

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, 2012

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, 2012, the Company had 23,318,215 shares of Common Stock, par value \$0.001 per share, outstanding.

CABOT MICROELECTRONICS CORPORATION

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**PART I. FINANCIAL INFORMATION**  
**ITEM 1.**

**CABOT MICROELECTRONICS CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited and in thousands, except per share amounts)**

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Revenue	\$ 115,678	\$ 111,846	\$ 317,036	\$ 335,711
Cost of goods sold	<u>60,462</u>	<u>58,821</u>	<u>166,747</u>	<u>172,522</u>
Gross profit	55,216	53,025	150,289	163,189
Operating expenses:				
Research, development and technical	15,415	14,573	43,241	43,348
Selling and marketing	7,458	7,785	22,228	22,056
General and administrative	10,695	11,008	38,773	34,251
Total operating expenses	<u>33,568</u>	<u>33,366</u>	<u>104,242</u>	<u>99,655</u>
Operating income	21,648	19,659	46,047	63,534
Interest expense	955	30	1,348	111
Other income (expense), net	(864)	(281)	(663)	(489)
Income before income taxes	19,829	19,348	44,036	62,934
Provision for income taxes	<u>6,587</u>	<u>6,559</u>	<u>14,849</u>	<u>20,561</u>
Net income	<u>\$ 13,242</u>	<u>\$ 12,789</u>	<u>\$ 29,187</u>	<u>\$ 42,373</u>
Basic earnings per share	<u>\$ 0.57</u>	<u>\$ 0.55</u>	<u>\$ 1.28</u>	<u>\$ 1.85</u>
Weighted average basic shares outstanding	<u>23,120</u>	<u>23,119</u>	<u>22,778</u>	<u>22,931</u>
Diluted earnings per share	<u>\$ 0.55</u>	<u>\$ 0.54</u>	<u>\$ 1.24</u>	<u>\$ 1.80</u>
Weighted average diluted shares outstanding	<u>23,939</u>	<u>23,797</u>	<u>23,547</u>	<u>23,525</u>
Dividends per share	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15.00</u>	<u>\$ -</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>2012</u>	<u>September 30,</u> <u>2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 166,896	\$ 302,546
Accounts receivable, less allowance for doubtful accounts of \$5,012 at June 30, 2012, and \$1,090 at September 30, 2011	57,428	52,747
Inventories	58,795	56,128
Prepaid expenses and other current assets	11,160	14,735
Deferred income taxes	5,651	4,249
Total current assets	<u>299,930</u>	<u>430,405</u>
Property, plant and equipment, net	124,012	130,791
Goodwill	43,693	41,148
Other intangible assets, net	12,848	14,651
Deferred income taxes	2,805	862
Other long-term assets	12,452	10,372
Total assets	<u>\$ 495,740</u>	<u>\$ 628,229</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 17,699	\$ 22,436
Accrued expenses and other current liabilities	26,476	33,104
Current portion of long-term debt	10,938	-
Capital lease obligations	4	10
Total current liabilities	<u>55,117</u>	<u>55,550</u>
Long-term debt, net of current portion	164,062	-
Capital lease obligations, net of current portion	20	2
Other long-term liabilities	6,933	6,323
Total liabilities	<u>226,132</u>	<u>61,875</u>
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common Stock: Authorized: 200,000,000 shares, \$0.001 par value; Issued: 28,652,833 shares at June 30, 2012, and 27,652,336 shares at September 30, 2011	29	28
Capital in excess of par value of common stock	320,793	278,360
Retained earnings	117,802	435,429
Accumulated other comprehensive income	27,111	24,127
Treasury stock at cost, 5,373,623 shares at June 30, 2012, and 4,715,577 shares at September 30, 2011	<u>(196,127)</u>	<u>(171,590)</u>
Total stockholders' equity	<u>269,608</u>	<u>566,354</u>
Total liabilities and stockholders' equity	<u>\$ 495,740</u>	<u>\$ 628,229</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>2012</b>	<b>2011</b>
Cash flows from operating activities:		
Net income	\$ 29,187	\$ 42,373
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,583	17,968
Provision for doubtful accounts	3,876	11
Share-based compensation expense	10,381	9,921
Deferred income tax expense (benefit)	(2,268)	8,713
Non-cash foreign exchange (gain) loss	1,495	(459)
Loss on disposal of property, plant and equipment	225	38
Impairment of property, plant and equipment	893	-
Other	(181)	(1,075)
Changes in operating assets and liabilities:		
Accounts receivable	(9,292)	1,515
Inventories	(3,142)	(1,899)
Prepaid expenses and other assets	1,692	(10,264)
Accounts payable	(113)	(3,898)
Accrued expenses, income taxes payable and other liabilities	(6,214)	(3,298)
Net cash provided by operating activities	<u>44,122</u>	<u>59,646</u>
Cash flows from investing activities:		
Additions to property, plant and equipment	(14,263)	(18,369)
Proceeds from the sale of investments	50	25
Proceeds from sales of property, plant and equipment	8	1
Net cash used in investing activities	<u>(14,205)</u>	<u>(18,343)</u>
Cash flows from financing activities:		
Dividends paid	(347,140)	-
Issuance of long-term debt	175,000	-
Repurchases of common stock	(24,537)	(41,387)
Net proceeds from issuance of stock	30,487	37,224
Tax benefits associated with share-based compensation expense	621	967
Principal payments under capital lease obligations	(8)	(964)
Net cash provided by (used in) financing activities	<u>(165,577)</u>	<u>(4,160)</u>
Effect of exchange rate changes on cash	10	1,632
Increase (decrease) in cash and cash equivalents	(135,650)	38,775
Cash and cash equivalents at beginning of period	302,546	254,164
Cash and cash equivalents at end of period	<u>\$ 166,896</u>	<u>\$ 292,939</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	\$ 2,487	\$ 5,331
Issuance of restricted stock	6,374	6,693
Assets acquired under capital lease	20	-

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 is a polishing process used by IC device manufacturers to planarize or flatten many of the multiple layers of material that are deposited upon silicon wafers in the production of advanced ICs. Our products play a critical role in the production of advanced IC devices, thereby enabling our customers to produce smaller, faster and more complex IC devices with fewer defects. We develop, produce and sell CMP slurries for polishing many of the conducting and insulating materials used in IC devices, and also for polishing the disk substrates and magnetic heads used in hard disk drives. We also develop, manufacture and sell CMP polishing pads, which are used in conjunction with slurries in the CMP process. We also pursue other demanding surface modification applications through our Engineered Surface Finishes (ESF) business where we believe we can leverage our expertise in CMP consumables for the semiconductor industry to develop products for demanding polishing applications in other industries. 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, 2011.

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, 2012, cash flows for the nine months ended June 30, 2012, and June 30, 2011, and results of operations for the three and nine months ended June 30, 2012, and June 30, 2011. The results of operations for the three and nine months ended June 30, 2012 may not be indicative of results to be expected for future periods, including the fiscal year ending September 30, 2012. 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, 2011.

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, 2012. Reclassifications of prior period amounts have been made to separate interest expense from other income (expense) to conform to the current period presentation.

**Results of Operations**

The results of operations for the three and nine months ended June 30, 2012 include certain adjustments to correct prior period amounts, which we have determined to be immaterial to the current period and the prior periods to which they relate. These adjustments included the correction of historical tax accounting related to the acquisition of Epoch Material Co., Ltd. (Epoch) in fiscal 2009 and the correction of prior period remeasurement of certain foreign cash balances into their functional currency amounts. The correction of tax accounting related to the Epoch acquisition resulted in additional income tax expense of \$172 in the Consolidated Statement of Income and adjustments to the Consolidated Balance Sheet including: an increase of \$2,172 of cumulative translation adjustment within accumulated other comprehensive income; an increase in goodwill of \$1,712; and a decrease of \$288 in deferred tax liabilities. The correction of the historical remeasurement of certain foreign cash balances resulted in \$333 of additional expense (\$222, net of tax) included in other income (Expense) on the Consolidated Statement of Income. Collectively, these adjustments reduced net income for the third quarter and the first nine months of fiscal 2012 by \$394 and diluted earnings per share by approximately \$0.02.

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

With respect to the comparative periods in fiscal 2011, as noted in our Form 10-Q for the fiscal quarter ended June 30, 2011, the results of operations for the three and nine months ended June 30, 2011 included certain adjustments to correct prior period amounts, which we determined to be immaterial to those periods and the prior periods to which they related. Collectively, these adjustments reduced net income for the first nine months of fiscal 2011 by \$2,381 and diluted earnings per share by approximately \$0.10. An adjustment in the second quarter of fiscal 2011 reduced net income for the quarter by \$671 and diluted earnings per share by approximately \$0.03. This adjustment related to income tax expense recorded for executive compensation in fiscal 2008 through 2010 for which a previous tax benefit should not have been recorded. Adjustments in the first quarter of fiscal 2011 related to: (1) \$1,474 (\$1,014, net of tax) in employer-paid fringe benefits for required contributions to our 401(k) Plan, Supplemental Employee Retirement Plan, and non-United States statutory pension plans as a result of our annual payment pursuant to our fiscal 2010 annual incentive bonus program (AIP); (2) the reversal of a \$497 deferred tax asset regarding certain share-based compensation expense which is not subject to such tax treatment; and (3) our under accrual of \$290 (\$199, net of tax) for payments made pursuant to the AIP as a result of the calculation of results against goals under the AIP.

## 2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined 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. The FASB established 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.

The following table presents assets that we measured at fair value on a recurring basis at June 30, 2012 and September 30, 2011. As permitted under the relevant standards, we have chosen to not measure any of our liabilities at fair value as we believe our current liabilities approximate their fair value due to their short-term, highly liquid characteristics and our long-term debt approximates its fair value as it bears a floating market rate of interest. We have classified the following assets in accordance with the fair value hierarchy set forth in the applicable standards. 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.

June 30, 2012	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	\$ 166,896	\$ -	\$ -	\$ 166,896
Auction rate securities (ARS)	-	-	7,991	7,991
Other long-term investments	1,020	-	-	1,020
Total	<u>\$ 167,916</u>	<u>\$ -</u>	<u>\$ 7,991</u>	<u>\$ 175,907</u>

September 30, 2011	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	\$ 302,546	\$ -	\$ -	\$ 302,546
Auction rate securities (ARS)	-	-	8,041	8,041
Other long-term investments	827	-	-	827
Total	<u>\$ 303,373</u>	<u>\$ -</u>	<u>\$ 8,041</u>	<u>\$ 311,414</u>

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

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 ARS and other long-term investments are included in other long-term assets on our Consolidated Balance Sheet. The fair value of our long-term ARS is determined through two discounted cash flow analyses, one using a discount rate based on a market index comprised of tax exempt variable rate demand obligations and one using a discount rate based on the LIBOR swap curve, adding a risk factor to reflect current liquidity issues in the ARS market. Our other long-term investments represent the fair value of investments under the Cabot Microelectronics Supplemental Employee Retirement Plan (SERP), which is a nonqualified supplemental savings plan. The fair value of the investments is determined through quoted market prices within actively traded markets. Although the investments are allocated to individual participants and investment decisions are made solely by those participants, the SERP has been deemed a nonqualified plan. Consequently, the Company owns the assets and the related offsetting liability for disbursement until such time a participant makes a qualifying withdrawal. The long-term asset was adjusted to \$1,020 in the third quarter of fiscal 2012 to reflect its fair value as of June 30, 2012.

We applied accounting standards regarding the classification and valuation of financial instruments to the valuation of our investment in ARS at June 30, 2012. Our ARS investments at June 30, 2012 consisted of two tax exempt municipal debt securities with a total par value of \$8,225. The ARS market began to experience illiquidity in early 2008, and this illiquidity continues. Despite this lack of liquidity, 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. Although the credit ratings of both municipalities have been downgraded since our original investment, the ARS are credit enhanced with bond insurance and currently carry a credit rating of AA- by Standard and Pools.

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 include projected cash flows from interest and principal payments and the weighted probabilities of improved liquidity 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. The following table presents a reconciliation of the activity in fiscal 2012 for fair value measurements using level 3 inputs:

Balance as of October 1, 2011	\$	8,041
Net sales of ARS		(50)
Balance as of June 30, 2012	\$	<u>7,991</u>

Based on our fair value assessment, we determined that one ARS continues to be impaired as of June 30, 2012. This security has a fair value of \$3,041 (par value \$3,275). We assessed the impairment in accordance with the applicable standards 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 previously recorded. We believe that this ARS is not permanently impaired because in the event of default by the issuer, we expect the insurance provider would pay interest and principal following the original repayment schedule, we successfully monetized at par value \$50 of this security during the quarter ended March 31, 2012, 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. We determined that the fair value of the other ARS was not impaired as of June 30, 2012. In November 2011, the municipality that issued our impaired ARS filed for bankruptcy protection. We considered these developments, in light of the continued insurance backing, and have concluded the impairment we have maintained remains adequate and temporary. 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)**

**3. ACCOUNTS RECEIVABLE**

Accounts receivable, net of allowances for doubtful accounts, was \$57,428 as of June 30, 2012 and \$52,747 as of September 30, 2011. The increase was primarily due to the increase in revenue recorded in the third quarter of fiscal 2012 as compared to the fourth quarter of fiscal 2011, partially offset by an increase in the allowance for doubtful accounts. The increase in the allowance for doubtful accounts was primarily related to \$3,727 in bad debt expense recorded in the second quarter of fiscal 2012 for Elpida Memory, Inc. (Elpida), a significant customer in Japan that filed for bankruptcy protection in February 2012. Amounts charged to expense are recorded in general and administrative expenses. Elpida owed the Company \$3,727 in accounts receivable for shipments made prior to its bankruptcy filing. To our understanding, Elpida's bankruptcy plan has not been approved, and collection of any or all of this balance remains uncertain. Consequently, we have maintained a reserve for the entire balance. Elpida has been paying the Company on a current basis for all shipments made subsequent to its bankruptcy filing. The Elpida receivable is denominated in Japanese yen, so it is subject to foreign exchange fluctuations which are included in the table below under the deductions and adjustments. Our allowance for doubtful accounts changed during the nine months ended June 30, 2012 as follows:

Balance as of September 30, 2011	\$	1,090
Amounts charged to expense		3,876
Deductions and adjustments		46
Balance as of June 30, 2012	\$	<u>5,012</u>

**4. INVENTORIES**

Inventories consisted of the following:

	<u>June 30,</u> <u>2012</u>	<u>September 30,</u> <u>2011</u>
Raw materials	\$ 29,145	\$ 26,217
Work in process	4,799	4,964
Finished goods	24,851	24,947
Total	<u>\$ 58,795</u>	<u>\$ 56,128</u>

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

**5. GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill was \$43,693 as of June 30, 2012, and \$41,148 as of September 30, 2011. The increase in goodwill was due to a \$1,712 correction of prior period accounting, discussed in Note 1, related to the calculation of foreign deferred tax liabilities associated with our fiscal 2009 acquisition of Epoch, and to \$833 in foreign exchange fluctuations of the New Taiwan dollar.

