

**Note:** The Employer should exercise caution when excluding employees from participation in the Plan. Exclusion of employees may adversely affect the Plan's satisfaction of the minimum coverage requirements, as provided in Code Section 410(b).

(d) **The Entry Dates shall be** (check one):

- (1)  immediate upon meeting the eligibility requirements specified in Subsections 1.04(a), (b), and (c).
- (2)  the first day of each Plan Year and the first day of the seventh month of each Plan Year.
- (3)  the first day of each Plan Year and the first day of the fourth, seventh, and tenth months of each Plan Year.
- (4)  the first day of each month.
- (5)  the first day of each Plan Year. **(Do not select if there is an Eligibility Service requirement of more than six months in Subsection 1.04(b) or if there is an age requirement of more than 20 1/2 in Subsection 1.04(a).)**

(e)  **Special Entry Date(s)** - In addition to the Entry Dates specified in Subsection 1.04(d) above, the following special Entry Date(s) apply for Deferral and/or Matching Employer Contributions. **(Special Entry Dates may only be selected if Option 1.04(b)(2), special Eligibility Service requirement, is checked. The same Entry Dates must be selected for contributions that are subject to the same Eligibility Service requirements.)**

(1) The special Entry Date(s) shall apply to (check the appropriate box(es)):

- (A)  Deferral Contributions.
- (B)  Matching Employer Contributions.

(2) The special Entry Date(s) shall be: \_ (Fill in (1), (2), (3), (4), or (5) from Subsection 1.04(d) above).

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(f) **Date of Initial Participation** - An Employee shall become a Participant unless excluded by Subsection 1.04(c) above on the Entry Date immediately following the date the Employee completes the service and age requirement(s) in Subsections 1.04(a) and (b), if any, except (check one):

- (1)  no exceptions.
- (2)  Employees employed on the Effective Date in Subsection 1.01(g)(1) or (2) shall become Participants on that date.
- (3)  Employees who meet the age and service requirement(s) of Subsections 1.04(a) and (b) on the Effective Date in Subsection 1.01(g)(1) or (2) shall become Participants on that date.

## 1.05 COMPENSATION

**Compensation for purposes of determining contributions shall be as defined in Section 5.02, modified as provided below.**

(a) **Compensation Exclusions:** Compensation shall exclude the item(s) listed below for purposes of determining Deferral Contributions, Employee Contributions, if any, and Qualified Nonelective Employer Contributions, or, if Subsection 1.01(b)(3), Profit Sharing Only, is selected, Nonelective Employer Contributions. Unless otherwise indicated in Subsection 1.05(b), these exclusions shall also apply in determining all other Employer-provided contributions. (Check the appropriate box(es); Options (2), (3), (4), (5), and (6) may not be elected with respect to Deferral Contributions if Option 1.10(a)(3), Safe Harbor Matching Employer Contributions, is checked):

- (1)  No exclusions.
- (2)  Overtime Pay.
- (3)  Bonuses.
- (4)  Commissions.
- (5)  The value of a qualified or a non-qualified stock option granted to an Employee by the Employer to the extent such value is includable in the Employee's taxable income.
- (6)  Severance Pay.

(b) **Special Compensation Exclusions for Determining Employer-Provided Contributions in Article 5** (either (1) or (2) may be selected, but not both):

- (1)  Compensation for purposes of determining Matching, Qualified Matching, and Nonelective Employer Contributions shall exclude: \_ (Fill in number(s) for item(s) from Subsection 1.05(a) above that apply.)
- (2)  Compensation for purposes of determining Nonelective Employer Contributions only shall exclude: (1) (Fill in number(s) for item(s) from Subsection 1.05(a) above that apply.)

**Note:** If the Employer selects Option (2), (3), (4), (5), or (6) with respect to Nonelective Employer Contributions, Compensation must be tested to show that it meets the requirements of Code Section 414(s) or 401(a)(4). These exclusions shall not apply for purposes of the "Top Heavy" requirements in Section 15.03, for allocating safe harbor Matching Employer Contributions if Subsection 1.10(a)(3) is selected, for allocating safe harbor Nonelective Employer Contributions if Subsection 1.11(a)(3) is selected, or for allocating non-safe harbor Nonelective Employer Contributions if the Integrated Formula is elected in Subsection 1.11(b)(2).

(c) **Compensation for the First Year of Participation** - Contributions for the Plan Year in which an Employee first becomes a Participant shall be determined based on the Employee's Compensation (check one):

- (1)  for the entire Plan Year.
- (2)  for the portion of the Plan Year in which the Employee is eligible to participate in the Plan.

**Note:** If the initial Plan Year of a new Plan consists of fewer than 12 months from the Effective Date in Subsection 1.01(g)(1) through the end of the initial Plan Year, Compensation for purposes of determining the amount of contributions, other than non-safe harbor Nonelective Employer Contributions, under the Plan shall be the period from such Effective Date through the end of the initial year. However, for purposes of determining the amount of non-safe harbor Nonelective Employer Contributions and for other Plan purposes, where appropriate, the full 12-consecutive-month period ending on the last day of the initial Plan Year shall be used.

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1.06 **TESTING RULES**

(a) **ADP/ACP Present Testing Method** - The testing method for purposes of applying the "ADP" and "ACP" tests described in Sections 6.03 and 6.06 of the Plan shall be the (check one):

- (1)  **Current Year Testing Method** - The "ADP" or "ACP" of Highly Compensated Employees for the Plan Year shall be compared to the "ADP" or "ACP" of Non-Highly Compensated Employees for the same Plan Year. *(Must choose if Option 1.10(a)(3), Safe Harbor Matching Employer Contributions, or Option 1.11(a)(3), Safe Harbor Formula, with respect to Nonelective Employer Contributions is checked.)*
- (2)  **Prior Year Testing Method** - The "ADP" or "ACP" of Highly Compensated Employees for the Plan Year shall be compared to the "ADP" or "ACP" of Non-Highly Compensated Employees for the immediately preceding Plan Year. *(Do not choose if Option 1.10(a)(3), Safe Harbor Matching Employer Contributions, or Option 1.11(a)(3), Safe Harbor Formula, with respect to Nonelective Employer Contributions is checked.)*
- (3)  Not applicable. *(Only if Option 1.01(b)(3), Profit Sharing Only, is checked or Option 1.04(c)(2)(B), excluding all Highly Compensated Employees from the eligible class of Employees, is checked.)*

**Note:** Restrictions apply on elections to change testing methods that are made after the end of the GUST remedial amendment period.

(b) **First Year Testing Method** - If the first Plan Year that the Plan, other than a successor plan, permits Deferral Contributions or provides for either Employee or Matching Employer Contributions, occurs on or after the Effective Date specified in Subsection 1.01(g), the "ADP" and/or "ACP" test for such first Plan Year shall be applied using the actual "ADP" and/or "ACP" of Non-Highly Compensated Employees for such first Plan Year, unless otherwise provided below.

- (1)  The "ADP" and/or "ACP" test for the first Plan Year that the Plan permits Deferral Contributions or provides for either Employee or Matching Employer Contributions shall be applied assuming a 3% "ADP" and/or "ACP" for Non-Highly Compensated Employees. *(Do not choose unless Plan uses prior year testing method described in Subsection 1.06(a)(2).)*

(c) **HCE Determinations: Look Back Year** - The look back year for purposes of determining which Employees are Highly Compensated Employees shall be the 12-consecutive-month period preceding the Plan Year, unless otherwise provided below.

- (1)  **Calendar Year Determination** - The look back year shall be the calendar year beginning within the preceding Plan Year. *(Do not choose if the Plan Year is the calendar year.)*

(d) **HCE Determinations: Top Paid Group Election** - All Employees with Compensation exceeding \$80,000 (as indexed) shall be considered Highly Compensated Employees, unless Top Paid Group Election below is checked.

- (1)  **Top Paid Group Election** - Employees with Compensation exceeding \$80,000 (as indexed) shall be considered Highly Compensated Employees only if they are in the top paid group (the top 20% of Employees ranked by Compensation).

**Note:** Effective for determination years beginning on or after January 1, 1998, if the Employer elects Option 1.06(c)(1) and/or 1.06(d)(1), such election(s) must apply consistently to all retirement plans of the Employer for determination years that begin with or within the same calendar year (except that Option 1.06(c)(1), Calendar Year Determination, shall not apply to calendar year plans).

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1.07 **DEFERRAL CONTRIBUTIONS**

(a)  **Deferral Contributions** - Participants may elect to have a portion of their Compensation contributed to the Plan on a before-tax basis pursuant to Code Section 401(k).

(1) **Regular Contributions** - The Employer shall make a Deferral Contribution in accordance with Section 5.03 on behalf of each Participant who has an executed salary reduction agreement in effect with the Employer for the payroll period in question, not to exceed 60% of Compensation for that period.

**Note:** For Limitation Years beginning prior to 2002, the percentage elected above must be less than 25% in order to satisfy the limitation on annual additions under Code Section 415 if other types of contributions are provided under the Plan.

(A)  Instead of specifying a percentage of Compensation, a Participant's salary reduction agreement may specify a dollar amount to be contributed each payroll period, provided such dollar amount does not exceed the maximum percentage of Compensation specified in Subsection 1.07(a)(1) above.

(B) A Participant may increase or decrease, on a prospective basis, his salary reduction agreement percentage (check one):

(i)  as of the beginning of each payroll period.

(ii)  as of the first day of each month.

(iii)  as of the next Entry Date. (*Do not select if immediate entry is elected with respect to Deferral Contributions in Subsection 1.04(d) or 1.04(e).*)

(iv)  other. (Specify, but must be at least once per Plan Year)

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**Note:** Notwithstanding the Employer's election hereunder, if Option 1.10(a)(3), Safe Harbor Matching Employer Contributions, or 1.11(a)(3), Safe Harbor Formula, with respect to Nonelective Employer Contributions is checked, the Plan provides that an Active Participant may change his salary reduction agreement percentage for the Plan Year within a reasonable period (not fewer than 30 days) of receiving the notice described in Section 6.10.

