CABOT MICROELECTRONICS CORPORATION
2007 FIRST FISCAL QUARTER EARNINGS REPORT
JANUARY 25, 2007

Good morning. This is Barbara Ven Horst, Director of Investor Relations for Cabot Microelectronics Corporation. With me today are Bill Noglows, Chairman and CEO, and Bill Johnson, Chief Financial Officer.

This morning we reported results for our first quarter of fiscal 2007, which ended December 31, 2006. A copy of our press release is available in the investor relations section of our website, cabotcmp.com, or by calling our investor relations office at 630-499-2600. Today's conference call is being recorded and will be archived for four weeks on our website. The script of this morning's formal comments will also be available there.

Please remember that our discussions today may include "forward-looking statements" that involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from these forward-looking statements. These risk factors are discussed in our SEC filings, including our report filed on Form 10-K for the fiscal year ended September 30, 2006. We assume no obligation to update any of this forward-looking information.

I will now turn the call over to Bill Noglows.

Thanks, Barbara. Good morning, everyone, and thanks for joining us.

This morning we reported revenue for our first fiscal quarter 2007 of $81.8 million dollars. This result is lower than the revenue that we reported in our 4th fiscal quarter of 2006, which was a record quarter and ended a record year for the company.

Consistent with what many other semiconductor industry participants are reporting, we continued to see industry demand weaken this quarter. Given this softening environment, we believe our overall results were comparatively strong, with gross profit at 48.1 percent of revenue and Earnings Per Share of 38 cents.

We believe our revenue decreased in line with the semiconductor industry and is not representative of a change in our market position. A number of our key customers appear to have responded to rising semiconductor device inventories by slowing chip production in the December quarter. With the benefit of hindsight, we believe we began to see the start of this slowdown last September. The pullback appears to be most pronounced at several of our foundry customers in the Asia Pacific region. This is significant to Cabot Microelectronics because of the relative importance of the foundries within our customer base.

As the industry appears to have begun moving through a slowdown and inventory correction, we at Cabot Microelectronics are once again faced with the challenge of investing in and growing our company in an environment of moderating growth. Over the years, we have demonstrated our ability to manage through industry downturns, which we think makes us an attractive “port in the storm” for investors in the technology sector. This morning I’ll discuss why we think successful execution of our strategies has and will continue to position Cabot Microelectronics as a strong, stable and growing company in what has traditionally been a volatile industry.

First, we are the industry leader in CMP slurries with a large, global customer base. We supply virtually every semiconductor manufacturer and all major data storage device manufacturers worldwide, across the full range of applications and technology nodes. This breadth of coverage results in diversification across customers and industry segments.

At our core, we are a CMP consumables business, driven by wafer starts at sub-quarter micron feature sizes. Our pioneering start and long participation in the CMP slurry business have resulted in a strong base of legacy products, applications and business that still generate significant revenue and cash flow for the company from fully-commercialized and established technologies. These more mature CMP applications may not be as interesting as the leading edge world of copper integration at 65 and 45 nm technologies, but they are an important contributor to our company’s strong cash flow and earnings.

Second, our core business has comparatively low capital intensity and our manufacturing process has relatively low fixed costs. As a result, our manufacturing and supply chain model can accommodate demand fluctuations and absorb significant swings in capacity utilization. Our gross profit as a percent of revenue can vary considerably due to product mix; however, even with lower sales volume, our gross profit margin is not unduly affected by lower utilization.

And finally, we have a strong, unleveraged balance sheet with a healthy cash balance. This provides benefits on several levels.

First, we have the resources to withstand industry slowdowns. For example, we demonstrated this in 2005, when the semiconductor industry took a breather after a very strong 2004. Through that period, we continued to invest to strengthen our business for the future. We built our Asia Pacific Technology Center and moved our data storage production to Singapore, both of which are facilitating the growth of our business in that important region today.

Also during this same period, we continued to invest in support of our deep commitment to technology leadership in CMP. Our efforts in both enabling and applications-based CMP slurry and pad technology supported the introduction of our new Epic D100 Pad and 9 new CMP slurry products in the 2006 fiscal year. Long development and commercialization cycles are typical in this industry. So investing early and continuously in fundamental technology is necessary to optimize the development and commercialization process. Our strong cash flow and balance sheet allow us to do that.