Goodwill and indefinite lived intangible assets are tested for impairment annually in the fourth quarter of the fiscal year or more frequently if indicators of potential impairment exist, using a fair-value-based approach. The recoverability of goodwill is measured at the reporting unit level, which is defined as either an operating segment or one level below an operating segment. Prior to September 2011, accounting guidance required entities to compare the fair value of a reporting unit with its carrying amount, including goodwill ("step one"). If the fair value of a reporting unit is less than its carrying amount, then the second step of the test is to be performed to measure the amount of the impairment loss, if any. Historically, we consistently determined the fair value of our reporting units using a discounted cash flow analysis ("step one") of our projected future results. Effective September 30, 2011, we adopted a new accounting pronouncement related to our goodwill impairment analysis, which allowed an entity to first perform a qualitative analysis ("step zero") of the fair value of its reporting units to determine whether it is necessary to perform the two-step quantitative goodwill analysis. In the fourth quarter of fiscal 2011, we used this new guidance in our annual impairment analysis for goodwill, determining that it was more likely than not that the carrying amounts of all reporting units exceeded their respective fair values.

The recoverability of indefinite lived intangible assets is measured using the royalty savings method. 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, royalty rates 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 2011 and concluded that no impairment existed. There were no indicators of potential impairment during the quarter ended June 30, 2012, so it was not necessary to perform an impairment review for goodwill and indefinite lived intangible assets during the quarter. There have been no cumulative impairment charges recorded on the goodwill of any of our reporting units.

**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, 2012</u>		<u>September 30, 2011</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	\$ 8,337	\$ 4,636	\$ 8,266	\$ 3,890
Acquired patents and licenses	8,115	6,679	8,115	6,446
Trade secrets and know-how	2,550	2,550	2,550	2,550
Distribution rights, customer lists and other	12,406	5,885	12,154	4,738
<b>Total other intangible assets subject to amortization</b>	<b>31,408</b>	<b>19,750</b>	<b>31,085</b>	<b>17,624</b>
Total other intangible assets not subject to amortization*				
	1,190		1,190	
<b>Total other intangible assets</b>	<b>\$ 32,598</b>	<b>\$ 19,750</b>	<b>\$ 32,275</b>	<b>\$ 17,624</b>

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

Amortization expense on our other intangible assets was \$679 and \$2,023 for the three and nine months ended June 30, 2012, respectively. Amortization expense on our other intangible assets was \$688 and \$2,032 for the three and nine months ended June 30, 2011, 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 2012	\$ 642
2013	2,499
2014	2,456
2015	2,415
2016	1,998

**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>2012</u>	<u>September 30,</u> <u>2011</u>
Auction rate securities	\$ 7,991	\$ 8,041
Other long-term assets	3,441	1,504
Other long-term investments	1,020	827
Total	<u>\$ 12,452</u>	<u>\$ 10,372</u>

As discussed in Note 2 of this Form 10-Q, our two ARS that we owned as of June 30, 2012 are classified as long-term investments. The securities are credit enhanced with bond insurance to an AA- 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). We maintain a \$234 pretax reduction (\$151 net of tax) in fair value on one of the ARS that we had first recognized in fiscal 2008. We continue to believe this decline in fair value is temporary based on: (1) the nature of the underlying debt; (2) the presence of bond insurance; (3) the fact that all interest payments have been received; (4) our successful monetization of \$50 of this security during the quarter ended March 31, 2012; and (5) our intention not to sell the security nor be required to sell the security until the value recovers, which may be at maturity.

The increase in other long-term assets was primarily due to prepaid debt costs incurred as a result of the completion of our new credit agreement, discussed in Note 8 of this Form 10-Q. The prepaid debt costs are being amortized on a straight-line basis over five years and the amortization expense is recorded in other income (expense) on the Consolidated Statement of Income. As discussed in Note 2 of this Form 10-Q, we maintain a long-term asset and a corresponding long-term liability of \$1,020 representing the fair value of our SERP investments as of June 30, 2012.

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

Accrued expenses and other current liabilities consisted of the following:

	<u>June 30,</u> <u>2012</u>	<u>September 30,</u> <u>2011</u>
Accrued compensation	\$ 15,843	\$ 23,922
Goods and services received, not yet invoiced	3,104	3,457
Deferred revenue and customer advances	3,096	2,420
Warranty accrual	375	384
Taxes, other than income taxes	1,071	808
Other	2,987	2,113
Total	<u>\$ 26,476</u>	<u>\$ 33,104</u>

The decrease in accrued compensation was primarily due to the payment of our AIP earned in fiscal 2011, partially offset by three quarters of accrual under our AIP related to fiscal 2012.

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

**8. DEBT**

On February 13, 2012, we entered into a credit agreement (the "Credit Agreement") among the Company, as Borrower, Bank of America, N.A., as administrative agent, swing line lender and an L/C issuer, Bank of America Merrill Lynch and J.P. Morgan Securities LLC, as joint lead arrangers and joint book managers, JPMorgan Chase Bank, N.A., as syndication agent, and Wells Fargo Bank, N.A. as documentation agent. The Credit Agreement provided us with a \$175,000 term loan (the "Term Loan"), which we drew on February 27, 2012 to fund approximately half of the special cash dividend we paid to our stockholders on March 1, 2012, and a \$100,000 revolving credit facility (the "Revolving Credit Facility"), which remains undrawn, with sub-limits for multicurrency borrowings, letters of credit and swing-line loans. The Term Loan and the Revolving Credit Facility are referred to as the "Credit Facilities." The Credit Agreement provides for an uncommitted accordion feature that allows us to request the existing lenders or, if necessary, third-party financial institutions to provide additional capacity in the Revolving Credit Facility, in an amount not to exceed \$75,000. The Term Loan has periodic scheduled principal repayments; however, we may prepay the loan without penalty. The Credit Facilities are scheduled to expire on February 13, 2017. In connection with the Credit Agreement, the Company simultaneously terminated its previously existing \$50,000 unsecured revolving credit facility, which had no outstanding balance at the time of termination.

Borrowings under the Credit Facilities (other than in respect of swing-line loans) bear interest at a rate per annum equal to the "Applicable Rate" (as defined below) plus, at our option, either (1) a LIBOR rate determined by reference to the cost of funds for deposits in the relevant currency for the interest period relevant to such borrowing or (2) the "Base Rate", which is the highest of (x) the prime rate of Bank of America, N.A., (y) the federal funds rate plus 1/2 of 1.00% and (z) the one-month LIBOR rate plus 1.00%. The initial Applicable Rate for borrowings under the Credit Facilities was 1.75% with respect to LIBOR borrowings and 0.25% with respect to Base Rate borrowings, with such Applicable Rate subject to adjustment based on our consolidated leverage ratio. Swing-line loans will bear interest at the Base Rate plus the Applicable Rate for Base Rate loans under the Revolving Credit Facility. In addition to paying interest on outstanding principal under the Credit Agreement, we will pay a commitment fee to the lenders under the Revolving Credit Facility in respect of the unutilized commitments thereunder at a rate ranging from 0.25% to 0.35%, based on our consolidated leverage ratio. Interest expense and commitment fees are paid according to the relevant interest period and no less frequently than at the end of each calendar quarter. We paid \$2,658 in customary arrangement fees, upfront fees and administration fees, of which \$543 and \$1,931 remains in prepaid expenses and other current assets and other long-term assets, respectively, on our Consolidated Balance Sheet as of June 30, 2012. We must also pay letter of credit fees as necessary. We may voluntarily prepay the Credit Facilities without premium or penalty, subject to customary "breakage" fees and reemployment costs in the case of LIBOR borrowings. All obligations under the Credit Agreement are guaranteed by each of our existing and future direct and indirect domestic subsidiaries (the "Guarantors"). The obligations under the Credit Agreement and guarantees of those obligations are secured, subject to certain exceptions, by first priority liens and security interests in the assets of the Company and its domestic subsidiaries.

The Credit Agreement contains covenants that restrict the ability of the Company and its subsidiaries to take certain actions, including, among other things and subject to certain significant exceptions: creating liens, incurring indebtedness, making investments, engaging in mergers, selling property, paying dividends or amending organizational documents. The Credit Agreement requires us, beginning with the quarter ended June 30, 2012, to comply with certain financial ratio maintenance covenants, including a maximum consolidated leverage ratio of 3.00 to 1.00 through June 30, 2013 and a minimum consolidated fixed charge coverage ratio of 1.25 to 1.00. As of June 30, 2012, our consolidated leverage ratio was 1.69 to 1.00 and our consolidated fixed charge coverage ratio was 19.95 to 1.00. The Credit Agreement also contains customary affirmative covenants and events of default. We believe we are in compliance with these covenants.

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

At June 30, 2012, we believe the fair value of the Term Loan approximates its carrying value of \$175,000 as the loan bears a floating market rate of interest. As of June 30, 2012, \$10,938 of the debt outstanding is classified as short-term.

As of June 30, 2012, scheduled principal repayments of the Term Loan were as follows:

<b>Fiscal Year</b>	<b>Principal Repayments</b>
Remainder of 2012	\$ 2,188
2013	10,937
2014	10,938
2015	15,312
2016	21,875
2017	113,750
<b>Total</b>	<b>175,000</b>

### 9. DERIVATIVE FINANCIAL INSTRUMENTS

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; 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, 2012, we had one forward foreign exchange contract to sell Japanese yen related to intercompany notes 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, which was determined using Level 1 inputs, was as follows:

	<u>Balance Sheet Location</u>	<u>Asset Derivatives</u>		<u>Liability Derivatives</u>	
		<u>Fair Value at June 30, 2012</u>	<u>Fair Value at September 30, 2011</u>	<u>Fair Value at June 30, 2012</u>	<u>Fair Value at September 30, 2011</u>
Derivatives not designated as hedging instruments					
Foreign exchange contracts	Prepaid expenses and other current assets	\$ 7	\$ 48	\$ -	\$ -
	Accrued expenses and other current liabilities	\$ -	\$ -	\$ -	\$ -

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

The following table summarizes the effect of our derivative instrument on our Consolidated Statement of Income for the three and nine months ended June 30, 2012:

	Statement of Income Location	Gain (Loss) Recognized in Statement of Income			
		Three Months Ended		Nine Months Ended	
		June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Derivatives not designated as hedging instruments					
Foreign exchange contracts	Other income (expense), net	\$ (184)	\$ (186)	\$ 284	\$ (248)

## 10. CONTINGENCIES

### 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, from 2007 to 2011, we were involved in a legal action in the United States against DuPont Air Products NanoMaterials LLC (DA Nano), a CMP slurry competitor, regarding whether certain specific formulations of its slurry products used for tungsten CMP infringe certain CMP slurry patents that we own, and the validity of those and other of our patents. All of the Cabot Microelectronics Corporation patents at issue in the case were found valid, but the specific products at issue were found to not infringe the asserted claims of these patents.

Refer to Note 17 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, 2011, 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 2012 as follows:

Balance as of September 30, 2011	\$ 384
Reserve for product warranty during the reporting period	643
Settlement of warranty	(652)
Balance as of June 30, 2012	<u>\$ 375</u>

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

**11. SHARE-BASED COMPENSATION PLANS**

We historically have issued 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 (EIP); our Cabot Microelectronics Corporation 2007 Employee Stock Purchase Plan, as Amended and Restated January 1, 2010 (ESPP), and, pursuant to our EIP, our Directors' Deferred Compensation Plan, as amended September 23, 2008 and our 2001 Executive Officer Deposit Share Program. For additional information regarding these programs, refer to Note 12 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, 2011. In March 2012, our stockholders approved our new 2012 Omnibus Incentive Plan (OIP). All share-based awards granted as of March 6, 2012 are being made from the OIP, and the EIP is no longer available for any awards. For additional information regarding the OIP, refer to our Definitive Proxy Statement filed with the SEC on January 20, 2012, which is incorporated by reference into our Annual Report on Form 10-K for the fiscal year ended September 30, 2011 (Proxy Statement).

On March 2, 2012, we completed a leveraged recapitalization pursuant to which we paid a special cash dividend of \$15 per share to our stockholders. In conjunction with this recapitalization, the EIP required us to proportionally adjust the stock options and restricted stock units outstanding on the dividend payment date (March 1, 2012) to preserve the value of such awards as a result of the special cash dividend. As required by the EIP, the exercise prices and the number of outstanding non-qualified stock options (NQSOs) were adjusted to reflect the special cash dividend. The exercise prices of outstanding NQSOs were reduced by multiplying them by a factor of 0.68933, representing the ratio of the official opening price of our common stock on the NASDAQ stock market of \$35.79 on March 2, the ex-dividend date, to the official closing price of our common stock on the NASDAQ stock market of \$51.92 on March 1, which was the last trading day immediately prior to the ex-dividend date. The number of outstanding NQSOs was increased by multiplying the number by a factor of 1.45068, representing the ratio of the official NASDAQ closing price of \$51.92 on the dividend payment date to the official NASDAQ opening price of \$35.79 on the ex-dividend date. This adjustment did not result in additional share-based compensation expense in the period as the fair value of the outstanding NQSOs immediately following the payment of the special cash dividend was equal to the fair value immediately prior to such distribution. A summary of stock option activity as of June 30, 2012 and changes during fiscal 2012 are presented below:

	Stock Options	Weighted Average Exercise Price
Outstanding at September 30, 2011	3,950,537	\$ 39.52
Granted	477,444	39.57
Exercised	(803,892)	36.15
Forfeited or canceled	(88,982)	37.60
Mandatory proportional adjustment due to recapitalization	1,780,394	-
Outstanding at June 30, 2012	<u>5,315,501</u>	<u>\$ 26.83</u>



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

Similarly, the EIP required that we adjust the number of outstanding restricted stock units (RSUs) as a result of the special cash dividend. The number of outstanding RSUs was increased by multiplying the number by a factor of 1.45068, representing the ratio of the official NASDAQ closing price of \$51.92 on the dividend payment date to the official NASDAQ opening price of \$35.79 on the ex-dividend date. This adjustment did not result in additional share-based compensation expense in the period as the fair value of the outstanding RSUs immediately following the payment of the special cash dividend was equal to the fair value immediately prior to such distribution. A summary of the status of the restricted stock awards and restricted stock unit awards outstanding as of June 30, 2012, and changes during fiscal 2012, are presented below:

	Restricted Stock Awards and Units	Weighted Average Grant Date Fair Value
Nonvested at September 30, 2011	369,681	\$ 34.29
Granted	164,170	39.77
Vested	(166,457)	34.63
Forfeited	(8,219)	31.91
Mandatory proportional adjustment due to recapitalization	37,674	-
Nonvested at June 30, 2012	396,849	\$ 34.10

Similar to the proportional adjustment to the outstanding NQSOs and RSUs, as required by the EIP, the maximum number of shares issuable under the EIP was proportionally adjusted to reflect the special cash dividend, and, as required by the OIP, the maximum number of shares issuable under the OIP also was proportionally adjusted to reflect the special cash dividend. For additional information regarding the mandatory proportional adjustments to the shares issuable under the EIP and OIP, refer to the section in the Proxy Statement titled "Approval of 2012 Omnibus Incentive Plan" and to our amended Form S-8 POS filed with the SEC on March 8, 2012.