(C) A Participant may revoke, on a prospective basis, a salary reduction agreement at any time upon proper notice to the Administrator but in such case may not file a new salary reduction agreement until (check one):

(i)  the first day of the next Plan Year.

(ii)  any subsequent Entry Date. (*Do not select if immediate entry is elected with respect to Deferral Contributions in Subsection 1.04(d) or 1.04(e).*)

(iii)  other. (Specify, but must be at least once per Plan Year)

as of the beginning of next payroll period

(2)  **Additional Deferral Contributions** - The Employer may allow Participants upon proper notice and approval to enter into a special salary reduction agreement to make additional Deferral Contributions in an amount up to 100% of their Compensation for the payroll period(s) designated by the Employer.

(3)  **Bonus Contributions** - The Employer may allow Participants upon proper notice and approval to enter into a special salary reduction agreement to make Deferral Contributions in an amount up to 100% of any Employer paid cash bonuses designated by the Employer on a uniform and non-discriminatory basis that are made for such Participants during the Plan Year. The Compensation definition elected by the Employer in Subsection 1.05(a) must include bonuses if bonus contributions are permitted.

**Note:** A Participant's contributions under Subsection 1.07(a)(2) and/or (3) may not cause the Participant to exceed the percentage limit specified by the Employer in Subsection 1.07(a)(1) for the full Plan Year. If the Administrator anticipates that the Plan will not satisfy the "ADP" and/or "ACP" test for the year, the Administrator may reduce the rate of Deferral Contributions of Participants who are Highly Compensated Employees to an amount objectively determined by the Administrator to be necessary to satisfy the "ADP" and/or "ACP" test.

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**1.08 EMPLOYEE CONTRIBUTIONS (AFTER-TAX CONTRIBUTIONS)**

- (a)  **Employee Contributions** - Either (1) Participants will be permitted to contribute amounts to the Plan on an after-tax basis or (2) the Employer maintains frozen Employee Contributions Accounts (check one):
- (1)  **Future Employee Contributions** - Participants may make voluntary, non-deductible, after-tax Employee Contributions pursuant to Section 5.04 of the Plan. *(Only if Option 1.07(a), Deferral Contributions, is checked.)*
- (2)  **Frozen Employee Contributions** - Participants may not currently make after-tax Employee Contributions to the Plan, but the Employer does maintain frozen Employee Contributions Accounts.

**1.09 QUALIFIED NONELECTIVE CONTRIBUTIONS**

- (a) **Qualified Nonelective Employer Contributions** - If Option 1.07(a), Deferral Contributions, is checked, the Employer may contribute an amount which it designates as a Qualified Nonelective Employer Contribution to be included in the "ADP" or "ACP" test. Unless otherwise provided below, Qualified Nonelective Employer Contributions shall be allocated to Participants who were eligible to participate in the Plan at any time during the Plan Year and are Non-Highly Compensated Employees either (A) in the ratio which each Participant's "testing compensation", as defined in Subsection 6.01(t), for the Plan Year bears to the total of all Participants' "testing compensation" for the Plan Year or (B) as a flat dollar amount.
- (1)  Qualified Nonelective Employer Contributions shall be allocated to Participants as a percentage of the lowest paid Participant's "testing compensation", as defined in Subsection 6.01(t), for the Plan Year up to the lower of (A) the maximum amount contributable under the Plan or (B) the amount necessary to satisfy the "ADP" or "ACP" test. If any Qualified Nonelective Employer Contribution remains, allocation shall continue in the same manner to the next lowest paid Participants until the Qualified Nonelective Employer Contribution is exhausted.

**1.10 MATCHING EMPLOYER CONTRIBUTIONS (Only if Option 1.07(a), Deferral Contributions, is checked)**

- (a)  **Basic Matching Employer Contributions** (check one):
- (1)  **Non-Discretionary Matching Employer Contributions** - The Employer shall make a basic Matching Employer Contribution on behalf of each Participant in an amount equal to the following percentage of a Participant's Deferral Contributions during the Contribution Period (check (A) or (B) and, if applicable, (C)):

**Note:** Effective for Plan Years beginning on or after January 1, 1999, if the Employer elected Option 1.11(a)(3), Safe Harbor Formula, with respect to Nonelective Employer Contributions and meets the requirements for deemed satisfaction of the "ADP" test in Section 6.10 for a Plan Year, the Plan will also be deemed to satisfy the "ACP" test for such Plan Year with respect to Matching Employer Contributions if Matching Employer Contributions hereunder meet the requirements in Section 6.11.

(A)  Single Percentage Match: %

(B)  Tiered Match:

\_\_\_\_% of the first % of the Active Participant's Compensation contributed to the Plan,

\_\_\_\_% of the next % of the Active Participant's Compensation contributed to the Plan,

\_\_\_\_% of the next % of the Active Participant's Compensation contributed to the Plan.

**Note:** The percentages specified above for basic Matching Employer Contributions may not increase as the percentage of Compensation contributed increases.

(C)  Limit on Non-Discretionary Matching Employer Contributions (check the appropriate box(es)):

(i)  Deferral Contributions in excess of % of the Participant's Compensation for the period in question shall not be considered for non-discretionary Matching Employer Contributions.

**Note:** If the Employer elected a percentage limit in (i) above and requested the Trustee to account separately for matched and unmatched Deferral Contributions made to the Plan, the non-discretionary Matching Employer Contributions allocated to each Participant must be computed, and the percentage limit applied, based upon each payroll period.

(ii)  Matching Employer Contributions for each Participant for each Plan Year shall be limited to \$.

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- (2)  **Discretionary Matching Employer Contributions** - The Employer may make a basic Matching Employer Contribution on behalf of each Participant in an amount equal to the percentage declared for the Contribution Period, if any, by a Board of Directors' Resolution (or by a Letter of Intent for a sole proprietor or partnership) of the Deferral Contributions made by each Participant during the Contribution Period. The Board of Directors' Resolution (or Letter of Intent, if applicable) may limit the Deferral Contributions matched to a specified percentage of Compensation or limit the amount of the match to a specified dollar amount.
- (A)  4% Limitation on Discretionary Matching Employer Contributions for Deemed Satisfaction of "ACP" Test - In no event may the dollar amount of the discretionary Matching Employer Contribution made on a Participant's behalf for the Plan Year exceed 4% of the Participant's Compensation for the Plan Year. *(Only if Option 1.11(a)(3), Safe Harbor Formula, with respect to Nonelective Employer Contributions is checked.)*
- (3)  **Safe Harbor Matching Employer Contributions** - Effective only for Plan Years beginning on or after January 1, 1999, if the Employer elects one of the safe harbor formula Options provided in the Safe Harbor Matching Employer Contribution Addendum to the Adoption Agreement and provides written notice each Plan Year to all Active Participants of their rights and obligations under the Plan, the Plan shall be deemed to satisfy the "ADP" test and, under certain circumstances, the "ACP" test.
- (b)  **Additional Matching Employer Contributions** - The Employer may at Plan Year end make an additional Matching Employer Contribution equal to a percentage declared by the Employer, through a Board of Directors' Resolution (or by a Letter of Intent for a sole proprietor or partnership), of the Deferral Contributions made by each Participant during the Plan Year. *(Only if Option 1.10(a)(1) or (3) is checked.)* The Board of Directors' Resolution (or Letter of Intent, if applicable) may limit the Deferral Contributions matched to a specified percentage of Compensation or limit the amount of the match to a specified dollar amount.
- (1)  **4% Limitation on Additional Matching Employer Contributions for Deemed Satisfaction of "ACP" Test** - In no event may the dollar amount of the additional Matching Employer Contribution made on a Participant's behalf for the Plan Year exceed 4% of the Participant's Compensation for the Plan Year. *(Only if Option 1.10(a)(3), Safe Harbor Matching Employer Contributions, or Option 1.11(a)(3), Safe Harbor Formula, with respect to Nonelective Employer Contributions is checked.)*

**Note:** If the Employer elected Option 1.10(a)(3), Safe Harbor Matching Employer Contributions, above and wants to be deemed to have satisfied the "ADP" test for Plan Years beginning on or after January 1, 1999, the additional Matching Employer Contribution must meet the requirements of Section 6.10. In addition to the foregoing requirements, if the Employer elected either Option 1.10(a)(3), Safe Harbor Matching Employer Contributions, or Option 1.11(a)(3), Safe Harbor Formula, with respect to Nonelective Employer Contributions, and wants to be deemed to have satisfied the "ACP" test with respect to Matching Employer Contributions for the Plan Year, the Deferral Contributions matched may not exceed the limitations in Section 6.11.

- (c) **Contribution Period for Matching Employer Contributions** - The Contribution Period for purposes of calculating the amount of basic Matching Employer Contributions described in Subsection 1.10(a) is:
- (1)  each calendar month.
- (2)  each Plan Year quarter.
- (3)  each Plan Year.
- (4)  each payroll period.

The Contribution Period for additional Matching Employer Contributions described in Subsection 1.10(b) is the Plan Year.

