CABOT MICROELECTRONICS CORPORATION
FOURTH QUARTER FISCAL 2010 CONFERENCE CALL SCRIPT
OCTOBER 28, 2010

This morning we reported results for our fourth quarter of fiscal year 2010, which ended September 30. A copy of our press release is available in the investor relations section of our website, cabotcmp.com, or by calling our investor relations office at 630-499-2600. Today's conference call is being recorded and will be archived for four weeks on our website. The script of this morning's formal comments will also be available there.

Please remember that our discussions today may include "forward-looking statements" that involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from these forward-looking statements. These risk factors are discussed in our SEC filings, including our report filed on Form 10-Q for the third quarter of fiscal 2010, ended June 30, and Form 10-K for the fiscal year ended September 30, 2009. We assume no obligation to update any of this forward-looking information.

I will now turn the call over to Bill Noglows.

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

This morning we announced record financial results for our fourth quarter and full fiscal year 2010. We are delighted to close this terrific fiscal year with a particularly strong fourth quarter, during which we achieved revenue of $110.3 million, which represents our fourth consecutive quarter of record revenue, gross profit margin of 48.7 percent of revenue, and earnings per share of 66 cents. Fiscal 2010 marks our 10th year as a public company and it is very rewarding to report record annual revenue of $408.2 million, gross profit margin of 49.9 percent of revenue, which is our highest annual level since 2003, and record earnings per share of $2.13 for the fiscal year.

You will recall that during the downturn in 2009, the global semiconductor industry was in flux, there were mixed signals as to the pace and timing of a recovery, particularly with the U.S. economy, and there was limited visibility into global semiconductor demand. Despite the uncertain environment, we were able to leverage our business model to manage costs while retaining our intellectual capital, maintain flexibility in our operations and continue to execute against our growth strategies and key initiatives. These actions positioned our company to respond quickly to improving trends and to accelerate out of the downturn. Our record results for fiscal 2010 demonstrate that we were prepared for the upturn in the industry, we were able to successfully respond to the sustained increased demand for our products and we grew our total revenue by 40 percent during the year, which we believe exceeds the semiconductor market growth rate projections of about 30 percent for calendar year 2010.

2010 has been a banner year for the industry relative to last year, and we continue to see a number of positive signs indicating this favorable environment is likely to continue in the near term. Fab utilization is at an all-time high and end-device inventory levels appear to be appropriate. Indications from our customers suggest the current strength in demand that the industry is seeing will continue through the next couple of quarters, subject to the normal seasonal softness the industry typically experiences in the December and March quarters. As I said last quarter, the main factor limiting growth is the capacity constraints of our customers. However, we are starting to see new capacity additions come on-line with certain customers and we expect this trend will continue through 2011.

We believe that the strong results we achieved this fiscal year reflect a consistent focus on our primary strategy to strengthen and grow our core CMP consumables business through the execution of our three strategic initiatives -- Technology Leadership, Operations Excellence and Connecting with Customers. I would now like to review the progress we made in these three areas during 2010.

Starting with our Technology Leadership initiative, we believe that our robust new product pipeline contains high value, improved products that will provide customers with enabling solutions in all major CMP application areas. During the year, we achieved strong revenue growth in our advanced copper and barrier products, which are designed for low cost and high throughput. We also made meaningful progress within our pad business with continued revenue growth, as well as by advancing our next generation tunable D200 pad platform to alpha testing with selected customers. In addition, we recently launched three new CMP polishing pads from our D100 platform that are intended to address customers' specific needs by polishing application. Each of the three new D100 pad products provide enhanced defectivity performance and either a shorter break-in time or longer pad life for advanced copper, tungsten and shallow trench isolation applications.

Next I would like to discuss how our achievements through our Operations Excellence initiative contributed to our solid performance this year. We have now completed the sixth year of our Six Sigma process, which is our vehicle for improving productivity and driving out variation in our products and throughout our supply chain. Once again in fiscal 2010, we achieved improvements in manufacturing yields for our slurry products and further optimized our manufacturing capacity. With the benefit of strong demand and high production levels, we achieved a record level of productivity improvement in fiscal 2010. Additionally, over the past six years, we have reduced product variation by more than 90 percent.