We record share-based compensation expense for all share-based awards, including stock option grants, restricted stock and restricted stock unit awards under our EIP and OIP and employee stock purchases pursuant to our Employee Stock Purchase Plan (ESPP). We calculate share-based compensation expense using the straight-line approach based on awards ultimately expected to vest, which requires the use of an estimated forfeiture rate. Our estimated forfeiture rate is primarily based on historical experience, but may be revised in future periods if actual forfeitures differ from the estimate. 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, the expected term of our stock options and the risk-free interest rate. We estimate the expected volatility of our stock options based on a combination of our stock's historical volatility and the implied volatilities from actively-traded options on our stock. Prior to fiscal 2012, we calculated the expected term of our stock options using the simplified method, due to our limited amount of historical option exercise data, and we added a slight premium to this expected term for employees who meet the definition of retirement eligible pursuant to their grants during the contractual term of the grant. The simplified method uses an average of the vesting term and the contractual term of the option to calculate the expected term. We experienced a significant increase in the volume of stock option exercises in fiscal 2011. Consequently, we used this exercise data, as well as historical exercise data, to calculate the expected term of our stock options granted in the first nine months of fiscal 2012, rather than using the simplified method, and we continued to add a slight premium for employees who meet the definition of retirement eligible under their grant terms. The expected term we calculated using option exercise history was within 1% of the expected term calculated under the simplified method. The risk-free rate is derived from the U.S. Treasury yield curve in effect at the time of grant.

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

Share-based compensation expense for the three and nine months ended June 30, 2012, and 2011, was as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Cost of goods sold	\$ 407	\$ 307	\$ 1,154	\$ 920
Research, development and technical	284	250	829	804
Selling and marketing	311	274	1,080	854
General and administrative	1,960	1,892	7,318	7,343
Total share-based compensation expense	2,962	2,723	10,381	9,921
Tax benefit	874	969	3,230	3,521
Total share-based compensation expense, net of tax	<u>\$ 2,088</u>	<u>\$ 1,754</u>	<u>\$ 7,151</u>	<u>\$ 6,400</u>

Our non-employee directors received annual equity awards in March 2012 at the time of our Annual Meeting of Stockholders, and a new non-employee director received an initial and annual equity award in June 2012, pursuant to the OIP. The award agreements provide for immediate vesting of the award at the time of termination of service for any reason other than by reason of Cause, Death, Disability or a Change in Control, as defined in the OIP, if at such time the non-employee director has completed an equivalent of at least two full terms as a director of the Company, as defined in the Company's bylaws. Five of the Company's non-employee directors had completed at least two full terms of service as of the date of the March 2012 award. Consequently, the requisite service period for the award has already been satisfied and we recorded the fair value of \$749 of the awards to these five directors to share-based compensation expense in the fiscal quarter ended March 31, 2012 rather than recording that expense over the one-year vesting period stated in the award agreement, as is done for the other two non-employee directors.

For additional information regarding the estimation of fair value, refer to Note 12 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, 2011.

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

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

Other income (expense), net, consisted of the following:

	<b>Three Months Ended June 30,</b>		<b>Nine Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Interest income	\$ 41	\$ 53	\$ 120	\$ 194
Other income (expense)	(905)	(334)	(783)	(683)
Total other income (expense), net	<u>\$ (864)</u>	<u>\$ (281)</u>	<u>\$ (663)</u>	<u>\$ (489)</u>

The increase in other expense for the three months ended June 30, 2012 was primarily due to foreign exchange effects on revenues and expenses, primarily related to changes in exchange rates of the Japanese yen and the New Taiwan dollar to the U.S. dollar, net of the gains realized and losses incurred on forward foreign exchange contracts discussed in Note 9 of this Form 10-Q, including \$333 of foreign exchange loss recorded in the third quarter of fiscal 2012 to correct prior period remeasurement of cash at a foreign location. The increase in other expense for the nine months ended June 30, 2012 was primarily due to these foreign exchange effects and the absence of the development grant received in Singapore in the second quarter of fiscal 2011. As disclosed in Note 1, prior period other income (expense) amounts have been adjusted to exclude interest expense to conform to the current year presentation.

**13. 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>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net income	\$ 13,242	\$ 12,789	\$ 29,187	\$ 42,373
Other comprehensive income:				
Foreign currency translation adjustment	3,356	2,529	2,984	8,046
Minimum pension liability adjustment	-	5	-	15
Total comprehensive income	<u>\$ 16,598</u>	<u>\$ 15,323</u>	<u>\$ 32,171</u>	<u>\$ 50,434</u>

The foreign currency translation adjustments during the three and nine months ended June 30, 2012 and 2011 primarily resulted from a \$2,172 correction of prior period accounting related to the acquisition of Epoch, as discussed in Note 1, and to changes in exchange rates of the U.S. dollar relative to the Japanese yen and the New Taiwan dollar.

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

**14. INCOME TAXES**

Our effective income tax rate was 33.2% and 33.7% for the three and nine months ended June 30, 2012 compared to 33.9% and 32.7% effective income tax rate for the three and nine months ended June 30, 2011. The increase in the effective tax rate during the first nine months of fiscal 2012 was primarily due to decreased income in certain foreign subsidiaries where we have elected to permanently reinvest the earnings, which are taxed at lower rates than in the U.S., and the expiration of the U.S. research and experimentation tax credit effective December 31, 2011. These increases were partially offset by the absence of \$671 in income tax expense recorded in the second quarter of fiscal 2011 related to executive compensation in fiscal 2008 through 2010 and the absence of a \$497 reversal of a deferred tax asset related to certain share-based compensation expense recorded in the first quarter of fiscal 2011, as discussed in Note 1 under the heading "Results of Operations".

**15. EARNINGS PER SHARE**

The standards of accounting for earnings per share require 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,	
	2012	2011	2012	2011
Numerator:				
Earnings available to common shares	\$ 13,242	\$ 12,789	\$ 29,187	\$ 42,373
Denominator:				
Weighted average common shares (Denominator for basic calculation)	23,120,147	23,118,698	22,778,056	22,931,178
Weighted average effect of dilutive securities:				
Share-based compensation	818,868	678,382	768,913	594,255
Diluted weighted average common shares (Denominator for diluted calculation)	23,939,015	23,797,080	23,546,969	23,525,433
Earnings per share:				
Basic	\$ 0.57	\$ 0.55	\$ 1.28	\$ 1.85
Diluted	\$ 0.55	\$ 0.54	\$ 1.24	\$ 1.80

The weighted average effect of dilutive securities in the table above includes the dilutive effect of outstanding stock options that have an exercise price lower than the average market price of our common stock and the dilutive effect of unvested restricted stock that has an award price lower than the average market price of our restricted stock.

For each of the three months ended June 30, 2012 and 2011, approximately 1.3 million shares 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 each of the nine months ended June 30, 2012 and 2011, approximately 1.3 million shares 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)**

**16. FINANCIAL INFORMATION BY INDUSTRY SEGMENT AND PRODUCT LINE**

We operate predominantly in one industry segment – the development, manufacture, and sale of CMP consumables.

Revenue generated by product line for the three and nine months ended June 30, 2012, and 2011, was as follows:

Revenue:	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Tungsten slurries	\$ 42,162	\$ 40,889	\$ 121,108	\$ 123,094
Dielectric slurries	32,544	30,998	87,760	91,926
Copper slurries	17,896	20,103	49,997	60,119
Polishing pads	9,039	7,561	23,908	23,650
Data storage slurries	5,314	6,863	16,040	20,948
Engineered Surface Finishes	8,723	5,432	18,223	15,974
Total revenue	<u>\$ 115,678</u>	<u>\$ 111,846</u>	<u>\$ 317,036</u>	<u>\$ 335,711</u>

**17. NEW ACCOUNTING PRONOUNCEMENTS**

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, “Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs” (ASU 2011-04). The amendments in ASU 2011-04 change some of the wording used to describe certain U.S. GAAP requirements for measuring fair value and disclosing information about fair value measurements. Some of the amendments clarify the FASB’s intent about the application of existing fair value measurement requirements and other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a material impact on the fair value measurements and their related disclosures in our financial statements.

In June 2011, the FASB issued ASU No. 2011-05, “Comprehensive Income (Topic 220) – Presentation of Comprehensive Income” (ASU 2011-05). The provisions of ASU 2011-05 require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. If two separate statements are presented, the statement of other comprehensive income should immediately follow the statement of net income. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption of these provisions is permitted and will be applied retrospectively. The adoption of ASU 2011-05 will change the way we present comprehensive income as current U.S. GAAP permits an annual presentation of comprehensive income within the statement of equity and quarterly presentation of comprehensive income within the footnotes to the financial statements. We expect to present comprehensive income in a separate statement immediately following the statement of net income beginning in our fiscal quarter ending December 31, 2012.

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

In December 2011, the FASB issued ASU No. 2011-12, “Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05” (ASU 2011-12). The provisions of ASU 2011-12 supersede the requirement of ASU 2011-05 to present the effect of reclassification adjustments on the face of the financial statements where net income is presented, by component of net income, and on the face of the financial statements where other comprehensive income is presented, by component of other comprehensive income. ASU 2011-12 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We do not expect the adoption of ASU 2011-12 will have a material effect on our financial statements as we do not expect material reclassification adjustments out of accumulated other comprehensive income.

## 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, regulatory or legislative activity, 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; natural disasters; the acquisition of or investment in other entities; uses and investment of the Company's cash balance; financing facilities and related debt, payment of principal and interest, and compliance with covenants and other terms; the Company's capital structure; the construction and operation 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" (MD&A), should be read in conjunction with Cabot Microelectronics' annual report on Form 10-K for the fiscal year ended September 30, 2011, including the consolidated financial statements and related notes thereto.

### THIRD QUARTER OF FISCAL 2012 OVERVIEW

During the third quarter of our fiscal 2012, our revenue reflected strengthening of demand in the semiconductor industry that industry analysts had been forecasting after two quarters of relatively soft demand. In the near term, we believe demand will remain relatively firm, but we remain cautious due to limited visibility and additional uncertainty due to macroeconomic factors. In the longer term, we continue to believe that forecasted growth for mobile devices, smart phones, tablets and ultrabooks, as well as overall demand for information technology such as hardware to support cloud computing, coupled with the successful execution of our business strategies, will drive sustained growth for our products. There are many factors, however, that make it difficult for us to predict future revenue trends for our business, including: the pace, timing and sustainability of the ongoing economic 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 2012 was \$115.7 million, which represented an increase of 3.4% from the third quarter of fiscal 2011 and an increase of 16.6% from the previous fiscal quarter. We believe the increase in revenue from the prior quarter was due to the continued execution of our strategic initiatives, coupled with industry strengthening as noted above. We saw revenue increases in our tungsten slurry, dielectric slurry, polishing pads and Engineered Surface Finishes (ESF) product lines compared to the prior year quarter. Compared to the previous fiscal quarter, we saw revenue increases in these same product lines as well as an increase in our copper slurry product line.

Gross profit expressed as a percentage of revenue for our third quarter of fiscal 2012 was 47.7%, which represented an increase from 47.4% reported in the third quarter of fiscal 2011 and an increase from 46.1% in our prior fiscal quarter. The increase in gross profit percentage from the third quarter of fiscal 2011 was primarily due to increased utilization of our manufacturing capacity, higher yields in our manufacturing operations, and lower logistics costs, partially offset by higher fixed manufacturing costs and selective price reductions. The increase in gross profit percentage from the prior fiscal quarter was primarily due to increased utilization of our manufacturing capacity on higher demand and higher manufacturing yields, partially offset by higher fixed manufacturing costs. Our gross profit percentage was 47.4% on a year-to-date basis, which is consistent with our full fiscal year 2012 guidance range of 46% to 48%. However, we may continue to experience fluctuations in our gross profit due to a number of factors, including the extent to which we utilize our manufacturing capacity and fluctuations in our product mix, which may cause our quarterly gross profit to be above or below this annual guidance range.

Operating expenses were \$33.6 million in our third quarter of fiscal 2012, compared to \$33.4 million in the third quarter of fiscal 2011 and \$36.7 million in the previous fiscal quarter. The slight increase in operating expenses from the comparable quarter of fiscal 2011 was primarily due to higher staffing-related costs and higher clean room expenses, partially offset by lower professional fees and lower depreciation expense. The decrease in operating expenses from the prior fiscal quarter was primarily due to the absence of bad debt expense related to a customer bankruptcy that was recorded in the second quarter of fiscal 2012 and lower share-based compensation expense, partially offset by higher staffing-related costs. We continue to expect full year fiscal 2012 operating expenses to be in the range of \$135 million to \$140 million.

Diluted earnings per share for our third fiscal quarter were \$0.55, which represents an increase from \$0.54 reported in the third quarter of fiscal 2011 and from \$0.23 reported in the previous fiscal quarter. The increase in diluted earnings per share from the third quarter of fiscal 2011 was primarily due to increased revenue and a higher gross margin percentage, partially offset by interest expense on the \$175.0 million term loan, which we executed in the second quarter of fiscal 2012, and the unfavorable impact of foreign exchange rates. The increase in diluted earnings per share from the prior fiscal quarter was primarily due to increased revenue, a higher gross profit percentage, and the absence of bad debt expense recorded in the second quarter of fiscal 2012, partially offset by the unfavorable impact of foreign exchange rates and higher interest expense.

The results of operations for the three and nine months ended June 30, 2012 include certain adjustments to correct prior period amounts, which we have determined to be immaterial to the current period and the prior periods to which they relate. These adjustments included the correction of historical tax accounting related to the acquisition of Epoch Material Co., Ltd. (Epoch) in fiscal 2009 and the correction of prior period remeasurement of certain foreign cash balances into their functional currency amounts. The correction of tax accounting related to the Epoch acquisition resulted in additional income tax expense of \$0.2 million in the Consolidated Statement of Income and adjustments to the Consolidated Balance Sheet including: an increase of \$2.2 million of cumulative translation adjustment within accumulated other comprehensive income; an increase in goodwill of \$1.7 million; and a decrease of \$0.3 million in deferred tax liabilities. The correction of the historical remeasurement of certain foreign cash balances resulted in \$0.3 million of additional expense (\$0.2 million, net of tax) included in other income (Expense) on the Consolidated Statement of Income. Collectively, these adjustments reduced net income for the third quarter and the first nine months of fiscal 2012 by \$0.4 million and diluted earnings per share for these same periods by approximately \$0.02.

#### **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, 2011. We believe there have been no material changes in our critical accounting policies and estimates during the first nine months of fiscal 2012, except for the proportional adjustment to equity made in conjunction with our leveraged recapitalization, as discussed in Note 11 of the Notes to the Consolidated Financial Statements. See Note 17 of the Notes to the Consolidated Financial Statements for a discussion of new accounting pronouncements.