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(d) **Continuing Eligibility Requirement(s)** - A Participant who makes Deferral Contributions during a Contribution Period shall only be entitled to receive Matching Employer Contributions under Section 1.10 for that Contribution Period if the Participant satisfies the following requirement(s) (Check the appropriate box(es). Options (3) and (4) may not be elected together; Option (5) may not be elected with Option (2), (3), or (4); Options (2), (3), (4), (5), and (7) may not be elected with respect to basic Matching Employer Contributions if Option 1.10(a)(3), Safe Harbor Matching Employer Contributions, is checked):

- (1)  No requirements.
  - (2)  Is employed by the Employer or a Related Employer on the last day of the Contribution Period.
  - (3)  Earns at least 501 Hours of Service during the Plan Year. *(Only if the Contribution Period is the Plan Year.)*
  - (4)  Earns at least 1,000 Hours of Service during the Plan Year. *(Only if the Contribution Period is the Plan Year.)*
  - (5)  Either earns at least 501 Hours of Service during the Plan Year or is employed by the Employer or a Related Employer on the last day of the Plan Year. *(Only if the Contribution Period is the Plan Year.)*
  - (6)  Is not a Highly Compensated Employee for the Plan Year.
  - (7)  Is not a partner or a member of the Employer, if the Employer is a partnership or an entity taxed as a partnership.
  - (8)  Special continuing eligibility requirement(s) for additional Matching Employer Contributions. *(Only if Option 1.10(b), Additional Matching Employer Contributions, is checked.)*
- (A) The continuing eligibility requirement(s) for additional Matching Employer Contributions is/are: \_ (Fill in number of applicable eligibility requirement(s) from above.)

**Note:** If Option (2), (3), (4), or (5) above is selected, then Matching Employer Contributions can only be **funded** by the Employer **after** the Contribution Period or Plan Year ends. Matching Employer Contributions funded during the Contribution Period or Plan Year shall not be subject to the eligibility requirements of Option (2), (3), (4), or (5). If Option (2), (3), (4), or (5) is adopted during a Contribution Period or Plan Year, as applicable, such Option shall not become effective until the first day of the next Contribution Period or Plan Year.

(e)  **Qualified Matching Employer Contributions** - Prior to making any Matching Employer Contribution hereunder (other than a safe harbor Matching Employer Contribution), the Employer may designate all or a portion of such Matching Employer Contribution as a Qualified Matching Employer Contribution that may be used to satisfy the “ADP” test on Deferral Contributions and excluded in applying the “ACP” test on Employee and Matching Employer Contributions. Unless the additional eligibility requirement is selected below, Qualified Matching Employer Contributions shall be allocated to all Participants who meet the continuing eligibility requirement(s) described in Subsection 1.10(d) above for the type of Matching Employer Contribution being characterized as a Qualified Matching Employer Contribution.

- (1)  To receive an allocation of Qualified Matching Employer Contributions a Participant must also be a Non-Highly Compensated Employee for the Plan Year.

**Note:** Qualified Matching Employer Contributions may not be excluded in applying the “ACP” test for a Plan Year if the Employer elected Option 1.10(a)(3), Safe Harbor Matching Employer Contributions, or Option 1.11(a)(3), Safe Harbor Formula, with respect to Nonelective Employer Contributions, and the “ADP” test is deemed satisfied under Section 6.10 for such Plan Year.

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1.11 **NONELECTIVE EMPLOYER CONTRIBUTIONS**

**Note:** An Employer may elect both a fixed formula and a discretionary formula. If both are selected, the discretionary formula shall be treated as an additional Nonelective Employer Contribution and allocated separately in accordance with the allocation formula selected by the Employer.

- (a)  **Fixed Formula** (An Employer may elect both the Safe Harbor Formula and one of the other fixed formulas. Otherwise, the Employer may only select one of the following.)
  - (1)  **Fixed Percentage Employer Contribution** - For each Plan Year, the Employer shall contribute for each eligible Active Participant an amount equal to \_% (**not to exceed 15% for Plan Years beginning prior to 2002 and 25% for Plan Years beginning on or after January 1, 2002**) of such Active Participant's Compensation.
  - (2)  **Fixed Flat Dollar Employer Contribution** - The Employer shall contribute for each eligible Active Participant an amount equal to \$\_.

The contribution amount is based on an Active Participant's service for the following period:

- (A)  Each paid hour.
  - (B)  Each payroll period.
  - (C)  Each Plan Year.
  - (D)  Other: \_
- (3)  **Safe Harbor Formula** - Effective only with respect to Plan Years that begin on or after January 1, 1999, the Nonelective Employer Contribution specified in the Safe Harbor Nonelective Employer Contribution Addendum is intended to satisfy the safe harbor contribution requirements under the Code such that the "ADP" test (and, under certain circumstances, the "ACP" test) is deemed satisfied. Please complete the Safe Harbor Nonelective Employer Contribution Addendum to the Adoption Agreement. (**Choose only if Option 1.07(a), Deferral Contributions, is checked.**)
- (b)  **Discretionary Formula** - The Employer may decide each Plan Year whether to make a discretionary Nonelective Employer Contribution on behalf of eligible Active Participants in accordance with Section 5.10. Such contributions shall be allocated to eligible Active Participants based upon the following (check (1) or (2)):
    - (1)  **Non-Integrated Allocation Formula** - In the ratio that each eligible Active Participant's Compensation bears to the total Compensation paid to all eligible Active Participants for the Plan Year.
    - (2)  **Integrated Allocation Formula** - As (A) a percentage of each eligible Active Participant's Compensation plus (B) a percentage of each eligible Active Participant's Compensation in excess of the "integration level" as defined below. The percentage of Compensation in excess of the "integration level" shall be equal to the lesser of the percentage of the Active Participant's Compensation allocated under (A) above or the "permitted disparity limit" as defined below.

**Note:** An Employer that has elected the Safe Harbor formula in Subsection 1.11(a)(3) above may not take Nonelective Employer Contributions made to satisfy the safe harbor into account in applying the integrated allocation formula described above.

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"Integration level" means the Social Security taxable wage base for the Plan Year, unless the Employer elects a lesser amount in (A) or (B) below.

(A) \_\_\_\_\_% (not to exceed 100%) of the Social Security taxable wage base for the Plan Year, or

(B) \$\_ (not to exceed the Social Security taxable wage base).

"Permitted disparity limit" means the percentage provided by the following table:

The "Integration Level" is ___% of the Taxable Wage Base	The "Permitted Disparity Limit" is
20% or less	5.7%
More than 20%, but not more than 80%	4.3%
More than 80%, but less than 100%	5.4%
100%	5.7%

**Note:** An Employer who maintains any other plan that provides for Social Security Integration (permitted disparity) may not elect Option 1.11(b)(2).

(c) **Continuing Eligibility Requirement(s)** - A Participant shall only be entitled to receive Nonelective Employer Contributions for a Plan Year under this Section 1.11 if the Participant satisfies the following requirement(s) (Check the appropriate box(es) - Options (3) and (4) may not be elected together; Option (5) may not be elected with Option (2), (3), or (4); Options (2), (3), (4), (5), and (7) may not be elected with respect to Nonelective Employer Contributions under the fixed formula if Option 1.11(a)(3), Safe Harbor Formula, is checked):

- (1)  No requirements.
- (2)  Is employed by the Employer or a Related Employer on the last day of the Plan Year.
- (3)  Earns at least 501 Hours of Service during the Plan Year.
- (4)  Earns at least 1,000 Hours of Service during the Plan Year.
- (5)  Either earns at least 501 Hours of Service during the Plan Year or is employed by the Employer or a Related Employer on the last day of the Plan Year.
- (6)  Is not a Highly Compensated Employee for the Plan Year.
- (7)  Is not a partner or a member of the Employer, if the Employer is a partnership or an entity taxed as a partnership.
- (8)  Special continuing eligibility requirement(s) for discretionary Nonelective Employer Contributions. **(Only if both Options 1.11(a) and (b) are checked.)**

(A) The continuing eligibility requirement(s) for discretionary Nonelective Employer Contributions is/are: \_ (Fill in number of applicable eligibility requirement(s) from above.)

**Note:** If Option (2), (3), (4), or (5) above is selected then Nonelective Employer Contributions can only be **funded** by the Employer **after** the Plan Year ends. Nonelective Employer Contributions funded during the Plan Year shall not be subject to the eligibility requirements of Option (2), (3), (4), or (5). If Option (2), (3), (4), or (5) is adopted during a Plan Year, such Option shall not become effective until the first day of the next Plan Year.

**1.12 EXCEPTIONS TO CONTINUING ELIGIBILITY REQUIREMENTS**

- Death, Disability, and Retirement Exception to Eligibility Requirements*** - Active Participants who do not meet any last day or Hours of Service requirement under Subsection 1.10(d) or 1.11(c) because they become disabled, as defined in Section 1.14, retire, as provided in Subsection 1.13(a), (b), or (c), or die shall nevertheless receive an allocation of Nonelective Employer and/or Matching Employer Contributions. No Compensation shall be imputed to Active Participants who become disabled for the period following their disability.

**1.13 RETIREMENT**

- (a) ***The Normal Retirement Age under the Plan is*** (check one):

- (1)  age 65.
- (2)  age \_ (specify between 55 and 64).
- (3)  later of age \_ (**not to exceed 65**) or the fifth anniversary of the Participant's Employment Commencement Date.

- (b)  ***The Early Retirement Age is the first day of the month after the Participant attains age 55.0 (specify 55 or greater) and completes \_ years of Vesting Service.***

**Note:** If this Option is elected, Participants who are employed by the Employer or a Related Employer on the date they reach Early Retirement Age shall be 100% vested in their Accounts under the Plan.

- (c)  ***A Participant who becomes disabled, as defined in Section 1.14, is eligible for disability retirement.***

**Note:** If this Option is elected, Participants who are employed by the Employer or a Related Employer on the date they become disabled shall be 100% vested in their Accounts under the Plan.