Our customers continue to recognize our strong performance and support by way of supplier awards. Over the past year, we have received a number of prestigious and highly selective awards of which we are extremely proud. Our most recent accomplishment was receiving the "Best in Value" Supplier Appreciation Award from Samsung Electronics in August in recognition of our outstanding support and contributions. Cabot Microelectronics was one of only four suppliers to receive this award from Samsung. This award, along with other noteworthy awards we received this year, such as the Supplier Award from TSMC, UMC's "Outstanding Supplier" award and Intel's Preferred Quality Supplier award, reflect both our efforts to strive for excellence, as well as the strong partnerships we have with our customers. We believe that we are the only CMP consumables supplier to have received awards from all four of these leading semiconductor companies during the year.

Finally, we continue to make progress on our third key initiative, Connecting with Customers. As the leading CMP slurry provider, with extensive breadth and depth of CMP knowledge, our goal is to be the trusted partner and value-added resource for our customers with respect to their CMP processes. We are using our global technical support capabilities and product offerings to become a more solutions-centric, rather than product-centric, supplier to our customers. As a result, we were actively engaged this year with our customers to provide solutions that meet their specific needs. We not only participated in a number of joint Six Sigma projects with our customers in an effort to help them reduce variation in their processes, we also worked closely with customers to develop and evaluate customized, new products that could optimize their performance. In addition, as we mentioned last quarter, we are utilizing our clean room facilities across the world to enable our customers to test and evaluate our new products on their wafers while their production capacity is constrained. We view our ability to provide this service to our customers as a distinct advantage that differentiates us from many of our competitors within the CMP space.

We also continued to expand our infrastructure in the Asia Pacific region during 2010. We completed the scheduled second closing of the two step acquisition of Epoch Material Company in August and now own 100 percent of the company. In addition, in late September we entered into a non-binding Memorandum of Understanding, or MOU, with the Gyeonggi Province of South Korea to establish manufacturing and research and development capabilities there. The MOU reflects a potential aggregate investment by the Company of approximately $10 million in the province. We have long had a strong sales presence in South Korea, but this MOU represents a first step toward building expanded capabilities to better serve the needs our advanced memory customers there.

Concluding my remarks today, we are very pleased with the progress we have made on our strategies and key initiatives, which we believe has resulted in our strong financial performance this fiscal year and has positioned us well for the future. We are optimistic about the near term outlook of the semi-conductor industry and we look forward to continuing to partner with our customers to pursue new opportunities that will strengthen our competitive standing and grow our company.

We plan to continue to execute on our primary strategy of strengthening and growing our core CMP consumables business in fiscal 2011. We are committed to developing and providing high quality, value driven CMP consumable products and solutions to our customers. We also intend to continue to evaluate acquisitions that exhibit a high degree of strategic fit with our company, leverage our existing global infrastructure, and enhance our product offerings to customers.

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

Thanks, Bill

Revenue for the fourth quarter of fiscal 2010 was a record $110.3 million, which was up by 14.3 percent from the fourth quarter of fiscal 2009 and up 8.5 percent from the prior quarter. The increase in revenue from the same quarter last year primarily reflects improved economic and industry conditions. Compared to the prior quarter, sales increased in all of our business areas and across all geographies, on continued strong demand for our products and typical seasonal strength.
Total revenue for the full fiscal year was $408.2 million, which represents a 40.1 percent increase from fiscal year 2009 and a record level for our company.

Drilling down into revenue by business area, Tungsten slurries contributed 36.6 percent of total quarterly revenue, with revenue up 20.7 percent from the same quarter a year ago and up 12.2 percent sequentially. For the full year, Tungsten slurry revenue increased by 32.7 percent.

Sales of Copper products represented 19.1 percent of our total revenue which increased 14.8 percent from the same quarter last year and increased 8.4 percent sequentially. For the full year, our Copper product revenue increased by 53.9 percent, including a full year impact of our Epoch acquisition in fiscal year 2010, versus only seven months in the prior year. Included in our Copper business is our Barrier removal product line, revenue from which increased by 46.3 percent in fiscal 2010 compared to fiscal 2009.

Dielectric slurries provided 28.7 percent of our revenue this quarter, with sales up 12.2 percent from the same quarter a year ago and up 3.8 percent sequentially. For the full year, Dielectric slurry revenue increased by 37.0 percent.

Sales of polishing pads represented 7.5 percent of our total revenue for the quarter; and increased 26.5 percent from the same quarter last year and 5.4 percent sequentially. For the full year, polishing pad revenue was up by 68.9 percent, as volume from past wins continued to ramp, and we achieved additional application wins with new and existing customers.