The strength of our balance sheet also gives us the flexibility to invest in related businesses when opportunities arise. Over the last year or so, we made two acquisitions in support of our Engineered Surface Finishes growth initiative, or ESF. Under ESF, we are leveraging our strong technical capabilities developed for the semiconductor industry into other markets and applications where the characteristics, quality and measurement of surfaces are critical to performance. These transactions were funded internally from available cash without straining our financial health. Our ability to move quickly to capture these kinds of opportunities is a real advantage.

We intend to continue to use our Mergers and Acquisitions in support of our growth strategies. We believe our core CMP business and our ESF initiative both offer attractive growth opportunities and we plan to fully explore them. The two acquisitions I previously mentioned were relatively small and technology-oriented. We have the financial and organizational capacity to tackle much larger opportunities.

We believe our plans to build our business are logical and thoughtful, because we intend to continue drawing on our extensive and unparalleled knowledge and experience in finishing surfaces at the sub-nanometer level.

Our plan is to grow and expand our business both organically and through acquisition . . . within our core CMP business and in support of our ESF strategy.

I'll close my comments with an update on our CMP polishing pad business, which is an important growth initiative for us within our core CMP consumables business. As the world's leading supplier of CMP slurries, we believe offering a pad, and ultimately a slurry / pad consumable set, is a logical extension of our slurry business.

We continue to make progress in our pad business and customer interest remains high. Currently, we are selling pads to 2 customers at 4 fabs for two applications and 16 more customers are in various stages of testing, evaluating or qualifying our pad. Test results continue to reveal significantly longer pad life and lower cost of ownership. As our pad is qualified and incorporated by early adopters of our technology, we believe this value will be the driving force for more rapid adoption by others.

We recently completed the installation of our pad manufacturing capacity in the U.S. and are now commissioning that plant. We are also building pad manufacturing capability in Taiwan to support our customers there.

As we have said in the past, we are forward-investing in our pad supply chain, quality systems and manufacturing capability. We have entered this business with a fully capable and validated supply chain. We are leveraging our existing global sales and technology support network in the introduction and qualification process at our customers. Using what we have learned from our past efforts, we have been careful and disciplined in our launch, and we are excited about our future prospects.

And with that, I'll turn the call over to Bill Johnson. Bill?

Thanks, Bill, and good morning everyone.

Our revenue for the first quarter of fiscal 2007 was $81.8 million, which was down by 5.9 percent from the prior quarter and up slightly from the year ago quarter, which you may recall did not include our new QED business that we acquired last July. As Bill mentioned, the sequential revenue decrease is consistent with that of a number of other players in the semiconductor space, and we believe it does not represent any material change in market position.

Drilling down into the quarterly revenue number, Sales of Copper slurries represented 18.0 percent of our total revenue, and decreased 12.5 percent sequentially. Tungsten slurries contributed 38.2 percent of total quarterly revenue, with revenue down 5.4 percent sequentially. Dielectric slurries provided 32.3 percent of revenue this quarter, with sales down 1.1 percent sequentially. Data Storage products represented 5.5 percent of our quarterly revenue; this revenue was down 7.0 percent sequentially. Finally, revenue from our ESF business, which includes the QED business, generated 5.9 percent of our total sales. Although our ESF revenue decreased by 12.1 percent from the prior quarter, this still represented a very strong revenue quarter for QED based on historical performance.

On a geographic basis, sales in the U.S. and China grew sequentially, while sales in all other geographies declined.

Our average selling price for slurry products decreased by 2.1 percent compared with the September quarter. Approximately 90 percent of the reduction was due to product mix effects, with the remainder due to price changes and foreign exchange. Our average selling price was 1.6 percent higher than in the same quarter a year ago.

As a percentage of revenue, gross profit was 48.1 percent this quarter, which is slightly higher than our guidance range for the full year of 46 to 48 percent. Gross profit this quarter was 3.7 percentage points higher than the 44.4 percent of revenue we reported in the prior quarter, and 0.9 percentage points higher than 47.2 percent in the year ago quarter. Gross profit this quarter benefited from lower costs in certain areas and higher yields in our manufacturing operations, partially offset by a lower-valued product mix and lower capacity utilization.