**1.14 DEFINITION OF DISABLED**

***A Participant is disabled if he/she*** (check the appropriate box(es)):

- (a)  satisfies the requirements for benefits under the Employer's long-term disability plan.
- (b)  satisfies the requirements for Social Security disability benefits.
- (c)  is determined to be disabled by a physician approved by the Employer.
-

1.15 **VESTING**

*A Participant's vested interest in Matching Employer Contributions and/or Nonelective Employer Contributions, other than Safe Harbor Matching Employer and/or Nonelective Employer Contributions elected in Subsection 1.10(a)(3) or 1.11(a)(3), shall be based upon his years of Vesting Service and the schedule(s) selected below, except as provided in Subsection 1.21(d) or in the Vesting Schedule Addendum to the Adoption Agreement.*

(a)  Years of Vesting Service shall exclude:

- (1)  for new plans, service prior to the Effective Date as defined in Subsection 1.01(g)(1).
- (2)  for existing plans converting from another plan document, service prior to the original Effective Date as defined in Subsection 1.01(g)(2).

(b) **Vesting Schedule(s)**

**Note:** The vesting schedule selected below applies only to Nonelective Employer Contributions and Matching Employer Contributions other than safe harbor contributions under Option 1.11(a)(3) or Option 1.10(a)(3). Safe harbor contributions under Options 1.11(a)(3) and 1.10(a)(3) are always 100% vested immediately.

**(1) Nonelective Employer Contributions**  
(check one):

**(2) Matching Employer Contributions**  
(check one):

- (A)  N/A - No Nonelective Employer Contributions
- (B)  100% Vesting immediately
- (C)  3 year cliff (see C below)
- (D)  5 year cliff (see D below)
- (E)  6 year graduated (see E below)
- (F)  7 year graduated (see F below)
- (G)  Other vesting (complete G1 below)

- (A)  N/A - No Matching Employer Contributions
- (B)  100% Vesting immediately
- (C)  3 year cliff (see C below)
- (D)  5 year cliff (see D below)
- (E)  6 year graduated (see E below)
- (F)  7 year graduated (see F below)
- (G)  Other vesting (complete G2 below)

Years of Vesting Service	Applicable Vesting Schedule(s)					
	C	D	E	F	G1	G2
0	0%	0%	0%	0%	%	%
1	0%	0%	0%	0%	%	%
2	0%	0%	20%	0%	%	%
3	100%	0%	40%	20%	%	%
4	100%	0%	60%	40%	%	%
5	100%	100%	80%	60%	%	%
6	100%	100%	100%	80%	%	%
7 or more	100%	100%	100%	100%	100%	100%

**Note:** A schedule elected under G1 or G2 above must be at least as favorable as one of the schedules in C, D, E or F above.

**Note:** If the Plan is being amended to provide a more restrictive vesting schedule, the more favorable vesting schedule shall continue to apply to Participants who are Active Participants immediately prior to the later of (1) the effective date of the amendment or (2) the date the amendment is adopted.

(c)  **A vesting schedule more favorable than the vesting schedule(s) selected above applies to certain Participants.** Please complete the Vesting Schedule Addendum to the Adoption Agreement.

(d) **Application of Forfeitures** - If a Participant forfeits any portion of his non-vested Account balance as provided in Section 6.02, 6.04, 6.07, or 11.08, such forfeitures shall be (check one):

- (1)  N/A - Either (A) no Matching Employer Contributions are made with respect to Deferral Contributions under the Plan and all other Employer Contributions are 100% vested when made or (B) there are no Employer Contributions under the Plan.
- (2)  applied to reduce Employer contributions.
- (3)  allocated among the Accounts of eligible Participants in the manner provided in Section 1.11. *(Only if Option 1.11(a) or (b) is checked.)*



1.16 **PREDECESSOR EMPLOYER SERVICE**

- Service for purposes of eligibility in Subsection 1.04(b) and vesting in Subsection 1.15(b) of this Plan shall include service with the following predecessor employer(s):*

Cabot Corporation  
Rippe Corporation

1.17 **PARTICIPANT LOANS**

*Participant loans* (check one):

- (a)  *are allowed in accordance with Article 9 and loan procedures outlined in the Service Agreement.*
- (b)  *are not allowed.*

1.18 **IN-SERVICE WITHDRAWALS**

*Participants may make withdrawals prior to termination of employment under the following circumstances* (check the appropriate box(es)):

- (a)  ***Hardship Withdrawals*** - Hardship withdrawals from a Participant's Deferral Contributions Account shall be allowed in accordance with Section 10.05, subject to a \$500 minimum amount.
- (b)  ***Age 59 1/2*** - Participants shall be entitled to receive a distribution of all or any portion of the following Accounts upon attainment of age 59 1/2 (check one):
- (1)  Deferral Contributions Account.
- (2)  All vested account balances.

(c) ***Withdrawal of Employee Contributions and Rollover Contributions -***

- (1) Unless otherwise provided below, Employee Contributions may be withdrawn in accordance with Section 10.02 at any time.

(A)  Employees may not make withdrawals of Employee Contributions more frequently than:

\_\_\_\_\_.

- (2) Rollover Contributions may be withdrawn in accordance with Section 10.03 at any time.

(d)  ***Protected In-Service Withdrawal Provisions*** - Check if the Plan was converted by plan amendment or received transfer contributions from another defined contribution plan, and benefits under the other defined contribution plan were payable as (check the appropriate box(es)):

- (1)  an in-service withdrawal of vested employer contributions maintained in a Participant's Account (check (A) and/or (B)):

(A)  for at least \_ (24 or more) months.

(i)  Special restrictions applied to such in-service withdrawals under the prior plan that the Employer wishes to continue under the Plan as restated hereunder. Please complete the Protected In-Service Withdrawals Addendum to the Adoption Agreement identifying the restrictions.

(B)  after the Participant has at least 60 months of participation.

(i)  Special restrictions applied to such in-service withdrawals under the prior plan that the Employer wishes to continue under the Plan as restated hereunder. Please complete the Protected In-Service Withdrawals Addendum to the Adoption Agreement identifying the restrictions.

- (2)  another in-service withdrawal option that is a "protected benefit" under Code Section 411(d)(6) or an in-service hardship withdrawal option not otherwise described in Section 1.18(a). Please complete the Protected In-Service Withdrawals Addendum to the Adoption Agreement identifying the in-service withdrawal option(s).
-



1.19 **FORM OF DISTRIBUTIONS**

*Subject to Section 13.01, 13.02 and Article 14, distributions under the Plan shall be paid as provided below.* (Check the appropriate box(es) and, if any forms of payment selected in (b), (c) and/or (d) apply only to a specific class of Participants, complete Subsection (b) of the Forms of Payment Addendum.)

- (a) **Lump Sum Payments** - Lump sum payments are always available under the Plan.
- (b)  **Installment Payments** - Participants may elect distribution under a systematic withdrawal plan (installments).
- (c)  **Annuities** (Check if the Plan is retaining any annuity form(s) of payment).
  - (1) An annuity form of payment is available under the Plan for the following reason(s) (check (A) and/or (B), as applicable):
    - (A)  As a result of the Plan's receipt of a transfer of assets from another defined contribution plan or pursuant to the Plan terms prior to the Amendment Effective Date specified in Section 1.01(g)(2), benefits were previously payable in the form of an annuity that the Employer elects to continue to be offered as a form of payment under the Plan.
    - (B)  The Plan received a transfer of assets from a defined benefit plan or another defined contribution plan that was subject to the minimum funding requirements of Code Section 412 and therefore an annuity form of payment is a protected benefit under the Plan in accordance with Code Section 411(d)(6).
  - (2) The normal form of payment under the Plan is (check (A) or (B)):
    - (A)  A lump sum payment.
  - (i) Optional annuity forms of payment (check (I) and/or (II), as applicable). **(Must check and complete (I) if a life annuity is one of the optional annuity forms of payment under the Plan.)**
    - (I)  A married Participant who elects an annuity form of payment shall receive a qualified joint and   % (at least 50%) survivor annuity. An unmarried Participant shall receive a single life annuity, unless a different form of payment is specified below:
    - (II)  Other annuity form(s) of payment. Please complete Subsection (a) of the Forms of Payment Addendum describing the other annuity form(s) of payment available under the Plan.
  - (B)  A life annuity (complete (i) and (ii) and check (iii) if applicable).
    - (i) The normal form for married Participants is a qualified joint and   % (at least 50%) survivor annuity. The normal form for unmarried Participants is a single life annuity, unless a different annuity form is specified below:
    - (ii) The qualified preretirement survivor annuity provided to a Participant's spouse is purchased with   % (at least 50%) of the Participant's Account.
    - (iii)  Other annuity form(s) of payment. Please complete Subsection (a) of the Forms of Payment Addendum describing the other annuity form(s) of payment available under the Plan.
- (d)  **Other Non-Annuity Form(s) of Payment** - As a result of the Plan's receipt of a transfer of assets from another plan or pursuant to the Plan terms prior to the Amendment Effective Date specified in 1.01(g)(2), benefits were previously payable in the following form(s) of payment not described in (a), (b) or (c) above and the Plan will continue to offer these form(s) of payment:
- (e)  **Eliminated Forms of Payment Not Protected Under Code Section 411(d)(6)**. Check if either (1) under the Plan terms prior to the Amendment Effective Date or (2) under the terms of another plan from which assets were transferred, benefits were payable in a form of payment that will cease to be offered after a specified date. Please complete Subsection (c) of the Forms of Payment Addendum describing the forms of payment previously available and the effective date of the elimination of the form(s) of payment.