## RESULTS OF OPERATIONS

### THREE MONTHS ENDED JUNE 30, 2012, VERSUS THREE MONTHS ENDED JUNE 30, 2011

#### REVENUE

Revenue was \$115.7 million for the three months ended June 30, 2012, which represented a 3.4%, or \$3.8 million, increase from the three months ended June 30, 2011. The increase in revenue was driven by a \$7.0 million increase in revenue due to a higher-priced product mix, partially offset by a \$2.3 million revenue decrease due to decreased sales volume and a \$1.0 million revenue decrease due to selective price reductions. We saw revenue increases in a number of our business areas, including significant percentage increases in our polishing pad and engineered surface finishes product lines. Although we are optimistic about relatively firm demand for our products in the near term as we enter a seasonal period that includes back-to-school and holiday time periods, we remain cautious due to continued global economic uncertainty.

#### COST OF GOODS SOLD

Total cost of goods sold was \$60.5 million for the three months ended June 30, 2012, which represented an increase of 2.8%, or \$1.6 million, from the three months ended June 30, 2011. The increase in cost of goods sold was primarily due to \$6.7 million from a higher-cost product mix and \$2.4 million in higher fixed manufacturing costs. These increases in cost of goods sold were partially offset by a \$2.9 million decrease in cost of goods sold due to increased utilization of our manufacturing capacity, a \$2.5 million decrease due to higher manufacturing yields, a \$1.2 million decrease due to decreased sales volume and a \$1.0 million decrease due to lower logistics costs.

Metal oxides, such as silica and 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 Quarterly Report on Form 10-Q as well as in Item 7 of Part II of our Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

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 changes in costs from those in the existing agreements. In addition, a number of factors could impact the future cost of raw materials, packaging, freight and labor. We also expect to continue to invest in our supply chain to improve product quality, reduce variability and improve our manufacturing product yields.

#### GROSS PROFIT

Our gross profit as a percentage of revenue was 47.7% for the three months ended June 30, 2012, as compared to 47.4% for the three months ended June 30, 2011. The increase in gross profit as a percentage of revenue was primarily due to the increased utilization of our manufacturing capacity and higher manufacturing yields, partially offset by higher fixed manufacturing costs. We continue to expect our gross profit percentage for full year fiscal 2012 to be in the range of 46% to 48%.

## **RESEARCH, DEVELOPMENT AND TECHNICAL**

Total research, development and technical expenses were \$15.4 million for the three months ended June 30, 2012, which represented an increase of 5.8%, or \$0.8 million, from the three months ended June 30, 2011. The increase was primarily due to \$0.4 million in higher expenses for clean room materials, \$0.1 million in higher staffing-related costs and \$0.1 million in higher professional fees.

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, including collaborating on joint development projects with our customers;
- Process development to support rapid and effective commercialization of new products;
- Technical support of CMP products in our customers' manufacturing facilities; and
- Evaluation and development of new polishing and metrology applications outside of the semiconductor industry.

## **SELLING AND MARKETING**

Selling and marketing expenses were \$7.5 million for the three months ended June 30, 2012, which represented a decrease of 4.2%, or \$0.3 million, from the three months ended June 30, 2011. The decrease was primarily due to \$0.3 million in lower professional fees and \$0.2 million in lower depreciation expense, partially offset by \$0.2 million in higher staffing-related costs.

## **GENERAL AND ADMINISTRATIVE**

General and administrative expenses were \$10.7 million for the three months ended June 30, 2012, which represented a decrease of 2.8%, or \$0.3 million, from the three months ended June 30, 2011. The decrease was primarily due to \$0.3 million in lower professional fees and \$0.2 million in lower depreciation expense, partially offset by \$0.3 million in higher staffing-related costs.

## **INTEREST EXPENSE**

Interest expense was \$1.0 million for the three months ended June 30, 2012, which represented an increase of \$0.9 million from the three months ended June 30, 2011. The increase was due to interest expense recorded on our \$175.0 million term loan discussed in Note 8 of the Notes to the Consolidated Financial Statements.

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

Other expense was \$0.9 million for the three months ended June 30, 2012 compared to \$0.3 million during the three months ended June 30, 2011. The increase in other expense was primarily due to \$0.5 million of foreign exchange effects on revenues and expenses, primarily related to changes in exchange rates of the Japanese yen and the New Taiwan dollar to the U.S. dollar, net of gains realized and losses incurred on forward foreign exchange contracts discussed in Note 9 of the Notes to the Consolidated Financial Statements. As discussed in Note 1 of the Notes to the Consolidated Financial Statements, other expense in the third quarter of fiscal 2012 included \$0.3 million to correct prior period remeasurement of certain cash balances held at a foreign location.

## **PROVISION FOR INCOME TAXES**

Our effective income tax rate was 33.2% for the three months ended June 30, 2012 compared to a 33.9% effective income tax rate for the three months ended June 30, 2011. The decrease in the effective tax rate during the third quarter of fiscal 2012 was primarily due to adjustments recorded to true up our fiscal 2011 tax provision to the actual taxes reflected in tax returns filed in the third quarter of fiscal 2012. This decrease was partially offset by decreased income in certain foreign subsidiaries where we have elected to permanently reinvest the earnings, which are taxed at lower rates than in the U.S., and the expiration of the U.S. research and experimentation tax credit effective December 31, 2011.

## **NET INCOME**

Net income was \$13.2 million for the three months ended June 30, 2012 which represented an increase of 3.5%, or \$0.5 million, from the three months ended June 30, 2011. The increase was primarily due to increased revenue and a higher gross profit percentage, partially offset by higher interest expense and the unfavorable impact of foreign exchange rates.

## **NINE MONTHS ENDED JUNE 30, 2012, VERSUS NINE MONTHS ENDED JUNE 30, 2011**

### **REVENUE**

Revenue was \$317.0 million for the nine months ended June 30, 2012, which represented a 5.6%, or \$18.7 million, decrease from the nine months ended June 30, 2011. The decrease in revenue was driven by a \$28.3 million decrease in sales volume and a \$4.0 million revenue decrease due to selective price reductions. These decreases were partially offset by a \$12.1 million increase in revenue due to a higher-priced product mix and a \$1.5 million increase due to the effect of foreign exchange rate changes. We believe the decrease in revenue reflects softness of demand in the semiconductor industry that we experienced during the first half of our fiscal year.

### **COST OF GOODS SOLD**

Total cost of goods sold was \$166.7 million for the nine months ended June 30, 2012, which represented a decrease of 3.3%, or \$5.8 million, from the nine months ended June 30, 2011. The decrease in cost of goods sold was primarily due to \$14.5 million from decreased sales volume, a \$6.3 million decrease due to higher manufacturing yields, a \$2.4 million decrease due to increased utilization of our manufacturing capacity and a \$1.3 million decrease due to lower logistics costs. These decreases in cost of goods sold were partially offset by a \$12.4 million increase due to a higher-cost product mix, a \$4.1 million increase due to higher fixed manufacturing costs, a \$1.8 million increase due to the effect of foreign exchange rate changes and a \$0.4 million increase in product sample costs.

### **GROSS PROFIT**

Our gross profit as a percentage of revenue was 47.4% for the nine months ended June 30, 2012, as compared to 48.6% for the nine months ended June 30, 2011. The decrease in gross profit as a percentage of revenue was primarily due to the decreased production volume in the first nine months of fiscal 2012 based on the reduced demand for our products, higher fixed manufacturing costs, and selective price decreases, partially offset by lower overall variable manufacturing costs. Our year-to-date gross profit percentage of 47.4% is within our full year fiscal 2012 guidance range of 46% to 48%.

## **RESEARCH, DEVELOPMENT AND TECHNICAL**

Total research, development and technical expenses were \$43.2 million for the nine months ended June 30, 2012, which represented a decrease of 0.2%, or \$0.1 million, from the nine months ended June 30, 2011. The decrease was primarily due to \$1.8 million in lower staffing-related costs, including costs related to our annual incentive bonus program (AIP), partially offset by \$1.1 million in higher expenses for clean room materials, \$0.3 million in higher equipment-related expenses and \$0.2 million in higher professional fees.

## **SELLING AND MARKETING**

Selling and marketing expenses were \$22.2 million for the nine months ended June 30, 2012, which represented an increase of 0.8%, or \$0.2 million, from the nine months ended June 30, 2011. The increase was primarily due to increases in staffing-related costs.

## **GENERAL AND ADMINISTRATIVE**

General and administrative expenses were \$38.8 million for the nine months ended June 30, 2012, which represented an increase of 13.2%, or \$4.5 million, from the nine months ended June 30, 2011. The increase was primarily due to \$3.9 million in higher bad debt expense of which \$3.7 million related to a customer bankruptcy filing, which we discussed in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, and \$2.1 million in higher professional fees, including fees associated with our leveraged recapitalization with a special cash dividend, partially offset by \$1.3 million in lower staffing-related costs, including costs associated with our AIP. Although we have incurred significant expenses related to the bad debt expense described above, and our leveraged recapitalization with a special cash dividend, we continue to expect our total operating expenses will be within the annual guidance of \$135 million to \$140 million.

## **INTEREST EXPENSE**

Interest expense was \$1.3 million for the nine months ended June 30, 2012, which represented an increase of \$1.2 million from the nine months ended June 30, 2011. The increase was due to interest expense recorded on the term loan discussed in Note 8 of the Notes to the Consolidated Financial Statements. We expect to incur approximately \$2.3 million of interest expense related to the term loan in fiscal 2012.

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

Other expense was \$0.7 million for the nine months ended June 30, 2012 compared to other expense of \$0.5 million during the nine months ended June 30, 2011. The increase in other expense was primarily due to the absence of a \$0.3 million development grant received in Singapore during the second quarter of fiscal 2011 and \$0.2 million in expenses associated with the amortization of prepaid debt costs, partially offset by foreign exchange effects on revenues and expenses, primarily related to changes in exchange rates of the Japanese yen and the New Taiwan dollar to the U.S. dollar, net of the gains realized and losses incurred on forward foreign exchange contracts discussed in Note 9 of the Notes to the Consolidated Financial Statements.

## PROVISION FOR INCOME TAXES

Our effective income tax rate was 33.7% for the nine months ended June 30, 2012 compared to a 32.7% effective income tax rate for the nine months ended June 30, 2011. The increase in the effective tax rate during the first nine months of fiscal 2012 was primarily due to decreased income in certain foreign subsidiaries where we have elected to permanently reinvest the earnings, which are taxed at lower rates than in the U.S., and the expiration of the U.S. research and experimentation tax credit effective December 31, 2011. These increases were partially offset by the absence of \$0.7 million in income tax expense recorded in the second quarter of fiscal 2011 related to executive compensation in fiscal 2008 through 2010 and the absence of a \$0.5 million reversal of a deferred tax asset related to certain share-based compensation expense recorded in the first quarter of fiscal 2011.

## NET INCOME

Net income was \$29.2 million for the nine months ended June 30, 2012 which represented a decrease of 31.1%, or \$13.2 million, from the nine months ended June 30, 2011. The decrease was primarily due to decreased sales volume, a lower gross profit percentage, increased administrative costs for bad debt expense related to the customer bankruptcy filing described above and our leveraged recapitalization with a special cash dividend, increased interest expense and the increase in our effective tax rate.

## LIQUIDITY AND CAPITAL RESOURCES

We completed a leveraged recapitalization during the quarter ended March 31, 2012. In conjunction with this recapitalization, we declared and paid a special cash dividend of \$15 per share, or \$347.1 million in aggregate, during our second fiscal quarter of 2012. We funded the dividend with \$175.0 million from a term loan and \$172.1 million of existing Company cash balances.

We generated \$44.1 million in cash flows from operating activities in the first nine months of fiscal 2012, compared to \$59.6 million in cash from operating activities in the first nine months of fiscal 2011. Our cash flows provided by operating activities in the first nine months of fiscal 2012 originated from \$29.2 million in net income, \$32.0 million in non-cash items and a \$17.1 million decrease in cash flow due to a net increase in working capital. The decrease in cash flows from operating activities compared to the first nine months of fiscal 2011 was primarily due to decreased net income in fiscal 2012 and an increase in accounts receivable due to the significant revenue increase in the third quarter of fiscal 2012, partially offset by the increase in bad debt expense, which is a non-cash expense, and changes in the timing and magnitude of income tax payments.

In the first nine months of fiscal 2012, cash flows used in investing activities were \$14.2 million for purchases of property, plant and equipment, including payments to complete our manufacturing facility in South Korea, which we opened in fiscal 2011. In the first nine months of fiscal 2011, cash flows used in investing activities were \$18.3 million for purchases of property, plant and equipment. We estimate our total capital expenditures in fiscal 2012 will be between \$20.0 million and \$25.0 million.

In the first nine months of fiscal 2012, cash flows used in financing activities were \$165.6 million. We used \$347.1 million to fund the special cash dividend paid in the quarter ended March 31, 2012, \$23.0 million to repurchase common stock under our share repurchase program and \$1.5 million to repurchase common stock pursuant to the terms of our Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan (EIP) and our 2012 Omnibus Incentive Plan (OIP) for shares withheld from award recipients to cover payroll taxes on the vesting of restricted stock granted under the EIP and OIP. We received \$175.0 million from the drawdown of our term loan, \$30.5 million from the issuance of common stock related to the exercise of stock options granted under our EIP and the sale of shares to our employees under our 2007 Employee Stock Purchase Plan, as amended and restated January 1, 2010 (ESPP), and we received \$0.6 million in tax benefits related to exercises of stock options and vesting of restricted stock granted under our EIP. The issuance of stock in fiscal 2012 included 0.8 million shares in exercises of stock options, approximately half of which were set to expire within one year, which increased our weighted average shares outstanding. In the first nine months of fiscal 2011, cash flows used in financing activities were \$4.2 million, which reflected \$40.0 million in repurchases of common stock under our share repurchase program, \$1.4 million in repurchases of common stock pursuant to the terms of our EIP for shares withheld from award recipients to cover payroll taxes on the vesting of restricted stock granted under the EIP, and \$1.0 million in principal payments under capital lease obligations. These cash outflows were partially offset by \$37.2 million received from the issuance of common stock related to the exercise of stock options granted under our EIP and our ESPP, and we received \$1.0 million in tax benefits related to exercises of stock options and vesting of restricted stock granted under our EIP and OIP.

In January 2008, our Board of Directors authorized a share repurchase program for up to \$75.0 million of our outstanding common stock. We repurchased 564,568 shares for \$25.0 million during the first six months of fiscal 2011 under this program, which was completed during the fiscal quarter ended March 31, 2011. In November 2010, our Board of Directors authorized a new share repurchase program for up to \$125.0 million of our outstanding common stock, which became effective on the authorization date. We repurchased 671,100 shares for \$29.1 million under this new program in fiscal 2011 and we repurchased 620,762 shares for \$23.0 million during the first nine months of fiscal 2012 under this program. As of December 13, 2011, we had \$82.9 million remaining under this share repurchase program. In conjunction with our new capital management initiative, on December 13, 2011, our Board of Directors authorized an increase in the amount available under our share repurchase program to \$150.0 million. With this increased authorization, as of June 30, 2012, \$140.0 million remains outstanding under our revised share repurchase program. Share repurchases are made from time to time, depending on market conditions, in open market transactions, at management's discretion. We fund share purchases under these programs from our available cash balance.