Data Storage products represented 4.4 percent of our quarterly revenue; this revenue was down 10.6 percent from the same quarter last year and up 2.2 percent sequentially. For the full year, revenue for data storage slurries increased by 34.0 percent.

Finally, revenue from our Engineered Surface Finishes, or ESF business, which includes QED, generated 3.7 percent of our total sales. Our ESF revenue was down 9.1 percent from the same quarter last year and up 31.1 percent sequentially. For the full year, ESF revenue increased by 39.5 percent.

Our gross profit this quarter represented 48.7 percent of revenue, compared to 48.4 percent in the same quarter last year and 49.1 percent in the previous quarter. Compared to the year ago quarter, gross profit percentage increased primarily due to a higher valued product mix and increased utilization of our manufacturing capacity on higher demand, partially offset by higher fixed costs and unfavorable foreign exchange effects. The decrease in gross profit percentage versus the previous quarter was primarily due to the timing of unfavorable production related variances and unfavorable foreign exchange effects. This decrease was largely offset by benefits of increased utilization of our manufacturing capacity and a higher valued product mix. We have mentioned in the past that a shift in our product mix can move our gross profit margin by a percentage point or so.

For the full fiscal year, gross profit represents 49.9 percent of revenue, which was up from 44.1 percent last year, primarily due to significantly higher sales volume and benefits of higher utilization of our manufacturing capacity, partially offset by higher fixed costs and unfavorable foreign exchange effects. Our 49.9 percent gross profit margin represents the highest full year gross profit level we have achieved since fiscal 2003, and is near the upper end of our full year guidance range of 46 to 50 percent of revenue. For fiscal 2011, we expect our gross profit to be within the range of 48 and 50 percent of revenue for the full fiscal year.

Now I'll turn to operating expenses, which include research, development and technical, selling and marketing, and general and administrative costs. Operating expenses this quarter of $32.7 million were $4.7 million higher than the $28.0 million reported in the same quarter a year ago. This increase was primarily driven by higher variable incentive compensation expense, travel expenses and professional fees, including costs to enforce our intellectual property. Operating expenses were $1.8 million lower than the $34.5 million reported in the previous quarter, mostly due to lower professional fees, including costs to enforce our intellectual property, and lower staffing related costs, partially offset by higher travel expense. For the full fiscal year, total operating expenses were $129.5 million, which was $17.1 million higher than the $112.4 million in fiscal year 2009, primarily due to higher expenses associated with variable incentive compensation, professional fees, including costs to enforce our intellectual property, and travel expenses.

Looking forward, we expect our operating expenses for full fiscal year 2011 to be in the range of $125 million to $130 million. This reduction versus fiscal 2010 represents expected lower IP litigation costs, and lower variable incentive compensation expense.

Diluted earnings per share were 66 cents this quarter, including approximately 9 cents associated with a significantly lower effective tax rate for the fourth fiscal quarter. The lower tax rate this quarter and for the fiscal year is associated with the company's assertion of the permanent investment of earnings from some of our foreign operations outside the U.S., rather than repatriating the earnings to the U.S. Our earnings per share this quarter were up from 52 cents in the fourth quarter of 2009, and up from 43 cents reported in the previous quarter. Diluted earnings per share for the full year were $2.13, which is up from 48 cents in fiscal 2009. Our earnings per share this year represent a record for the company, and are approximately 13 percent higher than the previous record in fiscal 2004.

Turning now to cash and balance sheet related items, capital additions for the quarter were $3.5 million, bringing our full year capital spending to $11.7 million. For fiscal 2011, we expect capital spending to be around $25 million, including our planned investment in South Korea to add local manufacturing and research and development capability. Depreciation and amortization expense for the quarter was

$6.2 million and share-based compensation expense was $2.7 million. In addition, we purchased $15 million of our stock during the quarter. We ended the quarter with a cash balance of slightly over $254 million and have no debt outstanding.

I'll conclude my remarks with a few comments on recent sales and order patterns.

Examining revenue patterns within the three months of our fourth fiscal quarter, we saw demand for our CMP consumables products remain relatively constant in July, August and September, with a spike in revenue from our QED business in September. As we observe orders for our CMP consumables products received to date in October that we expect to ship by the end of the month, we see October results trending roughly in line with the rate we saw in the three months of our fourth fiscal quarter of 2010. However, I would caution, as I always do, that several weeks of CMP related orders out of a quarter represent only a limited window on full quarter results.

Thank you for your time this morning and your interest in Cabot Microelectronics