1.20 **TIMING OF DISTRIBUTIONS**

*Except as provided in Subsection 1.20(a) or (b) and the Postponed Distribution Addendum to the Adoption Agreement, distribution shall be made to an eligible Participant from his vested interest in his Account as soon as reasonably practicable following the date the Participant's application for distribution is received by the Administrator.*

- (a) **Required Commencement of Distribution** - If a Participant does not elect to receive benefits as of an earlier date, as permitted under the Plan, distribution of a Participant's Account shall begin as of the Participant's Required Beginning Date.
- (b)  **Postponed Distributions** - Check if the Plan was converted by plan amendment from another defined contribution plan that provided for the postponement of certain distributions from the Plan to eligible Participants and the Employer wants to continue to administer the Plan using the postponed distribution provisions. Please complete the Postponed Distribution Addendum to the Adoption Agreement indicating the types of distributions that are subject to postponement and the period of postponement.

**Note:** An Employer may not provide for postponement of distribution to a Participant beyond the 60th day following the close of the Plan Year in which (1) the Participant attains Normal Retirement Age under the Plan, (2) the Participant's 10th anniversary of participation in the Plan occurs, or (3) the Participant's employment terminates, whichever is latest.

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**1.21 TOP HEAVY STATUS**

(a) *The Plan shall be subject to the Top-Heavy Plan requirements of Article 15* (check one):

- (1)  for each Plan Year, whether or not the Plan is a "top-heavy plan" as defined in Subsection 15.01(f).
- (2)  for each Plan Year, if any, for which the Plan is a "top-heavy plan" as defined in Subsection 15.01(f).
- (3)  Not applicable. *(Choose only if Plan covers only employees subject to a collective bargaining agreement.)*

(b) *In determining whether the Plan is a "top-heavy plan" for an Employer with at least one defined benefit plan, the following assumptions shall apply:*

- (1)  Interest rate:    % per annum.
- (2)  Mortality table:   .
- (3)  Not applicable. *(Choose only if either (A) Plan covers only employees subject to a collective bargaining agreement or (B) Employer does not maintain and has not maintained any defined benefit plan during the five-year period ending on the applicable "determination date", as defined in Subsection 15.01(a).)*

(c) *If the Plan is or is treated as a "top-heavy plan" for a Plan Year, each non-key Employee shall receive an Employer Contribution of at least 3.0 (3, 4, 5, or 7 1/2)% of Compensation for the Plan Year in accordance with Section 15.03. The minimum Employer Contribution provided in this Subsection 1.21(c) shall be made under this Plan only if the Participant is not entitled to such contribution under another qualified plan of the Employer, unless the Employer elects otherwise below:*

- (1)  The minimum Employer Contribution shall be paid under this Plan in any event.
- (2)  Another method of satisfying the requirements of Code Section 416. Please complete the 416 Contribution Addendum to the Adoption Agreement describing the way in which the minimum contribution requirements will be satisfied in the event the Plan is or is treated as a "top-heavy plan".
- (3)  Not applicable. *(Choose only if Plan covers only employees subject to a collective bargaining agreement.)*

**Note:** The minimum Employer contribution may be less than the percentage indicated in Subsection 1.21(c) above to the extent provided in Section 15.03.

(d) *If the Plan is or is treated as a "top-heavy plan" for a Plan Year, the following vesting schedule shall apply instead of the schedule(s) elected in Subsection 1.15(b) for such Plan Year and each Plan Year thereafter* (check one):

- (1)  Not applicable. *(Choose only if either (A) Plan provides for Nonelective Employer Contributions and the schedule elected in Subsection 1.15(b)(1) is at least as favorable in all cases as the schedules available below or (B) Plan covers only employees subject to a collective bargaining agreement.)*
- (2)  100% vested after 0 (not in excess of 3) years of Vesting Service.
- (3)  Graded vesting:

Years of Vesting Service	Vesting Percentage	Must be at Least
0		0%
1		0%
2		20%
3		40%
4		60%
5		80%
6 or more		100%

**Note:** If the Plan provides for Nonelective Employer Contributions and the schedule elected in Subsection 1.15(b)(1) is more favorable in all cases than the schedule elected in Subsection 1.21(d) above, then the schedule in Subsection 1.15(b)(1) shall continue to apply even in Plan Years in which the Plan is a "top-heavy plan".



**1.22 CORRECTION TO MEET 415 REQUIREMENTS UNDER MULTIPLE DEFINED CONTRIBUTION PLANS**

If the Employer maintains other defined contribution plans, annual additions to a Participant's Account shall be limited as provided in Section 6.12 of the Plan to meet the requirements of Code Section 415, unless the Employer elects otherwise below and completes the 415 Correction Addendum describing the order in which annual additions shall be limited among the plans.

- (a)  *Other Order for Limiting Annual Additions*

**1.23 INVESTMENT DIRECTION**

*Investment Directions* - Participant Accounts shall be invested (check one):

- (a)  in accordance with the investment directions provided to the Trustee by the Employer for allocating all Participant Accounts among the Options listed in the Service Agreement.
- (b)  in accordance with the investment directions provided to the Trustee by each Participant for allocating his entire Account among the Options listed in the Service Agreement.
- (c)  in accordance with the investment directions provided to the Trustee by each Participant for all contribution sources in his Account, except that the following sources shall be invested in accordance with the investment directions provided by the Employer (check (1) and/or (2)):
- (1)  Nonelective Employer Contributions
- (2)  Matching Employer Contributions

The Employer must direct the applicable sources among the same investment options made available for Participant directed sources listed in the Service Agreement.

**1.24 RELIANCE ON OPINION LETTER**

An adopting Employer may rely on the opinion letter issued by the Internal Revenue Service as evidence that this Plan is qualified under Code Section 401 only to the extent provided in Announcement 2001-77, 2001-30 I.R.B. The Employer may not rely on the opinion letter in certain other circumstances or with respect to certain qualification requirements, which are specified in the opinion letter issued with respect to this Plan and in Announcement 2001-77. In order to have reliance in such circumstances or with respect to such qualification requirements, application for a determination letter must be made to Employee Plans Determinations of the Internal Revenue Service. Failure to fill out the Adoption Agreement properly may result in disqualification of the Plan.

This Adoption Agreement may be used only in conjunction with Fidelity Basic Plan Document No. 02. The Prototype Sponsor shall inform the adopting Employer of any amendments made to the Plan or of the discontinuance or abandonment of the prototype plan document.

**1.25 PROTOTYPE INFORMATION:**

Name of Prototype Sponsor: Fidelity Management & Research Company  
Address of Prototype Sponsor: 82 Devonshire Street  
Boston, MA 02109

Questions regarding this prototype document may be directed to the following telephone number:  
1-800-343-9184.

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**EXECUTION PAGE**  
**(Fidelity's Copy)**

IN WITNESS WHEREOF, the Employer has caused this Adoption Agreement to be executed this

\_\_\_\_\_ day of \_\_, \_\_.

Employer:

By:

Title:

Employer:

By:

Title:

Accepted by:

Fidelity Management Trust Company, as Trustee

By:            Date:

Title:

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**EXECUTION PAGE  
(Employer's Copy)**

IN WITNESS WHEREOF, the Employer has caused this Adoption Agreement to be executed this

\_\_\_\_\_ day of \_\_, \_\_

Employer:

By:

Title:

Employer:

By:

Title:

Accepted by:

Fidelity Management Trust Company, as Trustee

By:

Date:

Title:

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**AMENDMENT EXECUTION PAGE**

This page is to be completed in the event the Employer modifies any prior election(s) or makes a new election(s) in this Adoption Agreement. Attach the amended page(s) of the Adoption Agreement to this execution page.

The following section(s) of the Plan are hereby amended effective as of the date(s) set forth below:

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Section Amended	Page	Effective Date

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IN WITNESS WHEREOF, the Employer has caused this Amendment to be executed this \_\_\_\_\_ day of \_\_\_\_\_

Employer:

Employer:

By:

By:

Title:

Title:

Accepted by:

Fidelity Management Trust Company, as Trustee

By:            Date:

Title:

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**ADDENDUM**

**Re: SPECIAL EFFECTIVE DATES  
for**

**Plan Name:** Cabot Microelectronics Corporation 401(k) Plan

- (a)  **Special Effective Dates for Other Provisions** - The following provisions (e.g., new eligibility requirements, new contribution formula, etc.) shall be effective as of the dates specified herein:

Section 1.05(b)(2) is effective on the effective date shown below. Prior to this date, compensation for all contributions was determined by the provisions in Section 1.05(a). - Effective: 01/01/2003

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Section 1.07(a)(1) is effective on the effective date shown below. Prior to this date, Deferral Contributions could not exceed 15% of Compensation for that period. - Effective: 01/01/2003

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Section 1.10(a)(1)(B) is effective on the effective date shown below. Prior to this date, Section 1.10(a)(3) and the corresponding Safe Harbor Matching Employer Contribution Addendum to the Adoption Agreement indicating Safe Harbor Matching Contributions of 100% on the first 4% of compensation and 50% on the next 2% of compensation was elected for the period of May 1, 2000 to December 31, 2002. Section 1.10(a)(3) and the corresponding Safe Harbor Matching Employer Contribution Addendum to the Adoption Agreement are being eliminated on the effective date shown below. - Effective: 01/01/2003

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Section 1.10(c)(4) is effective on the effective date shown below. Prior to this date, the Contribution Period for Matching Employer Contributions was defined as each Plan year. - Effective: 01/01/2003

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Section 1.11(a)(3) and the corresponding Safe Harbor Nonelective Employer Contribution Addendum to the Adoption Agreement are effective on the effective date shown below. Prior to this date, Section 1.11(a)(1) with a stated percentage of 4% was elected. Section 1.11(a)(1) is being eliminated on the effective date shown below. - Effective: 01/01/2003

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- (b)  **Plan Merger Effective Dates** - The following plan(s) were merged into the Plan after the Effective Date indicated in Subsection 1.01(g)(1) or (2), as applicable. The provisions of the Plan are effective with respect to the merged plan(s) as of the date(s) indicated below:

(1) Name of merged plan: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Effective date: \_\_\_\_\_

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(2) Name of merged plan: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Effective date: \_\_\_\_\_

(3) Name of merged plan: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Effective date: \_\_\_\_\_

(4) Name of merged plan: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Effective date: \_\_\_\_\_

(5) Name of merged plan: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Effective date: \_\_\_\_\_

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**ADDENDUM**

**Re: SAFE HARBOR MATCHING EMPLOYER CONTRIBUTION  
for**

**Plan Name:** Cabot Microelectronics Corporation 401(k) Plan

**(a) *Safe Harbor Matching Employer Contribution Formula***

**Note:** Matching Employer Contributions made under this Option must be 100% vested when made and may only be distributed because of death, disability, separation from service, age 59 1/2, or termination of the Plan without the establishment of a successor plan. In addition, each Plan Year, the Employer must provide written notice to all Active Participants of their rights and obligations under the Plan.