We entered into a Credit Agreement in February 2012, which provided us with a \$175.0 million Term Loan and a \$100.0 million Revolving Credit Facility, with sub-limits for multicurrency borrowings, letters of credit and swing-line loans. The Term Loan and Revolving Credit Facility are referred to as the "Credit Facilities". The Credit Agreement provides us an uncommitted accordion feature that allows us to request the existing lenders or, if necessary, third-party financial institutions to provide additional capacity in the Revolving Credit Facility, in an amount not to exceed \$75.0 million. The Term Loan has periodic scheduled principal repayments; however, we may prepay the loan without penalty. The Credit Facilities are scheduled to expire on February 13, 2017. The Term Loan was drawn on February 27, 2012 and the Revolving Credit Facility remains undrawn. In connection with the Credit Agreement, we terminated our previously existing \$50.0 million unsecured revolving credit facility. The Credit Agreement contains covenants that restrict the ability of the Company and its subsidiaries to take certain actions, including, among other things and subject to certain significant exceptions: creating liens, incurring indebtedness, making investments, engaging in mergers, selling property, paying dividends or amending organizational documents. The Credit Agreement requires us, beginning with the quarter ended June 30, 2012, to comply with certain financial ratio maintenance covenants, including a maximum consolidated leverage ratio of 3.00 to 1.00 through June 30, 2013 and a minimum consolidated fixed charge coverage ratio of 1.25 to 1.00. As of June 30, 2012, our consolidated leverage ratio was 1.69 to 1.00 and our consolidated fixed charge coverage ratio was 19.95 to 1.00. The Credit Agreement also contains customary affirmative covenants and events of default. We believe we are in compliance with these covenants. See Note 8 of the Notes to the Consolidated Financial Statements for additional information regarding the Credit Agreement.

As of June 30, 2012, we had \$166.9 million of cash and cash equivalents, \$29.8 million of which was held at foreign subsidiaries in Singapore and Taiwan where we have made a current election to permanently reinvest the earnings rather than repatriate the earnings to the U.S. If we choose to repatriate these earnings in the future through dividends or loans to the U.S. parent company, the earnings could become subject to additional income tax expense.

We believe that our current balance of cash and long-term investments, cash generated by our operations and available borrowing capacity under our new Credit Facility will be sufficient to fund our operations, expected capital expenditures, merger and acquisition activities and share repurchases for the foreseeable future. However, we plan to further expand our business; therefore, we may need to raise additional funds in the future through equity or debt financing, strategic relationships or other arrangements. Depending on future conditions in the capital and credit markets, we could encounter difficulty securing additional financing in the type or amount necessary to pursue these objectives.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

At June 30, 2012, and September 30, 2011, 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, 2012, and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

<b>CONTRACTUAL OBLIGATIONS (In millions)</b>	<b>Total</b>	<b>Less Than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>After 5 Years</b>
Long-term debt	\$ 175.0	\$ 8.7	\$ 26.3	\$ 140.0	\$ -
Interest expense and fees on long-term debt	14.4	3.8	6.6	4.0	-
Purchase obligations	45.5	41.3	3.4	0.3	0.5
Operating leases	9.1	2.9	3.6	1.9	0.7
Other long-term liabilities	6.9	-	-	-	6.9
Total contractual obligations	<u>\$ 250.9</u>	<u>\$ 56.7</u>	<u>\$ 39.9</u>	<u>\$ 146.2</u>	<u>\$ 8.1</u>

We operate under a fumed silica supply agreement with Cabot Corporation, our former parent company which is not a related party, 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 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. We are currently working with Cabot Corporation to negotiate the terms of a new fumed silica supply agreement that we anticipate would take effect following the expiration of the current agreement. We are operating under a renewed fumed alumina supply agreement with Cabot Corporation, which has an initial twelve-month term that can be renewed for two successive such terms until April 2015, under which we are obligated to pay certain fixed, capital and variable costs, and have certain take-or-pay obligations. We currently anticipate we will not have to pay any shortfall under these agreements. Purchase obligations include an aggregate amount of \$23.3 million of contractual commitments for fumed silica and fumed alumina.

Interest payments on long-term, variable rate debt reflect LIBOR rates in effect at June 30, 2012. Commitment fees are based on our estimated consolidated leverage ratio in future periods. See Note 8 of the Notes to the Consolidated Financial Statements for additional information regarding our long-term debt.

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, 2011, 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 the New Taiwan dollar. As noted in Item 7 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2011, the negative effects of foreign exchange rate changes, primarily related to the Japanese yen, accounted for a significant decrease in our full fiscal year 2011 gross profit percentage compared to full fiscal year 2010. From time to time we enter into forward contracts in an effort to manage foreign currency exchange exposure. However, we are unlikely to be able to hedge these exposures completely. During the nine months ended June 30, 2012, we recorded \$3.0 million in currency translation gains, net of tax, that are included in other comprehensive income on our Consolidated Balance Sheet. These gains primarily relate to changes in the U.S. dollar value of assets and liabilities transacted in foreign currencies based on the general fluctuations of the U.S. dollar relative to the Japanese yen and the New Taiwan dollar. Approximately 13% of our revenue is transacted in currencies other than the U.S. dollar. However, we also incur expenses in foreign countries that are transacted in currencies other than the U.S. dollar, so the net exposure on the Consolidated Statement of Income is limited. 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**

There was a significant weakening of the U.S. dollar against the Japanese yen during our fiscal years 2010 and 2011, which had some negative impact on our results of operations. We have performed a sensitivity analysis assuming a hypothetical 10% additional adverse movement in foreign exchange rates. As of June 30, 2012, 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.

#### **INTEREST RATE RISK**

At June 30, 2012, we have \$175.0 million in long-term debt at variable interest rates. Assuming a hypothetical 100 basis point increase in our current variable interest rate, our interest expense would increase by approximately \$0.4 million per fiscal quarter.

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

At June 30, 2012, we owned two auction rate securities (ARS) with a total estimated fair value of \$8.0 million (\$8.2 million par value) which were classified as other long-term assets on our Consolidated Balance Sheet. Beginning in 2008, general uncertainties in the global credit markets significantly reduced liquidity in the ARS market, and this illiquidity continues. For more information on our ARS, see Notes 2 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.



## ITEM 4. CONTROLS AND PROCEDURES

### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), 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 June 30, 2012. Based on that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to ensure that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

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

There were no 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, from 2007 to 2011, we were involved in a legal action in the United States against DuPont Air Products NanoMaterials LLC (DA Nano), a CMP slurry competitor, regarding whether certain specific formulations of its slurry products used for tungsten CMP infringe certain CMP slurry patents that we own, and the validity of those and other of our patents. All of the Cabot Microelectronics Corporation patents at issue in the case were found valid, but the specific products at issue were found to not infringe the asserted claims of these patents.

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

Other than the incurrence of \$175.0 million of long-term debt as described below and elsewhere in this Quarterly Report on Form 10-Q, 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, 2011. 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 primarily 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 rapid increases or decreases in product demand, excess or low customer inventories, and rapid changes in prices of IC devices. For example, following approximately two quarters of soft demand in the semiconductor industry that followed approximately two years of significant growth, we again saw industry demand strengthen during our fiscal quarter ended June 30, 2012. In addition, our business has experienced historical seasonal trends as we saw our revenue decrease in the second quarter of fiscal 2012 from the revenue recorded in the first quarter of 2012. Furthermore, competitive dynamics within the semiconductor industry may impact our business. Our limited visibility to future customer orders makes it difficult for us to predict industry trends. If the global economy experiences further weakness and/or the semiconductor industry weakens, whether in general or as a result of specific factors, such as current macroeconomic factors, the March 2011 natural disasters in Japan, or the November 2011 flooding in Thailand, that have affected the semiconductor, data storage and information technology industries over approximately the last year, we could experience material adverse impacts on our results of operations and financial condition.

Adverse global economic and industry conditions may have other negative effects on our Company. For instance, we may experience negative impacts on cash flows due to the inability of our customers to pay their obligations to us, as evidenced by the \$3.7 million bad debt expense we recorded in March 2012, related to a customer bankruptcy filing in Japan in the second quarter of fiscal 2012, or our production process may be harmed if our suppliers cannot fulfill their obligations to us. We may also have to reduce the carrying value of goodwill and other intangible assets, which could harm our financial position and results of operations.

Some additional factors that affect demand for our products include: the types of products that our customers may produce, such as logic devices versus memory devices; the various technology nodes at which those products are manufactured; customers' specific manufacturing process integration schemes; the short order to delivery time for our products; quarter-to-quarter changes in customer order patterns; market 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. 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 and higher performance of materials consumed in their manufacturing processes, including CMP slurries and pads, as a means to reduce the costs and increase the yield in their manufacturing facilities. We expect these technological changes and advances, and this drive toward lower costs and higher yields, will continue in the future. Potential technology developments in the semiconductor industry, as well as our customers' efforts to reduce consumption of CMP consumables and to possibly reuse or recycle these products, 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 CMP consumables customer base is concentrated among a limited number of large customers. The number of semiconductor manufacturers has declined both through mergers and acquisitions as well as through strategic alliances. Industry analysts predict that this trend will continue, which means the semiconductor industry will be comprised of fewer and larger participants if their prediction is correct. One or more of these principal customers could stop buying CMP consumables from us or could substantially reduce the quantity of CMP consumables purchased 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, 2012 and 2011, our five largest customers accounted for approximately 47% and 48% of our revenue, respectively. During the nine months ended June 30, 2012, Taiwan Semiconductor Manufacturing Company (TSMC) and Samsung were our largest customers accounting for approximately 17% and 13%, respectively, of our revenue. During the nine months ended June 30, 2011, TSMC and United Microelectronics Corporation (UMC) accounted for approximately 17% and 10%, respectively, of our revenue. During full fiscal year 2011, our five largest customers accounted for approximately 47% of our revenue, with TSMC and Samsung accounting for approximately 17% and 10%, respectively.

**WE DECREASED OUR CASH BALANCE SIGNIFICANTLY AND INCURRED A SUBSTANTIAL AMOUNT OF INDEBTEDNESS IN CONJUNCTION WITH OUR LEVERAGED RECAPITALIZATION WITH A SPECIAL CASH DIVIDEND, WHICH MAY ADVERSELY AFFECT OUR CASH FLOW AND OUR ABILITY TO EXPAND OUR BUSINESS, AND WE MAY BE UNABLE TO COMPLY WITH DEBT COVENANTS OR SECURE ADDITIONAL FINANCING, IF NECESSARY OR DESIRED, ON TERMS ACCEPTABLE TO OUR COMPANY**

As we discussed in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2012, which was filed with the Securities and Exchange Commission on May 9, 2012, our Board of Directors determined to pursue a new capital management initiative for our Company, which included an increase in the amount available under our existing share repurchase program and a leveraged recapitalization with a special cash dividend of approximately \$347.1 million in aggregate, which we paid in March 2012 by using approximately \$172.1 million from our existing cash balance and \$175.0 million from a new five-year term loan that is part of the credit facility we finalized in February 2012.

The accompanying reduction in our cash balance may reduce our flexibility to operate our business as we have in the past, including limiting our ability to invest in organic growth of our Company, pursue acquisitions, and repurchase our stock. In addition, the new indebtedness may adversely affect our future cash flow and our ability to pursue our core strategies of strengthening and growing our business, because the incurrence of debt will require us to dedicate a portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of cash flows to fund working capital, capital expenditures, share repurchases, merger and acquisition activities, and other general corporate purposes. The credit facility contains restrictive covenants that impose operating and financial restrictions, including restrictions on our ability to engage in activities and initiatives that we otherwise might decide to pursue. These covenants include, among other things, restrictions on our ability to incur additional debt, engage in certain transactions, and pay additional dividends or make other distributions to our stockholders. The incurrence of debt pursuant to the new credit facility also has required us to incur interest expense charges and other debt related fees that could adversely affect our financial condition and cash flows.

**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 consumables could continue to increase, and opportunities exist for other companies to emerge as potential competitors by developing their own CMP consumables products. Increased competition has and may continue to impact the prices we are able to charge for our CMP consumables 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, which we use for certain of our slurries, or any problem or interruption that may occur during production or delivery of our products, such as weather-related problems or natural disasters, like the March 2011 earthquakes and tsunami in Japan. Our supply chain may also be negatively impacted by unanticipated price increases due to supply restrictions beyond the control of our Company or our raw material suppliers.

We believe it would be difficult to promptly secure alternative sources of key raw materials, such as 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 us and 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, could adversely affect us. For instance, Cabot Corporation continues to be our primary supplier of particular amounts and types of fumed silica, and our current fumed silica supply agreement with Cabot Corporation expires December 31, 2012. While we are in the process of working with Cabot Corporation to negotiate the terms of a new agreement for continued supply of fumed silica, at present such negotiations are not complete and any final terms could have an adverse effect on our business. 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 87% and 86% of our revenue was generated by sales to customers outside of the United States for the nine months ended June 30, 2012 and full fiscal year ended September 30, 2011, 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 also encounter risks that we may not be able to repatriate the earnings from certain of our foreign operations, derive the anticipated tax benefits of our foreign operations or recover the investments made in our foreign operations.

## **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 former litigation between us and DuPont Air Products NanoMaterials (DA Nano), in which the validity of all of our patents at issue in the matter was upheld as further described above in "Legal Proceedings" in this Quarterly Report on 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 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 technologies, assets and companies, either through acquisitions, investments or alliances, in order to supplement our internal growth and development efforts. Acquisitions and investments, involve numerous risks, including the following: difficulties and risks 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 and risks 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, asset acquisition 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 or assets are inherently risky because these businesses or assets may never develop, and we may incur losses related to these investments. In addition, we may be required to impair the carrying value of these 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, in our Engineered Surface Finishes business, we are pursuing other surface modification applications. 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 that could restrict our ability to market our existing products and/or to innovate and develop new products.

**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 \$8.0 million (\$8.2 million par value) at June 30, 2012, which were classified as other long-term assets on our Consolidated Balance Sheet. If current illiquidity in the ARS market does not lessen, if issuers of our ARS are unable to refinance the underlying securities, or 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; changes in our capital management strategy; and trading volume of our common stock.

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

Our certificate of incorporation, our bylaws, and various provisions of the Delaware General Corporation Law may make it more difficult or expensive to effect a change in control of our Company. For instance, 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, 2012	75	\$39.82	-	\$150,000
May 1 through May 31, 2012	299,762	\$33.36	299,762	\$140,000
Jun. 1 through Jun. 30, 2012	-	-	-	\$140,000
Total	299,837	\$33.36	299,762	\$140,000

In November 2010, our Board of Directors authorized a share repurchase program for up to \$125.0 million of our outstanding common stock, which became effective on the authorization date. As of December 13, 2011, we had \$82.9 million remaining under this share repurchase program. In conjunction with our new capital management initiative, on December 13, 2011, our Board of Directors authorized an increase in the amount available under our share repurchase program to \$150.0 million. We repurchased 299,762 shares under this authorization during the fiscal quarter ended June 30, 2012 for a total of \$10.0 million. With this increased authorization, as of June 30, 2012, \$140.0 million remains outstanding under our share repurchase program. Share repurchases are made from time to time, depending on market conditions, in open market transactions, at management's discretion. We fund share purchases under these programs from our available cash balance.