Recall that gross profit margin in the September quarter was adversely affected by certain purchase accounting effects and an asset write-off.

Now I'll turn to operating expenses, which include research, development and technical, selling and marketing, and general and administrative costs. Operating expenses were $27.1 million, which was at the low end of our guidance range of $27 to $30 million. This quarter's expenses were $1.1 million lower than the $28.2 million reported last quarter. As with gross profit, operating expenses improved sequentially due to the absence of the purchase accounting effects and the asset write-off of the September quarter. Other factors affecting operating expenses were higher staffing costs and professional fees, including costs of our year-end audit.

This quarter's operating expenses were $2.0 million higher than the $25.1 million in the same quarter last year. The year-over-year increase in operating expenses was primarily due to higher staffing costs, including costs of the acquired QED business.

Net income for the quarter was $9.1 million, up 11.9 percent from $8.2 million last quarter, and down by 4.7 percent from $9.6 million in the same quarter a year ago.

The weighted average number of shares outstanding on a diluted basis this quarter was 23.8 million. This was down from the prior quarter, due to $6 million of share repurchases in our first fiscal quarter.

Diluted earnings per share were 38 cents this quarter, including an 8 cent adverse effect of share-based compensation expense. EPS was 4 cents higher than in the prior quarter and 1 cent lower than in the year ago quarter.

Turning now to cash and balance sheet related items, capital additions for the quarter were $3.4 million, which included investments to establish our pad manufacturing capability in the U.S. as well as in Taiwan. Depreciation and amortization expense was $6.1 million for the quarter.

We ended the quarter with $160.4 million in cash and short term investments, which was $5.5 million lower than last quarter. Cash flow reflects a $10.0 million increase in working capital, mainly due to a reduction in payables as a result of the timing of some large payments, along with a modest increase in inventory. Our cash balance also reflects the $6 million of share repurchases I mentioned earlier, and $3 million to license technology for use in future research and development opportunities.

I'll conclude my remarks with a few comments on our outlook for the future.

We have frequently characterized demand for our products as driven by wafer starts at sub-quarter micron technologies. But variables such as the proportion of logic versus memory devices and 200 versus 300 millimeter wafers, customer integration schemes, share gains or losses, and pricing changes all affect how that demand translates into revenue.

Taking all these factors into account, our long-term goal is to grow revenue by 15 percent per year. This includes revenue from our core CMP slurry and pad business, and from our ESF business, as exemplified by our two recent acquisitions. I would point out that timing of industry cycles and future acquisitions may affect our rate of growth.

As you may know, ours is largely a make-to-order business, so we have limited visibility on near-term revenue. Our revenue can also vary significantly quarter to quarter. So we do not provide quarterly revenue guidance.

However, it may be helpful if I comment on recent sales and order activity within our CMP business. With the benefit of hindsight, we can now see that demand for our products began to weaken last September and continued during our first fiscal quarter.

Based on public announcements from several players in the semiconductor space, a number of key semiconductor manufacturers have clearly turned down production in response to rising device inventories, and there is a pretty clear expectation that the resulting lower demand will continue into calendar 2007.

Our own experience appears to mirror that. Based on orders received to date in January that we intend to ship by the end of the month, we see continued and in fact increasing weakness in demand for our CMP products. This could indicate that we have not yet seen the bottom of the turndown. I would caution as I always do that several weeks of orders out of a quarter represent only a limited window on full quarter results.

Our full fiscal year guidance for gross profit is unchanged at 46 to 48 percent of revenue. This guidance reflects modest CMP slurry price erosion, continued productivity improvements from Six Sigma, benefit of commercialization of new CMP products, and contributions from the QED business. As we have discussed in the past, quarter to quarter we may see gross profit above or below this range.

As we previously advised, in fiscal 2007 we expect operating expenses of $27 to $30 million per quarter, trending modestly upward through the year. This reflects a run rate in our core CMP business similar to that of fiscal 2006, plus incremental costs of the QED business.

Thank you for your time this morning and your interest in Cabot Microelectronics. We look forward to the next opportunity to speak with you. Goodbye.