(1)  100% of the first 3% of the Active Participant's Compensation contributed to the Plan and 50% of the next 2% of the Active Participant's Compensation contributed to the Plan.

(A)  Safe harbor Matching Employer Contributions shall not be made on behalf of Highly Compensated Employees.

**Note:** If the Employer selects this formula and does not elect Option 1.10(b), Additional Matching Employer Contributions, Matching Employer Contributions will automatically meet the safe harbor contribution requirements for deemed satisfaction of the "ACP" test. (Employee Contributions must still be tested.)

(2)  Other Enhanced Match:

\_\_\_% of the first \_\_\_% of the Active Participant's Compensation contributed to the plan,

\_\_\_% of the next \_\_\_% of the Active Participant's Compensation contributed to the plan,

\_\_\_% of the next \_\_\_% of the Active Participant's Compensation contributed to the plan.

**Note:** To satisfy the safe harbor contribution requirement for the "ADP" test, the percentages specified above for Matching Employer Contributions may not increase as the percentage of Compensation contributed increases, and the aggregate amount of Matching Employer Contributions at such rates must at least equal the aggregate amount of Matching Employer Contributions which would be made under the percentages described in (a)(1) of this Addendum.

(A)  Safe harbor Matching Employer Contributions shall not be made on behalf of Highly Compensated Employees.

(B)  The formula specified above is also intended to satisfy the safe harbor contribution requirement for deemed satisfaction of the "ACP" test with respect to Matching Employer Contributions. (Employee Contributions must still be tested.)

**Note:** To satisfy the safe harbor contribution requirement for the "ACP" test, the Deferral Contributions and/or Employee Contributions matched cannot exceed 6% of a Participant's Compensation.

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**ADDENDUM**

**Re: SAFE HARBOR NONELECTIVE EMPLOYER CONTRIBUTION  
for**

**Plan Name:** Cabot Microelectronics Corporation 401(k) Plan

**(a) *Safe Harbor Nonelective Employer Contribution Election***

- (1)  For each Plan Year, the Employer shall contribute for each eligible Active Participant an amount equal to 4.00% (not less than 3% nor more than 15%) of such Active Participant's Compensation.
- (2)  The Employer may decide each Plan Year whether to amend the Plan by electing and completing (A) below to provide for a contribution on behalf of each eligible Active Participant in an amount equal to at least 3% of such Active Participant's Compensation.

**Note:** An Employer that has selected Subsection (a)(2) above must amend the Plan by electing (A) below and completing the Amendment Execution Page no later than 30 days prior to the end of each Plan Year for which safe harbor Nonelective Employer Contributions are being made.

- (A)  For the Plan Year beginning \_ , the Employer shall contribute for each eligible Active Participant an amount equal to % (not less than 3% nor more than 15%) of such Active Participant's Compensation.

**Note:** Safe harbor Nonelective Employer Contributions must be 100% vested when made and may only be distributed because of death, disability, separation from service, age 59 1/2, or termination of the Plan without the establishment of a successor plan. In addition, each Plan Year, the Employer must provide written notice to all Active Participants of their rights and obligations under the Plan.

- (b)  Safe harbor Nonelective Employer Contributions shall not be made on behalf of Highly Compensated Employees.
- (c)  In conjunction with its election of the safe harbor described above, the Employer has elected to make Matching Employer Contributions under Subsection 1.10 that are intended to meet the requirements for deemed satisfaction of the "ACP" test with respect to Matching Employer Contributions.
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ADDENDUM

Re: PROTECTED IN-SERVICE WITHDRAWALS  
for

Plan Name: Cabot Microelectronics Corporation 401(k) Plan

- (a) **Restrictions on In-Service Withdrawals of Amounts Held for Specified Period** - The following restrictions apply to in-service withdrawals made in accordance with Subsection 1.18(d)(1)(A) *(cannot include any mandatory suspension of contributions restriction)*:

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- (b) **Restrictions on In-Service Withdrawals Because of Participation in Plan for 60 or More Months** - The following restrictions apply to in-service withdrawals made in accordance with Subsection 1.18(d)(1)(B) *(cannot include any mandatory suspension of contributions restriction)*:

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- (c)  **Other In-Service Hardship Withdrawal Provisions** - In-service hardship withdrawals are permitted from a Participant's Deferral Contributions Account and the other sub-accounts specified below, subject to the conditions otherwise applicable to hardship withdrawals from a Participant's Deferral Contributions Account:

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(d)  **Other In-Service Withdrawal Provisions** - In-service withdrawals from a Participant's Accounts specified below shall be available to Participants who satisfy the requirements also specified below:

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(1)  The following restrictions apply to a Participant's Account following an in-service withdrawal made pursuant to (d) above (*cannot include any mandatory suspension of contributions restriction*):

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ADDENDUM

Re: FORMS OF PAYMENT  
for

Plan Name: Cabot Microelectronics Corporation 401(k) Plan

(a) The following optional forms of annuity will continue to be offered under the Plan:

(b) The forms of payment described in Section 1.19(b), (c) and/or (d) apply to the following class(es) of Participants:

**Note:** Please indicate if different classes of Participants are subject to different forms of payment.

(c) The following forms of payment were previously available under the Plan but will be eliminated as of the date specified in subsection (4) below (check the applicable box(es) and complete (4)):

(1)  **Installment Payments.**

(2)  **Annuities.**

(A)  The normal form of payment under the Plan was a lump sum and all optional annuity forms of payment not listed under Section 1.19(c)(2)(A)(i) are eliminated. The eliminated forms of payment include the following:

(B)  The normal form of payment under the Plan was a life annuity and all annuity forms of payment not listed under Section 1.19(c)(2)(B) are eliminated. **(Complete (i) and (ii) and, if applicable, (iii).)**

(i) The normal form for married Participants was a qualified joint and\_% **(at least 50%)** survivor annuity. The normal form for unmarried Participants was a single life annuity, unless a different form is specified below:

(ii) The qualified preretirement survivor annuity provided to a Participant's spouse was purchased with\_% **(at least 50%)** of the Participant's Account.

(iii) The other annuity form(s) of payment previously available under the Plan included the following:

(3)  **Other Non-Annuity Forms of Payment.** All other non-annuity forms of payment that are not listed in Section 1.19(d) but that were previously available under the Plan are eliminated. The eliminated non-annuity forms of payment include the following:

(4) The form(s) of payment described in this Subsection (c) will not be offered to Participants who have an Annuity Starting Date which occurs on or after **(cannot be earlier than September 6, 2000)**. Notwithstanding the date entered above, the forms of payment described in this Subsection (c) will continue to be offered to Participants who have an Annuity Starting Date that occurs (1) within 90 days following the date the Employer provides affected Participants with a summary that satisfies the requirements of 29 CFR 2520.104b-3 and that notifies them of the elimination of the applicable form(s) of payment, but (2) no later than the first day of the second Plan Year following the Plan Year in which the amendment eliminating the applicable form(s) of payment is adopted.

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**ADDENDUM**

**Re: VESTING SCHEDULE  
for**

**Plan Name:** Cabot Microelectronics Corporation 401(k) Plan

**(a) *More Favorable Vesting Schedule***

- (1) The following vesting schedule applies to the class of Participants described in (a)(2) below:  
**Source:** Safe Harbor Profit Sharing, Co Nonelective, S Harbor Match, Fixed Match

<u>Years of Service</u>	<u>Vesting Percent</u>
less than 1	100
1	100

- (2) The vesting schedule specified in (a)(1) above applies to the following class of Participants:  
All participants as of 04/01/2009 will be 100% vested in Employer Contributions.

**(b)  *Additional Vesting Schedule***

- (1) The following vesting schedule applies to the class of Participants described in (b)(2) below:

- (2) The vesting schedule specified in (b)(1) above applies to the following class of Participants:
-

**ADDENDUM**

**Re: POSTPONED DISTRIBUTIONS  
for**

**Plan Name:** Cabot Microelectronics Corporation 401(k) Plan

*Postponement of Certain Distributions to Eligible Participants* - The types of distributions specified below to eligible Participants of their vested interests in their Accounts shall be postponed for the period also specified below:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Notwithstanding the foregoing, if the Employer selected an Early Retirement Age in Subsection 1.14(b) that is the later of an attained age or completion of a specified number of years of Vesting Service, any Participant who terminates employment on or after completing the required number of years of Vesting Service, but before attaining the required age shall be eligible to commence distribution of his vested interest in his Account upon attaining the required age.