Separate from this share repurchase program, a total of 75 shares were purchased during the third quarter of fiscal 2012 pursuant to the terms of our Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan (EIP) and our 2012 Omnibus Incentive Plan (OIP) as shares withheld from award recipients and to cover payroll taxes on the vesting of shares of restricted stock granted under the EIP and OIP.

**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>
10.62	Form of Cabot Microelectronics Corporation 2012 Omnibus Incentive Plan Non-Qualified Stock Option Grant Agreement (employees (including executive officers)).
10.63	Form of Cabot Microelectronics Corporation 2012 Omnibus Incentive Plan Restricted Stock Award Agreement (employees (including executive officers)).
10.64	Form of Cabot Microelectronics Corporation 2012 Omnibus Incentive Plan Non-Qualified Stock Option Grant Agreement (non-employee directors).
10.65	Form of Cabot Microelectronics Corporation 2012 Omnibus Incentive Plan Restricted Stock Units Award Agreement (non-employee directors).
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.



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## 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 8, 2012

/s/ WILLIAM S. JOHNSON

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

Date: August 8, 2012

/s/ THOMAS S. ROMAN

Thomas S. Roman  
Corporate Controller  
[Principal Accounting Officer]

**Cabot Microelectronics Corporation 2012 Omnibus Incentive Plan  
Non-Qualified Stock Option Grant Agreement  
(United States Employees)**

[Grant Date]

«FIRST\_NAME» «LAST\_NAME»  
«Address\_1»  
«Address\_2», «Address\_3», «Address\_5»

Dear «FIRST\_NAME» «LAST\_NAME»:

Dear \_\_\_\_\_:

I am pleased to inform you (the "Participant") that the Compensation Committee of the Board of Directors (the "Committee") of Cabot Microelectronics Corporation (the "Company") has approved your participation in the Cabot Microelectronics Corporation 2012 Omnibus Incentive Plan (the "Plan"). A Non-Qualified Stock Option ("NQSO") award (the "Award") is hereby granted to the Participant pursuant to the terms of the Plan and this Non-Qualified Stock Option Agreement (the "Agreement"). A copy of the Plan can be electronically accessed through the CMC world directory under "HR Information/Stock/General Plan Information".

PARTICIPANT	Type of Grant	Number of Option Shares Granted	Exercise Price Per Share on [GD, / / ]	Participant ID Number
«FIRST_NAME» «LAST_NAME»	Non-Qualified Stock Option	«APPROVED_GRANT NUMBER»	[fmv/closing price on Grant Date, / / ]	«SOCIAL_SECURITY»
	<b>Grant Date</b>	<b>Expiration Date</b>		<b>Grant Number</b>
	[GD, __/__/____]	[10 yrs from GD, __/__/____]		«GRANT_ID»
		<b>Vesting Dates</b>		
		25%	[1 <sup>st</sup> anniv. GD]	
		25%	[2d anniv. GD]	
		25%	[3d anniv. GD]	
		25%	[4 <sup>th</sup> anniv. GD]	

This Agreement provides the Participant with the terms of the option (the "Option") granted to the Participant. The Option is not intended to qualify as an incentive stock option pursuant to Section 422 of the Internal Revenue Code (the "Code"). The terms specified in this Agreement are governed by the provisions of the Plan, which are incorporated herein by reference. The Committee has the exclusive authority to interpret and apply the Plan and this Agreement. Any interpretation of the Agreement by the Committee and any decision made by it with respect to the Agreement are final and binding on all persons. To the extent that there is any conflict between the terms of this Agreement and the Plan, the Plan shall govern. Capitalized terms used herein will have the same meaning as under the Plan, unless stated otherwise.

In consideration of the foregoing and the mutual covenants hereinafter set forth, it is agreed by and between the Company and the Participant as follows:

1. Vesting and Exercise. The Award shall become vested and exercisable in accordance with the following table:

Installment	Vesting Date Applicable to Installment
25%	[1 <sup>st</sup> anniv. GD]
25%	[2d anniv. GD]
25%	[3d anniv. GD]
25%	[4 <sup>th</sup> anniv. GD]

The Award will be fully vested and exercisable in the event of a Change in Control, as defined in the Plan. In the event of a Change in Control that constitutes a Covered Transaction (as defined in Section 7.3(c) of the Plan), the Committee may, in its sole discretion, terminate any or all outstanding Options as of the effective date of the Covered Transaction; provided that the Committee may not terminate an Option outstanding under this Agreement earlier than twenty (20) days following the later of (i) the date on which the Award became fully exercisable, and (ii) the date on which the Participant received written notice of the Covered Transaction.

Unless otherwise provided in this Agreement or the Plan, if the date of Participant's termination of Service, as defined in the Plan, with the Company precedes the relevant Vesting Date, an installment shall not vest on the otherwise applicable Vesting Date and all Options subject to such installment shall immediately terminate as of the date of such termination of Service.

2. Termination / Cancellation / Rescission. The Company may terminate, cancel, rescind or recover an Award immediately under certain circumstances, including, but not limited to, the Participant's:

- (a) actions constituting Cause, as defined in the Plan and as otherwise enforceable under local law;
- (b) rendering of services for a competitor prior to, or within six (6) months after, the exercise of any Option or the termination of Participant's Service with the Company;

- (c) unauthorized disclosure of any confidential/proprietary information of the Company to any third party;
- (d) failure to comply with the Company's policies regarding the identification, disclosure and protection of intellectual property;
- (e) violation of the Cabot Microelectronics Corporation Employee Confidentiality, Intellectual Property and Non-Competition Agreement;
- (f) violation of the Cabot Microelectronics Corporation Code of Business Conduct, including those provisions related to financial reporting.

In the event of any such termination, cancellation, rescission or revocation, the Participant must return any Stock obtained by the Participant pursuant to the Award, or pay to the Company the amount of any gain realized on the sale of such Stock, and the Company shall be entitled to set-off against the amount of any such gain any amount owed to the Participant by the Company. To the extent applicable, the purchase price for such Stock shall be returned to the Participant, including any withholding requirements.

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3. Purpose of Award. The Award is intended to promote goodwill between the Participant and the Company and shall not be considered as salary or other remuneration for any employment or other services the Participant may perform for the Company or any of its affiliates. The Company's grant of the Option does not confer any contractual or other rights of employment or service with the Company. Benefits granted under the Plan shall not be considered as part of the Participant's salary in the event of severance, redundancy or resignation. Granting of the Award shall also not be construed as creating any right on the part of Participant to receive any additional benefits including awards in the future, it being expressly understood and agreed that any future awards shall be made solely at the discretion of the Company.
4. Expiration. The Option, including vested Options, shall not be exercisable after the Company's close of business on the last business day that occurs on or prior to the Expiration Date. The "Expiration Date" shall be the *earliest* to occur of:
- (a) [Expiration Date: 10 years from GD];
  - (b) If the Participant's termination of Service occurs by reason of death or Disability, the three (3) year anniversary of the date of such termination or the ten (10) year anniversary of the Grant Date, whichever is sooner. In such case of termination of Service occurring by reason of death or Disability, then any unvested portion of the Option shall be fully vested and exercisable as of such date of termination. For purposes hereof, "Disability" shall have the meaning provided under: (i) first, an employment agreement between the Participant and the Company; (ii) second, if no such employment agreement exists, the long-term disability program maintained by the Company or any governmental entity covering the Participant; or (iii) third, if no such agreement or program exists, permanent and total disability within the meaning of Section 22 (e)(3) of the Code;
  - (c) If the Participant's termination of Service occurs by reason of Cause, the date preceding the date of such termination;
  - (d) If the Participant's termination of Service occurs by reason of Change in Control, three (3) months after the date of such termination;
  - (e) If the Participant's termination of Service occurs by reason of Retirement, all Options vested and exercisable as of the date of such termination will remain exercisable until the ten (10) year anniversary of the Grant Date. For purposes hereof, "Retirement" shall mean the termination of the Participant's Service following the Participant's attainment of at least (i) five (5) years of employment with the Company and (ii) fifty-five (55) years of age, *provided, however*, that the Participant's termination of Service will not be deemed to have occurred by reason of Retirement if the Participant's Service has been terminated by reason of Cause, as determined by the Company in its sole discretion; or
  - (f) If the Participant's termination of Service is for any reason other than (b), (c), (d) or (e) above, all Options vested and exercisable as of the date of termination will remain exercisable for one (1) month after the termination date, after which all unexercised Options are terminated.

In the event that the Participant dies on or following the Participant's termination date and prior to the Expiration Date without having fully exercised the Participant's Options, then the authorized representative of the Participant's estate shall be entitled to exercise the Award within such limits specified in subparagraphs (b), (d), (e) or (f).

To the extent that the Participant does not exercise the Option to the extent the Participant is entitled within the time specified in subparagraphs (a), (b), (d), (e) or (f) above, the Option shall immediately terminate.

5. Method of Option Exercise. Subject to the terms of this Agreement and the Plan, the Participant may exercise, in whole or in part, the vested portion of the Option at any time by complying with any exercise procedures established by the Company in its sole discretion. The Participant shall pay the exercise price for the portion of the Option being exercised to the Company in full, at the time of exercise, either:
- (a) in cash;
  - (b) in shares of Stock having a Fair Market Value equal to the aggregate exercise price for the shares of Stock being purchased and satisfying such other requirements as may be imposed by the Committee; provided, that, such shares of Stock have been held by the Participant for no less than six (6) months;
  - (c) partly in cash and partly in such shares of Stock; or
  - (d) through the delivery of irrevocable instructions to a broker to deliver promptly to the Company an amount equal to the aggregate exercise price for the shares of Stock being purchased ("cashless exercise").

Anything to the contrary herein notwithstanding, the Option cannot be exercised and the Company shall not be obligated to issue any shares of Stock hereunder if the Company determines that the issuance of such shares would violate the provision of any applicable law, including the rules and regulations of any securities exchange on which the Stock is traded. Please refer to Section 6.2(d) of the Plan for additional information.

## 6. Taxes.

- (a) All deliveries and distributions under this Agreement are subject to withholding of all applicable taxes based on country specific tax requirement. Please refer to electronic copy of "Taxes" for your individual circumstances based on your location. The various methods and manner by which the tax withholding may be satisfied are set forth in Section 8.4 of the Plan. If the Participant is subject to Section 16 (an "Insider"), of the Securities Exchange Act of 1934 ("Exchange Act") and other securities laws, any surrender of previously owned shares to satisfy tax withholding obligations arising upon exercise of an Option must comply with the requirements of Rule 16b-3 promulgated under the Exchange Act ("Rule 16b-3") and other relevant rules and regulations.

- (b) If the Fair Market Value of a share of stock on the date the Participant exercises the Option is greater than the Exercise Price, the Participant will be taxed on the difference multiplied by the number of shares purchased with cash at the date of exercise. This income is taxed as ordinary income and subject to various withholding taxes. The Company is required to withhold and remit these taxes to the appropriate tax authorities. If the exercise of the Option results in no cash payment to the Participant from which the Company could withhold the income and FICA taxes, the Participant will be required to provide the Company with an amount of cash sufficient to satisfy the Participant's tax withholding obligations or to make arrangements satisfactory to the Company with regard to such taxes, which in most instances can be done through the services provided by a broker. If the Participant does not pay the amount of required withholding to the Company, the Company will withhold from the shares delivered or from other amounts payable to the Participant, the minimum amount of funds required to cover all applicable federal, state and local income and employment taxes required to be withheld by the Company by reason of such exercise of the Option. The income will be reported to the Participant as part of the Participant's employment compensation on the Participant's annual earnings statement.
- (c) If the Participant sells the shares acquired under the Option, a long-term or short-term capital gain or loss may also result depending on: (i) the Participant's holding period for the shares, and (ii) the difference between the Fair Market Value of the shares at the time of the sale and the Participant's tax basis in the shares. The holding period is determined from the date the Option is exercised. Under current law, the capital gain or loss is long term if the property is held for more than one (1) year, and short term if the property is held for less than one (1) year. If the Exercise Price of an Option is paid in cash, the tax basis of the shares thereby acquired is the sum of (i) the Exercise Price paid for the shares, and (ii) the ordinary income, if any, determined by the difference between the Fair Market Value of the shares when exercised and the Exercise Price.

EACH PARTICIPANT IS URGED TO REVIEW THE U.S. TAX COMMUNICATION INFORMATION AND TO CONSULT WITH HIS OR HER OWN TAX ADVISOR TO DETERMINE THE PARTICULAR TAX CONSEQUENCES INCLUDING THE APPLICABILITY AND EFFECT OF FEDERAL, LOCAL AND OTHER TAX LAWS.

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7. Transferability. The Option is not transferable other than: (a) by will or by the laws of descent and distribution; (b) pursuant to a domestic relations order; or (c) to members of the Participant's immediate family, to trusts solely for the benefit of such immediate family members or to partnerships in which family members and/or trusts are the only partners, all as provided under the terms of the Plan. After any such transfer, the Option shall remain subject to the terms of the Plan.
8. Adjustment of Shares. In the event of any transaction described in Section 8.6 of the Plan, the terms of this Option (including, without limitation, the number and kind of shares subject to this Option and the Exercise Price) shall be adjusted as set forth in Section 8.6 of the Plan.
9. Shareholder Rights. Participant shall have no rights as a stockholder with respect to any shares of Stock subject to the Option until the Option is exercised and the shares are issued and transferred on the books of the Company to the Participant. No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to such date, except as provided under the Plan.
10. Data Privacy. In order to perform its requirements under this Plan, the Company may process sensitive personal data about the Participant. Such data includes but is not limited to the information provided in this grant package and any changes thereto, other appropriate personal and financial data about the Participant, and information about the Participant's participation in the Plan and shares exercised under the Plan from time to time. By signing the attached acceptance form, the Participant hereby gives explicit consent to the Company to process any such data. The Participant also hereby gives explicit consent to the Company to transfer any personal data outside the country in which the Participant is employed and to the United States. The legal persons for whom the personal data is intended includes the Company and any of its subsidiaries, the outside plan administrator as selected by the Company from time to time and any other person that the Company may find appropriate in its administration of the Plan. The Participant may review and correct any personal data by contacting his local Human Resources Representative. The Participant understands that the transfer of the information outlined here is important to the administration of the Plan and failure to consent to the transmission of such information may limit or prohibit participation in the Plan.
11. Severability. In the event that any provision of this Agreement is found to be invalid, illegal or incapable of being enforced by any court of competent jurisdiction for any reason, in whole or in part, the remaining provisions of this Agreement shall remain in full force and effect to the fullest extent permitted by law.
12. Waiver. Failure to insist upon strict compliance with any of the terms and conditions of this Agreement or the Plan shall not be deemed a waiver of such term or condition.
13. Notices. Any notices provided for in this Agreement or the Plan must be in writing and hand delivered, sent by fax or overnight courier, or by postage paid first class mail. Notices are to be sent to the Participant at the address indicated by the Company's records and to the Company at its principal executive office.
14. Governing Law. This Agreement shall be construed under the laws of the State of Illinois.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed in its name and on its behalf, all as of the Grant Date.