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**ADDENDUM**

**Re: 415 CORRECTION  
for**

**Plan Name:** Cabot Microelectronics Corporation 401(k) Plan

- (a) *Other Formula for Limiting Annual Additions to Meet 415* - If the Employer, or any employer required to be aggregated with the Employer under Code Section 415, maintains any other qualified defined contribution plans or any "welfare benefit fund", "individual medical account", or "simplified medical account", annual additions to such plans shall be limited as follows to meet the requirements of Code Section 415:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

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ADDENDUM

Re: 416 CONTRIBUTION  
for

Plan Name: Cabot Microelectronics Corporation 401(k) Plan

(a) *Other Method of Satisfying the Requirements of 416* - If the Employer, or any employer required to be aggregated with the Employer under Code Section 416, maintains any other qualified defined contribution or defined benefit plans, the minimum benefit requirements of Code Section 416 shall be satisfied as follows:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

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**THE CORPORATE PLAN FOR RETIREMENT<sup>SM</sup> (PROFIT SHARING/401(K) PLAN)  
ADDENDUM TO ADOPTION AGREEMENT  
FIDELITY BASIC PLAN DOCUMENT No. 02**

**RE: ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF 2001 ("EGTRRA") AMENDMENTS for  
Plan Name: Cabot Microelectronics Corporation 401(k) Plan**

**PREAMBLE**

**Adoption and Effective Date of Amendment.** This amendment of the Plan is adopted to reflect certain provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"). This amendment is intended as good faith compliance with the requirements of EGTRRA and is to be construed in accordance with EGTRRA and guidance issued thereunder. Except as otherwise provided below, this amendment shall be effective as of the first day of the first plan year beginning after December 31, 2001.

**Supersession of Inconsistent Provisions.** This amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this amendment.

(a) **Catch-up Contributions.** The Employer must select either (1) or (2) below to indicate whether eligible Participants age 50 or older by the end of a calendar year will be permitted to make catch-up contributions to the Plan, as described in Section 5.03(b)(1):

- (1)  Catch-up contributions shall apply effective January 1, 2002, unless a later effective date is specified herein, ..
- (2)  Catch-up contributions shall not apply.

**Note:** The Employer must **not** select (a)(1) above unless all plans of all employers treated, with the Employer, as a single employer under subsections (b), (c), (m), or (o) of Code Section 414 also permit catch up contributions (except a plan maintained by the Employer that is qualified under Puerto Rico law), as provided in Code Section 414(v)(4) and IRS guidance issued thereunder. The effective date applicable to catch-up contributions must likewise be consistent among all plans described immediately above, to the extent required in Code Section 414(v)(4) and IRS guidance issued thereunder.

(b) **Plan Limit on Elective Deferral for Plans Permitting Catch-up Contributions.** This Section (b) is inapplicable if the Plan converted to this Fidelity document from any other document effective after April 1, 2002.

For Plans that permit catch-up contributions beginning on or before April 1, 2002, pursuant to (a)(1) above, the 60% Plan Limit described in Section 5.03(b)(2) shall apply beginning April 1, 2002, unless (b)(1) or (b)(2) is selected below. For Plans that permit catch up contributions beginning after April 1, 2002, pursuant to (a)(1) above, the Plan Limit set out in Section 1.07(a)(1) shall continue to apply unless and until the Employer's election in (b)(2) below, if any, provides for a change in the Plan Limit.

- (1)  The Plan Limit set out in Section 1.07(a)(1) shall continue to apply on and after April 1, 2002.
- (2)  The Plan Limit set out in Section 1.07(a)(1) shall continue to apply until \_ (cannot be before April 1, 2002), and the Plan Limit after that date shall be \_\_\_% of Compensation each payroll period.

(c) **Matching Employer Contributions on Catch-up Contributions.** The Employer must select the box below only if the Employer selected (a)(1) above, and the Employer wants to provide Matching Employer Contributions on catch-up contributions. In that event, the same rules that apply to Matching Employer Contributions on Deferral Contributions other than catch-up contributions will apply to Matching Employer Contributions on catch-up contributions.

- Notwithstanding anything in 2.01(l) to the contrary, Matching Employer Contributions under Section 1.10 shall apply to catch-up contributions described in Section 5.03(b)(1).

(d) **Vesting of Matching Employer Contributions.** Complete this section (d) only if the vesting schedule for Matching Employer Contributions under the Plan must be amended to comply with EGTRRA. This is the case if, in the absence of an amendment, the vesting schedule for Matching Employer Contributions would not be at least as rapid as Three-Year Cliff or Six-Year Graded Vesting, effective for Participants with at least one Hour of Service on or after the first Plan Year beginning after December 31, 2001, subject to the rule described in (2) below. Complete (d)(1) to specify the new vesting schedule; any vesting schedule changes must conform to the requirements of Section 16.04 of the Plan. Only complete (d)(2) if your Plan is maintained pursuant to a collective bargaining agreement ratified by June 7, 2001. Complete (d)(3) if the Employer wants to apply the vesting schedule selected in (d)(1) to only the portion of a Participant's accrued benefits derived from Matching Employer Contributions for Plan Years beginning after December 31, 2001.

(1) **Vesting Schedule for Matching Employer Contributions.** Unless the Employer checks the box in (d)(3) of this EGTRRA Amendments Addendum, the Vesting Schedule set forth below shall apply to all accrued benefits derived from Matching Employer Contributions for Participants who complete an Hour of Service under the Plan in a Plan Year beginning after December 31, 2001, regardless of the Plan Year for which such contributions are made, subject to the Employer's election of a later effective date as indicated in (d)(2) below:

- 100% Vesting immediately
- 3-Year Cliff (see C below)
- 6-Year Graded (see E below)
- Other Vesting Schedule (complete G3 below, but must be at least as favorable as either C or E)
-

**Applicable Vesting Schedule**

Years of Vesting Service	C	E	G3
0	0%	0%	%
1	0%	0%	%
2	0%	20%	%
3	100%	40%	%
4	100%	60%	%
5	100%	80%	%
6 or more	100%	100%	100%

**(2) Delayed Effective Date for Plans Subject to Collective Bargaining.** If the plan is maintained pursuant to one or more collective bargaining agreements ratified by June 7, 2001, the effective date for faster vesting of Matching Employer Contributions for Participants covered by such a collective bargaining agreement can be delayed by checking the box below and inserting the effective date, which is the first day of the first Plan Year beginning on or after the earlier of (i) January 1, 2006, or (ii) the later of the date on which the last of the collective bargaining agreements described above terminates (without regard to any extension on or after June 7, 2001), or January 1, 2002.

The vesting schedule elected by the Employer in (d)(1) above shall apply to those Participants covered by a collective bargaining agreement(s) ratified by June 7, 2001, who have at least one Hour of Service on or after\_. Unless the Employer selects the box in (d)(3) below, the vesting schedule selected in (d)(1) above shall apply to the entire accrued benefit derived from Matching Employer Contributions of such Participants with an Hour of Service in a Plan Year beginning on or after the date specified herein. For all other Participants, the vesting schedule shall apply as of the date and in the manner described in (d)(1) and, where applicable, (d)(3).

**(3) Grandfathered Application of Prior Vesting Schedule.** The Employer must check the box below only if the Employer wants to grandfather an existing vesting schedule and apply the vesting schedule that the Employer selected in (d)(1) above to only that portion of a Participant's accrued benefit derived from Matching Employer Contributions for Plan Years beginning after December 31, 2001, (and/or for Plan Years beginning on or after the date specified in (d)(2), for any Participants subject to (d)(2), if selected by the Employer).

The Vesting Schedule in (d)(1) above shall apply only to the portion of a Participant's accrued benefits derived from Matching Employer Contributions under the Plan in a Plan Year beginning after December 31, 2001, or such later date applicable to the Participant if specified in (d)(2) above.

**(e) Rollovers of After-Tax Employee Contributions to the Plan.** The Employer must mark the box below only if the Employer does not want the Plan to accept Participant Rollover Contributions of qualified plan after-tax employee contributions, as described in Section 5.06, which would otherwise be effective for distributions after December 31, 2001:

Participant Rollover Contributions or direct rollovers of qualified plan *after-tax employee contributions* shall not be accepted by the Plan at any time.

**(f) Application of the Same Desk Rule.** The Employer must mark the box below only if the Employer wants to discontinue the application of the same desk rule set forth in Section 12.01(a).

Effective for distributions from the Plan after December 31, 2001, or such later date as specified herein 01/01/2002, a Participant's elective deferrals, qualified nonelective contributions and qualified matching contributions, if applicable, and earnings attributable to such amounts shall be distributable, upon a severance from employment as described in Section 12.01(b), effective only for severances occurring after\_ (or, if no date is entered, regardless of when the severance occurred).

**Amendment Execution**

(Fidelity's Copy)

IN WITNESS WHEREOF, the Employer has caused this Amendment to be executed this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

**Employer:**

By:  
Title:

**Employer:**

By:  
Title:

**Accepted by:** Fidelity Management Trust Company, as Trustee

By:  
Title:

Date:

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**Amendment Execution**

**(Employer's Copy)**

IN WITNESS WHEREOF, the Employer has caused this Amendment to be executed this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

**Employer:**

By:  
Title:

**Employer:**

By:  
Title:

**Accepted by:** Fidelity Management Trust Company, as Trustee

By:  
Title:

Date:

---

The CORPORATE plan for Retirement<sup>SM</sup>  
ADDENDUM TO ADOPTION AGREEMENT  
FIDELITY BASIC PLAN DOCUMENT No. 02

RE: ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF 2001 ("EGTRRA") AUTOMATIC ROLLOVER AMENDMENTS for

Plan Name: Cabot Microelectronics Corporation 401(k) Plan  
Fidelity 5-digit Plan Number: 47607

PREAMBLE

**Adoption and Effective Date of Amendment.** This amendment of the Plan is adopted to reflect the automatic rollover rules enacted as part of the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"). This amendment is intended as good faith compliance with the requirements of EGTRRA and is to be construed in accordance with EGTRRA and guidance issued thereunder. This amendment shall be effective March 28, 2005, unless a later effective date is elected below.

**Supersession of Inconsistent Provisions.** This amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this amendment.

**Cash Out of Small Accounts.** If the Employer elects to apply this provision, then \$1,000 is not substituted for \$5,000 each time it appears in Section 13.02.

This election shall apply effective March 28, 2005, unless a later effective date is specified herein \_\_\_\_\_.

**Note:** Mandatory distributions in excess of \$1,000 are subject to the automatic rollover provisions of Section 13.02.

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The CORPORATE plan for Retirement<sup>SM</sup>

ADDENDUM TO ADOPTION AGREEMENT  
FIDELITY BASIC PLAN DOCUMENT No. 02

RE: Roth Deferral Contributions

Plan Name: Cabot Microelectronics Corporation 401(k) Plan  
Fidelity 5-digit Plan Number: 47607

PREAMBLE

**Adoption and Effective Date of Amendment.** This amendment of the Plan is adopted to reflect the final regulations under Code sections 401(k) and 401(m) and under Code section 402A as added by section 617 of the Economic Growth and Tax Relief Reconciliation Act of 2001. This amendment is intended as good faith compliance with the requirements of Code sections 401(k), 401(m) and 402A and is to be construed in accordance with guidance issued thereunder. This amendment shall be effective as provided below.

**Supersession of Inconsistent Provisions.** This amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this amendment.

**Roth Deferral Contributions**

(a)  **Roth Deferral Contributions.** A Participant shall be permitted to irrevocably designate a portion or all of the Participant's Deferral Contributions the Participant is otherwise eligible to make under the Plan as Roth Deferral Contributions, pursuant to Section 5.03(c).

(1)  Roth Deferral Contributions are permitted effective \_\_\_\_\_ (must be January 1, 2006 or later).

(2)  Roth Deferral Contributions will no longer be permitted on or after \_\_\_\_\_.

(b)  **Roth Direct Rollovers.** An Employee otherwise eligible to make a rollover contribution under the Plan shall be permitted to make Roth direct rollover contributions to the Plan, pursuant to Section 5.03(c).

(1)  Roth direct rollover contributions are permitted effective \_\_\_\_\_ (must be January 1, 2006 or later).

(2)  Roth direct rollover contributions will no longer be permitted on or after \_\_\_\_\_.

**Amendment Execution**

IN WITNESS WHEREOF, the Employer has caused this Amendment to be executed this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

**Employer:**

By:  
Title:

**Employer:**

By:  
Title:

**Accepted by:** Fidelity Management Trust Company, as Trustee

By:

Date:

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**The CORPORATEplan for Retirement<sup>SM</sup>**  
**ADDENDUM TO ADOPTION AGREEMENT**  
**FIDELITY BASIC PLAN DOCUMENT No. 02**

**RE: Automatic Enrollment Contributions**

**Plan Name: Cabot Microelectronics Corporation 401(k) Plan**

**Fidelity 5-digit Plan Number: 47607**

**PREAMBLE**

**Adoption and Effective Date of Amendment.** This amendment of the Plan is adopted to reflect certain provisions of the Pension Protection Act of 2006. This amendment is intended as good faith compliance with the PPA and such regulations and is to be construed in accordance with applicable guidance. This amendment shall be effective with respect to The CORPORATEplan for Retirement<sup>SM</sup> on March 1, 2007, and with respect to the Employer's Plan as provided below.

**Supersession of Inconsistent Provisions.** This amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this amendment.

**Automatic Enrollment Contributions**

- (a)  ***Automatic Enrollment Contributions.*** Beginning on the effective date of this Subsection (a) specified below (the "Automatic Enrollment Effective Date") and subject to the remainder of this Subsection (a), unless an Eligible Employee affirmatively elects otherwise, his Compensation will be reduced by \_\_\_\_\_% (the "Automatic Enrollment Rate"), such percentage to be increased in accordance with Subsection (b) (if applicable), for each payroll period in which he is an Active Participant, beginning as indicated in (1) below, and the Employer will make a pre-tax Deferral Contribution in such amount on the Participant's behalf in accordance with the provisions of Section 5.03 of the Basic Plan Document (an "Automatic Enrollment Contribution").

Automatic Enrollment Effective Date: \_\_\_\_\_

- (1) With respect to an affected Participant, Automatic Enrollment Contributions will begin as soon as administratively feasible on or after (check one):
- (A)  The Participant's Entry Date.
- (B)  (minimum of 30) days following the Participant's date of hire, but no sooner than the Participant's Entry Date.

Within a reasonable period ending no later than the day prior to the date Compensation subject to the reduction would otherwise become available to the Participant, an Eligible Employee may make an affirmative election not to have Automatic Enrollment Contributions made on his behalf. If an Eligible Employee makes no such affirmative election, his Compensation shall be reduced and Automatic Enrollment Contributions will be made on his behalf in accordance with the provisions of this Subsection (a), and Subsection (b), if applicable, until such Active Participant elects to change or revoke such Deferral Contributions as provided in Subsection 1.07(a)(1). Automatic Enrollment Contributions shall be made only on behalf of Active Participants who are first hired by the Employer on or after the Automatic Enrollment Effective Date and do not have a Reemployment Commencement Date, unless otherwise provided below.

- (2)  Additionally, subject to the Note below, unless such affected Participant affirmatively elects otherwise within the reasonable period established by the Plan Administrator, Automatic Enrollment Contributions will be made with respect to the Employees described below. (check all that apply):
- (A)  Inclusion of Previously Hired Employees. On the later of the date specified in Subsection (a)(1) with regard to such Eligible Employee or as soon as administratively feasible on or after the 30th day following the Notification Date specified in (iii) below, Automatic Enrollment Contributions will begin for the following Eligible Employees who were hired before the Automatic Enrollment Effective Date and have not had a Reemployment Commencement Date. (Check (i) or (ii), complete (iii), and complete (iv), if applicable.)
- (i)  Unless otherwise elected in (iv) below, all such Employees who have never had a Deferral Contribution election in place.
- (ii)  Unless otherwise elected in (iv) below, all such Employees who have never had a Deferral Contribution election in place and were hired by the Employer before the Automatic Enrollment Effective Date, but after the following date: .
- (iii) Notification Date: \_\_\_\_\_. (Date must be on or after the Automatic Enrollment Effective Date.)
- (iv)  In addition to the group of Employees elected in (i) or (ii) above, any Employee described in (i) or (ii) above, as applicable, even if he has had a Deferral Contribution election in place previously, provided he is not suspended from making Deferral Contributions pursuant to the Plan and has a deferral rate of zero on the Notification Date.
- (B)  Inclusion of Rehired Employees. Unless otherwise stated herein, each Eligible Employee having a Reemployment Commencement Date on the date indicated in Subsection (a)(1) above. If Subsection (a)(2)(A)(ii) is selected, only such Employees with a Reemployment Commencement on or after the date specified in Subsection (a)(2)(A)(ii) will be automatically enrolled. If Subsection (a)(2)(A) is not selected, only such Employees with a Reemployment Commencement on or after the Automatic Enrollment Effective Date will be automatically enrolled. If Subsection (a)(1)(B) has been elected above, for purposes of Subsection (a)(1) only, such Employee's Reemployment Commencement Date will be treated as his date of hire.

**Note:** Once a Participant who has received notice of the automatic enrollment provisions applicable to him makes an affirmative election

following the effective date of the Employer's election of this Subsection (a) not to have Automatic Enrollment Contributions made on his behalf, he shall not be subject to a further automatic enrollment pursuant to this Subsection (a).

- (b)  **Automatic Deferral Increase (Choose only if Automatic Enrollment Contributions are elected in Subsection (a) above)** - Unless an Eligible Employee affirmatively elects otherwise after receiving appropriate notice, Deferral Contributions for each Active Participant having Automatic Enrollment Contributions made on his behalf shall be increased annually by the whole percentage of Compensation stated in (1) below until the deferral percentage stated in Section 1.07(a)(1) is reached (except that the increase will be limited to only the percentage needed to reach the limit stated in Section 1.07(a)(1), if applying the percentage in (1) would exceed the limit stated in Section 1.07(a)(1)), unless the Employer has elected a lower percentage limit in Subsection (b)(2) below.
- (1) Increase by \_\_\_\_\_% (**not to exceed 10%**) of Compensation. Such increased Deferral Contributions shall be pre-tax Deferral Contributions regardless of any election made by the Participant to have any portion of his Deferral Contributions treated as a Roth 401(k) Contribution.
- (2)  Limited to \_\_\_\_\_% of Compensation (**not to exceed the percentage indicated in Subsection 1.07(a)(1)**).
- (3) Notwithstanding the above, the automatic deferral increase shall not apply to a Participant within the first six months following the date described in Subsection (a)(1) hereof.
- (c)  **Change to Addendum Provisions.** The Employer has amended the provisions of Subsection (a) and/or (b) to be as indicated above on the following effective date: \_\_\_\_\_.

**Amendment Execution**

IN WITNESS WHEREOF, the Employer has caused this Amendment to be executed this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

**Employer:**

By:

Title:

**Employer:**

By:

Title:

**Accepted by:** Fidelity Management Trust Company, as Trustee

By:

Date:

**Exhibit 31.1**

**CERTIFICATION**

I, William P. Noglows, Chief Executive Officer of Cabot Microelectronics Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cabot Microelectronics Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2009

/s/ WILLIAM P. NOGLOWS

William P. Noglows  
Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION**

I, William S. Johnson, Chief Financial Officer of Cabot Microelectronics Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cabot Microelectronics Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2009

/s/ WILLIAM S. JOHNSON

William S. Johnson  
Chief Financial Officer

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Cabot Microelectronics Corporation (the "Company") on Form 10-Q for the fiscal quarter ended June 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 7, 2009

/s/ WILLIAM P. NOGLOWS

William P. Noglows  
Chief Executive Officer

Date: August 7, 2009

/s/ WILLIAM S. JOHNSON

William S. Johnson  
Chief Financial Officer