CABOT MICROELECTRONICS CORPORATION

William P. Noglows  
Chairman and Chief Executive Officer

**Cabot Microelectronics Corporation 2012 Omnibus Incentive Plan  
Restricted Stock Award Agreement  
(United States Employees)**

AWARD DATE

NAME  
ADDRESS  
CITY, STATE ZIP

Dear FIRST NAME:

I am pleased to inform you that the Compensation Committee of the Board of Directors (the "Committee") of Cabot Microelectronics Corporation (the "Company") has approved your participation in the Cabot Microelectronics Corporation 2012 Omnibus Incentive Plan (the "Plan") as a means of allowing you to participate in the success of the Company through ownership of Company common stock ("Stock"). A Restricted Stock Award (the "Award") is hereby awarded to you (the "Participant") pursuant to the terms of the Plan and this Restricted Stock Agreement (the "Agreement"). A copy of the Plan can be electronically accessed through the CMC world directory under "HR Information/Stock/General Plan Information."

Participant	Type of Award	Number of Restricted Shares Awarded	Fair Market Value of Restricted Shares on Date of Award	Participant ID Number
NAME	Restricted Stock	[ ]	\$XX.XX [general: award date (AD) fmv/close price]	[xxx-xx-xxxx]
	<b>Date of Award</b>	<b>Date Restrictions Lapse (Vesting Date(s))</b>	<b>Award Number</b>	
	[award date]	25%1 <sup>st</sup> anniv. AD 25%2 <sup>d</sup> anniv. AD 25%3 <sup>d</sup> anniv. AD 25%4 <sup>th</sup> anniv. AD	[xxxxx]	

This Agreement provides the Participant with the terms of the Award granted to the Participant. The terms specified in this Agreement are governed by the provisions of the Plan, which are incorporated herein by reference. The Committee has the exclusive authority to interpret and apply the Plan and this Agreement. Any interpretation of the Agreement by the Committee and any decision made by it with respect to the Agreement are final and binding on all persons. To the extent that there is any conflict between the terms of this Agreement and the Plan, the Plan shall govern. Capitalized terms used herein will have the same meaning as under the Plan, unless stated otherwise.

In consideration of the foregoing and the mutual covenants hereinafter set forth, it is agreed by and between the Company and the Participant, as follows:

- Vesting Dates and Lapse of Restrictions. The Award shall become vested and the restrictions will lapse in accordance with the following table:

Number of Shares [general]	Vesting Date [general]
25%	[1 <sup>st</sup> anniv. AD]
25%	[2 <sup>d</sup> anniv. AD]
25%	[3 <sup>d</sup> anniv. AD]
25%	[4 <sup>th</sup> anniv. AD]

The Award will be fully vested and all restrictions shall lapse in the event of the Participant's death, Disability or a Change in Control, as defined in the Plan. Upon the Participant's termination of Service, as defined in the Plan, with the Company for any reason other than death or Disability, the Participant shall immediately cease vesting in the Award and the unvested portion of the Award shall be forfeited immediately.

For purposes hereof, "Disability" shall have the meaning provided under: (i) first, an employment agreement between the Participant and the Company; (ii) second, if no such employment agreement exists, the long-term disability program maintained by the Company or any governmental entity covering the Participant; or (iii) third, if no such agreement or program exists, as defined under local law. In addition, for purposes of this Agreement, the Participant's date of termination (for any reason other than death or Disability) shall be the earlier of: (i) the date on which the Participant ceases to render service to or be employed by the Company, as determined by the Company in its sole discretion; (ii) the date on which the Company first provides notice of termination of employment; or (iii) the first date of any statutory notice period provided under local law.

2. Termination / Cancellation / Rescission. The Company may terminate, cancel, rescind or recover the Award immediately under certain circumstances, including, but not limited to, the Participant's:

- (a) actions constituting Cause, as defined in the Plan and as otherwise enforceable under local law;
- (b) rendering of services for a competitor prior to, or within six (6) months after, the exercise of any Award or the termination of Participant's Service with the Company;
- (c) unauthorized disclosure of any confidential/proprietary information of the Company to any third party;
- (d) failure to comply with the Company's policies regarding the identification, disclosure and protection of intellectual property;
- (e) violation of the Cabot Microelectronics Corporation Employee Confidentiality, Intellectual Property and Non-Competition Agreement.
- (f) violation of the Cabot Microelectronics Corporation Code of Business Conduct, including those provisions related to financial reporting.

In the event of any such termination, cancellation, rescission or revocation, the Participant must return any Stock obtained by the Participant pursuant to the Award, or pay to the Company the amount of any gain realized on the sale of such Stock, and the Company shall be entitled to set-off against the amount of any such gain any amount owed to the Participant by the Company. To the extent applicable, the purchase price for such Stock shall be returned to the Participant, including any withholding requirements.

3. Purpose of Award. The Award is intended to promote goodwill between the Participant and the Company and shall not be considered as salary or other remuneration for any employment or other services the Participant may perform for the Company or any of its affiliates. The Company's grant of the Award does not confer any contractual or other rights of employment or service with the Company. Benefits granted under the Plan shall not be considered as part of the Participant's salary in the event of severance, redundancy or resignation. Granting of the Award shall also not be construed as creating any right on the part of Participant to receive any additional benefits including awards in the future, it being expressly understood and agreed that any future awards shall be made solely at the discretion of the Company.
4. Rights and Restrictions Governing Restricted Stock. As of the Date of Award, one or more certificates representing the appropriate number of shares of Stock granted to the Participant shall be registered in the Participant's name but shall be held by the Company for the Participant's account. The Participant shall have all rights of a holder as to such shares of Stock (including, to the extent applicable, the right to receive dividends and to vote), subject to the following restrictions: (a) the Participant has executed a valid stock power on behalf of the Company for such Stock; (b) the Participant shall be entitled to delivery of certificates representing shares of Stock when restrictions lapse; and (c) none of the Stock may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of until the restrictions have lapsed.
5. Delivery of Restricted Stock. As soon as reasonably practicable following the date on which restrictions lapse, one or more stock certificates for the appropriate number of shares of Stock, free of the restrictions set forth in the Agreement, shall be delivered to the Participant or such shares shall be credited to a brokerage account if the Participant so directs; provided however, that such certificates shall bear such legends as the Committee, in its sole discretion, may determine to be necessary or advisable in order to comply with applicable federal and state securities laws.
6. Tax Treatment. The Participant will be taxed on the difference between any purchase price and the Fair Market Value of the Stock on the date the restrictions lapse. This income will be taxed as ordinary income and subject to income and FICA withholding taxes. The Company is required to withhold and remit these taxes to the appropriate tax authorities. The Participant will be required to provide the Company with an amount of cash sufficient to satisfy the Participant's tax withholding obligations or to make arrangements satisfactory to the Company with regard to such taxes. The income will be reported to the Participant as part of the Participant's employment compensation on the Participant's annual earnings statement Form W-2.

The Participant may elect to make an election under Section 83(b) of the Code to have any ordinary income amount taxed currently, before any restrictions lapse. This election must be filed within thirty (30) days of the Date of Award. Attached hereto is a form of election for this purpose.

Under current law, if the Participant sells the Stock acquired under the Award, a long-term or short-term capital gain or loss will result depending on: (a) the holding period for the shares, and (b) the difference between the Fair Market Value of the shares at the time of the sale and the Participant's tax basis in the shares. The holding period is determined from the date the restrictions lapse. Under current law the capital gain or loss is long term if the property is held for more than one (1) year, and short term if the property is held for less than one year. The tax basis of the shares is the sum of (a) any purchase price paid for the shares, and (b) the ordinary income, if any, determined by the difference between the Fair Market Value of the shares when the restrictions lapse or an 83(b) election is made, and any purchase price.

EACH PARTICIPANT IS URGED TO CONSULT WITH HIS OR HER OWN TAX ADVISOR TO DETERMINE THE PARTICULAR TAX CONSEQUENCES INCLUDING THE APPLICABILITY AND EFFECT OF FEDERAL, LOCAL AND OTHER TAX LAWS.

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7. Tax Withholding. All deliveries and distributions under this Agreement are subject to withholding of all applicable taxes. The various methods and manner by which tax withholding may be satisfied are set forth in Section 8.4 of the Plan. If the Participant is subject to Section 16 (an "Insider"), of the Securities Exchange Act of 1934 ("Exchange Act"), any surrender of previously owned shares to satisfy tax withholding obligations arising under an Award must comply with the requirements of Rule 16b-3 promulgated under the Exchange Act ("Rule 16b-3").
8. Transferability. The Award Stock is not transferable other than: (a) by will or by the laws of descent and distribution; (b) pursuant to a domestic relations order; or (c) to members of the Participant's immediate family, to trusts solely for the benefit of such immediate family members or to partnerships in which family members and/or trusts are the only partners, all as provided under the terms of the Plan. After any such transfer, the Award Stock shall remain subject to the terms of the Plan.
9. Adjustment of Shares. In the event of any transaction described in Section 8.6 of the Plan, the terms of this Award (including, without limitation, the number and kind of shares subject to this Award) shall be adjusted as set forth in Section 8.6 of the Plan.
10. Severability. In the event that any provision of this Agreement is found to be invalid, illegal or incapable of being enforced by any court of competent jurisdiction for any reason, in whole or in part, the remaining provisions of this Agreement shall remain in full force and effect to the fullest extent permitted by law.
11. Waiver. Failure to insist upon strict compliance with any of the terms and conditions of this Agreement or the Plan shall not be deemed a waiver of such term or condition.
12. Notices. Any notices provided for in this Agreement or the Plan must be in writing and hand delivered, sent by fax or overnight courier, or by postage paid first class mail. Notices are to be sent to the Participant at the address indicated by the Company's records and to the Company at its principal executive office.
13. Governing Law. This Agreement shall be construed under the laws of the State of Illinois.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed in its name and on its behalf, all as of the Date of Award.

CABOT MICROELECTRONICS CORPORATION  
William P. Noglows

President and Chief Executive Officer

**Cabot Microelectronics Corporation 2012 Omnibus Incentive Plan**  
**[Initial][Annual] Non-Qualified Stock Option Award Agreement for Directors**

[GRANT DATE]

[NAME]

[ADDRESS]

[CITY, STATE, ZIP]

Dear [Director First Name]:

I am pleased to inform you (the "Participant") that the Board of Directors (the "Board") of Cabot Microelectronics Corporation (the "Company"), based on the recommendation of the Nominating and Corporate Governance Committee of the Board, has approved your participation in the Cabot Microelectronics Corporation 2012 Omnibus Incentive Plan (the "Plan") in consideration of your annual service as a Director of the Company. A Non-Qualified Stock Option ("NQSO") award (the "Award") is hereby granted to you pursuant to the terms of the Plan and this NQSO Agreement (the "Agreement"). A copy of the Plan is enclosed.

Participant Name/ ID Number	Type of Award	Number of Option Shares Awarded	Exercise Price Per Share on Grant Date [GD]	
[Director Name]	Non-Qualified Stock Option	[ ]	\$[FMV/closing price on GD] [Annual Meeting [AM] Date for Annual; Date of Election/ Appointment for Initial [DE]]	
	Grant Date	Vesting Date	Expiration Date	Award Number
	[GD] [AM Date for Annual; DE for Initial]	[100% 1st anniversary of GD for annual grant]; [25% GD; 25% 1st anniv. GD 25% 2d anniv. GD 25% 3d anniv. GD for initial grant;]	[Tenth anniversary of GD]	[xxxxx]

This Agreement provides the Participant with the terms of the option (the "Option") granted to the Participant. The Option is not intended to qualify as an incentive stock option pursuant to Section 422 of the Internal Revenue Code. The terms specified in this Agreement are governed by the provisions of the Plan, which are incorporated herein by reference. The Compensation Committee of the Board (the "Committee") has the exclusive authority to interpret and apply the Plan and this Agreement. Any interpretation of the Agreement by the Committee and any decision made by it with respect to the Agreement are final and binding on all persons. To the extent that there is any conflict between the terms of this Agreement and the Plan, the Plan shall govern. Capitalized terms used herein will have the same meaning as under the Plan, unless stated otherwise.

In consideration of the foregoing and the mutual covenants hereinafter set forth, it is agreed by and between the Company and the Participant as follows:

- Vesting and Exercise. The Option shall become vested and exercisable in accordance with the following table:

Installment	Vesting Date Applicable to Installment
[For annual grant, 100%] [For initial grant, 25%] 25% 25% 25%]	[For annual grant, 1st anniversary of GD] [For initial grant, GD] 1st anniv. GD 2d anniv. GD 3d anniv. GD]

Notwithstanding the foregoing, the Option shall become fully vested and exercisable in the event of a Change in Control. In the event of a Change in Control that constitutes a Covered Transaction, the Committee may, in its sole discretion, terminate any or all outstanding portions of the Option as of the effective date of the Covered Transaction, provided that the Committee may not terminate an Option outstanding under this Agreement earlier than twenty (20) days following the later of (a) the date on which the Option became fully exercisable, and (b) the date on which the Participant received written notice of the Covered Transaction.

Unless otherwise provided in this Agreement or the Plan, if the date of Participant's termination of Service as a Director of the Company precedes the relevant Vesting Date, an installment shall not vest on the otherwise applicable Vesting Date and any portion of the Option subject to such

installment shall immediately terminate as of the date of such termination of Service.

2. Termination / Cancellation / Rescission / Recovery / Revocation. The Company may terminate, cancel, rescind, recover, or revoke the Option immediately under certain circumstances, including, but not limited to, the Participant's:

- (a) actions constituting Cause, as defined in the Plan, or the Company's By-laws or Articles of Incorporation, as applicable;
- (b) rendering of services for a competitor prior to, or within six (6) months after, the exercise of any Option or the termination of Participant's Service with the Company;
- (c) unauthorized disclosure of any confidential/proprietary information of the Company to any third party;

In the event of any such termination, cancellation, rescission, recovery, or revocation, the Participant must return any Stock obtained by the Participant pursuant to the Option, or pay to the Company the amount of any gain realized on the sale of such Stock, and the Company shall be entitled to set off against the amount of any such gain any amount owed to the Participant by the Company. To the extent applicable, the Company will refund to the Participant any amount paid for such Stock, including any withholding requirements.

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3. Expiration. The Option, including the vested portion of an Option, shall not be exercisable after the Company's close of business on the last business day that occurs on or prior to the Expiration Date. The "Expiration Date" shall be the *earliest* to occur of:

- (a) The tenth (10th) anniversary of the Grant Date;
- (b) If the Participant terminates Service by reason of Cause, the date preceding the date of such termination;
- (c) If the Participant terminates Service for any reason other than (b) above, any portion of the Option that is vested and exercisable as of the date of termination will remain exercisable until the tenth (10th) anniversary of the Grant Date. In such case of termination of Service as a Director of the Company occurring by reason of death or Disability, then any unvested portion of the Option shall be fully vested and exercisable as of such date of termination. In addition, upon the Participant's termination of Service as a Director of the Company for any reason other than by reason of Cause, death, Disability or a Change in Control, if at such time the Participant has completed at least the equivalent of two full terms as a Director of the Company, as defined in the Company's bylaws, then any unvested portion of the Option shall be fully exercisable as of such date of termination.

In the event that the Participant dies on or following the Participant's termination date and prior to the Expiration Date without having fully exercised the Option, then the authorized representative of the Participant's estate shall be entitled to exercise the Option within such limits specified in subparagraphs (a) or (c).

To the extent that the Participant does not exercise the Option to the extent the Participant is entitled within the time specified in subparagraph (a) or (c) above, the Option shall immediately terminate.

4. Method of Option Exercise. Subject to the terms of this Agreement and the Plan, the Participant may exercise, in whole or in part, the vested portion of the Option at any time by complying with any exercise procedures established by the Company in its sole discretion. The Participant shall pay the exercise price for the portion of the Option being exercised to the Company in full, at the time of exercise, either:

- (a) in cash;
- (b) in shares of Stock having a Fair Market Value equal to the aggregate exercise price for the shares of Stock being purchased and satisfying such other requirements as may be imposed by the Committee; provided, that, such shares of Stock have been held by the Participant for no less than six (6) months;
- (c) partly in cash and partly in such shares of Stock; or
- (d) through the delivery of irrevocable instructions to a broker to deliver promptly to the Company an amount equal to the aggregate exercise price for the shares of Stock being purchased ("cashless exercise").

Anything to the contrary herein notwithstanding, the Option cannot be exercised and the Company shall not be obligated to issue any shares of Stock hereunder if the Company determines that the issuance of such shares would violate the provision of any applicable law, including the rules and regulations of any securities exchange on which the Stock is traded.

#### 5. Taxes.

- (a) All deliveries and distributions under this Agreement are subject to all applicable taxes. As a Director of the Company, the Participant is subject to Section 16 (an "Insider"), of the Securities Exchange Act of 1934 ("Exchange Act"), as well as other relevant securities laws, and any surrender of previously owned shares to satisfy tax withholding obligations arising upon exercise of an Option, or a 'cashless exercise' must comply with the requirements of Rule 16b-3 promulgated under the Exchange Act ("Rule 16b-3"), and other relevant law, regulations and Company guidelines.
- (b) If the Fair Market Value of a share of Stock on the date the Participant exercises the Option is greater than the Exercise Price, the Participant will generally be taxed on the difference multiplied by the number of shares purchased with cash at the date of exercise. This income will be taxed as ordinary income and subject to various taxes. The income will be reported to the Participant as part of the Participant's fees on the Participant's annual Form 1099 issued by the Company.
- (c) If the Participant sells the shares acquired under the Option, a long-term or short-term capital gain or loss may also result depending on: (i) the Participant's holding period for the shares, and (ii) the difference between the Fair Market Value of the shares at the time of the sale and the Participant's tax basis in the shares. The holding period is determined from the date the Option is exercised. Under current law, the capital gain or loss is long term if the property is held for more than one (1) year, and short term if the property is held for less than one (1) year. If the Exercise Price of an Option is paid in cash, the tax basis of the shares thereby acquired is the sum of (1) the Exercise Price paid for the shares, and (2) the ordinary income, if any, determined by the difference between the Fair Market Value of the shares when exercised and the Exercise Price.

EACH PARTICIPANT IS URGED TO CONSULT WITH HIS OWN TAX ADVISOR TO DETERMINE THE PARTICULAR TAX CONSEQUENCES INCLUDING THE APPLICABILITY AND EFFECT OF FEDERAL, LOCAL AND OTHER TAX LAWS.



6. Transferability. The Option is not transferable other than: (a) by will or by the laws of descent and distribution; (b) pursuant to a domestic relations order; or (c) to members of the Participant's immediate family, to trusts solely for the benefit of such immediate family members or to partnerships in which family members and/or trusts are the only partners, all as provided under the terms of the Plan. After any such transfer, the Option shall remain subject to the terms of the Plan.
7. Adjustment of Shares. In the event of any transaction that is a Share Change or a Corporate Transaction, each as described in Section 8.6 of the Plan, the terms of this Option (including, without limitation, the number and kind of shares subject to this Option and the Exercise Price) shall or may be adjusted, as applicable, as set forth in Section 8.6 of the Plan.
8. Not an Employment Contract: Shareholder Rights. The grant of an Option does not confer on the Participant any shareholder rights or any contractual or other rights of service or employment with the Company. The Participant will not have shareholder rights with respect to any shares of stock subject to the Option until the Option is exercised and the shares are issued and transferred on the books of the Company to the Participant. No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to such date, except as provided under the Plan.
9. Severability. In the event that any provision of this Agreement is found to be invalid, illegal or incapable of being enforced by any court of competent jurisdiction for any reason, in whole or in part, the remaining provisions of this Agreement shall remain in full force and effect to the fullest extent permitted by law.
10. Waiver. Failure to insist upon strict compliance with any of the terms and conditions of this Agreement or the Plan shall not be deemed a waiver of such term or condition.
11. Notices. Except as otherwise provided in Section 12, any notices provided for in this Agreement or the Plan must be in writing and hand delivered, sent by fax or overnight courier, or by postage paid first class mail. Notices are to be sent to the Participant at the address indicated by the Company's records and to the Company at its principal executive office.
12. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to the Option or other awards granted to the Participant under the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.
13. Section 409A. The Option is intended to be exempt from the requirements of Section 409A. The Plan and this Agreement shall be administered and interpreted in a manner consistent with this intent. If the Company determines that this Agreement is subject to Section 409A and that it has failed to comply with the requirements of Section 409A, the Company may, at the Company's sole discretion, and without the Participant's consent, amend this Agreement to cause it to comply with Section 409A or be exempt from Section 409A.
14. Governing Law. This Agreement shall be construed under the laws of the [State of Delaware].

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed in its name and on its behalf, all as of the Grant Date.

CABOT MICROELECTRONICS CORPORATION

William P. Noglows  
President and Chief Executive Officer

**Cabot Microelectronics Corporation 2012 Omnibus Incentive Plan**  
**[Initial][Annual] Restricted Stock Unit Award Agreement for Directors**

[AWARD DATE]

[NAME]

[ADDRESS]

[CITY, STATE, ZIP]

Dear [Director First Name]:

I am pleased to inform you (the "Participant") that the Board of Directors (the "Board") of Cabot Microelectronics Corporation (the "Company"), based on the recommendation of the Nominating and Corporate Governance Committee of the Board, has approved your participation in the Cabot Microelectronics Corporation 2012 Omnibus Incentive Plan (the "Plan") in consideration of your annual service as a Director of the Company. A Restricted Stock Unit ("RSU") Award (the "Award") is hereby awarded to you pursuant to the terms of the Plan and this RSU Award Agreement (the "Agreement"). Each RSU represents the right to receive one share of Company common stock ("Stock") on the applicable vesting date pursuant to the Agreement and the Plan. A copy of the Plan is enclosed.

Participant Name/ ID Number	Type of Award	Number of Shares Subject to RSUs	Fair Market Value of Shares Subject to RSUs on Award Date [AD]
[Name] [xxx-xx-xxxx]	Restricted Stock Units	[ ]	\$[FMV/closing price on AD] [Annual Meeting Date for Annual; Date of Election/Appointment [DE] for Initial]
	<b>Award Date</b>	<b>Vesting Date [100% on first anniversary, for annual; equally over 3 yrs., beginning on AD, for initial]</b>	<b>Award Number</b>
	[AD] [Annual Meeting Date for Annual] [DE for Initial]	[100% 1st anniversary of AD for annual award]; [25% AD; 25% 1st anniv. AD 25% 2d anniv. AD 25% 3d anniv. AD for initial award]	[xxxxx]

This Agreement provides the Participant with the terms of the Award granted to the Participant. The terms specified in this Agreement are governed by the provisions of the Plan, which are incorporated herein by reference. The Compensation Committee of the Board (the "Committee") has the exclusive authority to interpret and apply the Plan and this Agreement. Any interpretation of the Agreement by the Committee and any decision made by it with respect to the Agreement are final and binding on all persons. To the extent that there is any conflict between the terms of this Agreement and the Plan, the Plan shall govern. Capitalized terms used herein will have the same meaning as under the Plan, unless stated otherwise.

In consideration of the foregoing and the mutual covenants hereinafter set forth, it is agreed by and between the Company and the Participant, as follows:

1. **Award.** The Award shall become vested and the Participant shall be entitled to receive one share of Stock for each vested RSU in accordance with the following table:

Number of Shares	Vesting Date
[For annual award, 100%] [For initial award, 25%] 25% 25% 25%]	[For annual award, 1st anniversary of AD] [For initial award, AD] 1st anniv. AD 2d anniv. AD 3d anniv. AD]

Notwithstanding the foregoing, the Award shall become fully vested and the Participant shall be entitled to receive one share of Stock for each vested RSU in the event of the Participant's death, Disability or a Change in Control. Upon the Participant's termination of Service as a Director of the Company for any reason other than Cause, death, Disability, or a Change in Control, if at such time the Participant has completed at least the

equivalent of two full terms as a Director of the Company, as defined in the Company's bylaws, the Award shall become fully vested and the Participant shall be entitled to receive one share of Stock for each vested RSU. Otherwise, upon the Participant's termination of Service as a Director of the Company, the Participant shall immediately cease vesting in the Award, and the unvested portion of the Award shall be forfeited immediately.

For purposes hereof, "termination of Service" shall be deemed to occur only if it is a "separation from service" within the meaning of Section 409A.

For purposes hereof, the definition of "Change in Control" shall be deemed modified, only to the extent necessary, to avoid the imposition of an excise tax under Section 409A, to mean a "change in control event" as such term is defined for purposes of Section 409A. For purposes of clarity, if an Award would, for example, vest and be paid on a Change in Control, but payment of such Award would violate the provisions of Section 409A, then the Award shall vest but will not be paid until the Participant experiences a "separation from service" within the meaning of Section 409A.

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2. Termination / Cancellation / Rescission / Recovery / Revocation. The Company may terminate, cancel, rescind, recover, or revoke the Award immediately under certain circumstances, including, but not limited to, the Participant's:

- (a) actions constituting Cause, as defined in the Plan, or the Company's By-laws or Articles of Incorporation, as applicable;
- (b) rendering of services for a competitor prior to, or within six (6) months after, the exercise of any Award or the termination of Participant's Service with the Company; or,
- (c) unauthorized disclosure of any confidential/proprietary information of the Company to any third party.

In the event of any such termination, cancellation, rescission, recovery, or revocation, the Participant must return any Stock obtained by the Participant pursuant to the Award, or pay to the Company the amount of any gain realized on the sale of such Stock, and the Company shall be entitled to set off against the amount of any such gain any amount owed to the Participant by the Company. To the extent applicable, the Company will refund to the Participant any amount paid for such Stock, including any withholding requirements.

3. Rights and Restrictions Governing Underlying Stock. As of the Award Date, and until such time as the Participant becomes vested in a RSU and receives a share of Stock as provided in Section 4 of this Agreement, the Participant shall have no rights of a shareholder (including, to the extent applicable, voting and dividend rights) as to each share of Stock subject to a RSU.
4. Delivery of Stock. As soon as reasonably practicable following each vesting date, one or more stock certificates for the appropriate number of shares of Stock shall be delivered to the Participant or such shares shall be credited to a brokerage account if the Participant so directs; provided however, that such certificates shall bear such legends as the Committee, in its sole discretion, may determine to be necessary or advisable in order to comply with applicable federal and state securities laws.
5. Tax Treatment/Tax Withholding. The Participant will generally be taxed on the Fair Market Value of the shares of Stock subject to the Award on the date(s) such shares of Stock are payable to the Participant according to the vesting terms above. This income will be taxed as ordinary income but will not be subject to any withholding taxes unless required under applicable law. Instead, the Participant is required to pay any applicable taxes to the appropriate tax authorities directly. The income will be reported to the Participant as part of the Participant's fees on the Participant's annual Form 1099 issued by the Company. As a Director of the Company, the Participant is subject to Section 16 (an "Insider"), of the Securities Exchange Act of 1934 ("Exchange Act"), and any surrender of previously owned shares to satisfy tax withholding obligations arising under an Award must comply with the requirements of Rule 16b-3 promulgated under the Exchange Act ("Rule 16b-3"), and any other relevant law, regulations and Company guidelines.
6. Transferability. The Award is not transferable other than: (a) by will or by the laws of descent and distribution; (b) pursuant to a domestic relations order; or (c) to members of the Participant's immediate family, to trusts solely for the benefit of such immediate family members or to partnerships in which family members and/or trusts are the only partners, all as provided under the terms of the Plan. After any such transfer, the Award shall remain subject to the terms of the Plan.
7. Adjustment of Shares. In the event of any transaction that is a Share Change or a Corporate Transaction, each as described in Section 8.6 of the Plan, the terms of this Award (including, without limitation, the number and kind of shares subject to this Award) shall or may be adjusted, as applicable, as set forth in Section 8.6 of the Plan.
8. Not an Employment Contract. The Company's grant of the Award does not confer any contractual or other rights of employment or service with the Company.
9. Severability. In the event that any provision of this Agreement is found to be invalid, illegal or incapable of being enforced by any court of competent jurisdiction for any reason, in whole or in part, the remaining provisions of this Agreement shall remain in full force and effect to the fullest extent permitted by law.
10. Waiver. Failure to insist upon strict compliance with any of the terms and conditions of this Agreement or the Plan shall not be deemed a waiver of such term or condition.
11. Notices. Except as otherwise provided in Section 12, any notices provided for in this Agreement or the Plan must be in writing and hand delivered, sent by fax or overnight courier, or by postage paid first class mail. Notices are to be sent to the Participant at the address indicated by the Company's records and to the Company at its principal executive office.
12. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to the RSUs or other awards granted to the Participant under the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.
13. Section 409A. The RSUs are intended to be exempt from the requirements of Section 409A. The Plan and this Agreement shall be administered and interpreted in a manner consistent with this intent. If the Company determines that this Agreement is subject to Section 409A and that it has failed to comply with the requirements of Section 409A, the Company may, at the Company's sole discretion, and without the Participant's consent, amend this Agreement to cause it to comply with Section 409A or be exempt from Section 409A.
14. Governing Law. This Agreement shall be construed under the laws of the State of Delaware.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed in its name and on its behalf, all as of the Award Date.

CABOT MICROELECTRONICS CORPORATION

William P. Noglows  
President and Chief Executive Officer

**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 8, 2012

/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 8, 2012

/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, 2012 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 8, 2012

/s/ WILLIAM P. NOGLOWS

William P. Noglows  
Chief Executive Officer

Date: August 8, 2012

/s/ WILLIAM S. JOHNSON

William S. Johnson  
Chief Financial Officer

