

Cabot Microelectronics Corporation
2010 Third Fiscal Quarter Earnings Report
July 22, 2010

Good morning. With me today are Bill Noglows, Chairman and CEO, and Bill Johnson, Chief Financial Officer.

This morning we reported results for our third quarter of fiscal year 2010, which ended June 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. In addition, I'd like to remind you that we held an Investor Day event in June, and the presentation and webcast from that event are also available in the investor relations section of our website. These items provide a wealth of updated company and industry information.

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 second quarter of fiscal 2010, ended March 31, 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, Amy. Good morning, everyone, and thanks for joining us.

This morning we reported our third consecutive quarter of record revenue, totaling \$101.7 million, which represents the first time that our company has exceeded \$100 million in quarterly revenue. Additionally, we reported gross profit margin of 49.1 percent of revenue, reflecting solid utilization of our manufacturing capacity, successful execution of productivity initiatives, disciplined pricing strategy and continued growth in our CMP pad business. For the quarter, we reported EPS of 43 cents, which includes higher operating expenses, which we pre-announced last week. The increase in operating expenses was primarily driven by higher costs related to our patent enforcement litigation with DuPont Air Products NanoMaterials, or DA NanoMaterials, in which the validity of our patents was upheld.

As we consider the current semiconductor industry outlook, we are seeing a number of continued positive signs. Near term outlooks provided by our global customers remain strong. There is evidence of corporate IT spending increasing, semiconductor device inventories are at low to normal levels and we are entering a seasonally strong period of the year. In our view, the current bottleneck on near term industry growth is our customers' ability to add capacity to meet current and future demand. We believe that

our customers' production capacity is operating at very high utilization levels and they are optimizing current capacity as much as possible. That said, our customers are reacting swiftly, and we are seeing new capacity additions come on-line at certain customers, and expect this trend to continue and to accelerate into 2011.

Addressing company related matters, we spend approximately \$50 million a year on R and D and technical support to maintain our Technology Leadership. Through these investments, we have created a solid pipeline of innovative new or improved products, and we have built a strong intellectual property portfolio of approximately 750 patents worldwide. Recently, we completed a jury trial in connection with our patent enforcement litigation against DA NanoMaterials. We were pleased that the validity of all of our patents at issue was upheld; these are foundational patents in the field of tungsten CMP and other CMP polishing applications. This is important because we believe the rigorous testing of these patents through the U.S. judicial process has increased the strength of our intellectual property and our ability to enforce the IP worldwide. However, we were disappointed that the jury did not find that DA NanoMaterials' products at issue in the case infringe on our patents, and we are considering an appeal of the jury's verdict on this point.

Notwithstanding this patent enforcement litigation, we expect our tungsten business to remain strong, and we believe that our customers fully understand and appreciate the value we bring to them with our products which provide consistent, reliable performance day after day, year after year. Our experience with tungsten CMP is unmatched in the industry, and our products are backed with our world-wide technical support, supply chain and quality infrastructure.

Turning now to progress on our Operations Excellence initiative, we continued to achieve strong gross profit margin performance this quarter. Our ongoing efforts to improve productivity and drive out variation throughout our operations have contributed to our strong performance. As discussed at our Investor Day last month, we are on track to achieve a record level of productivity improvement in fiscal 2010, and over the past six years our product variation has been reduced by more than 90 percent.

In addition, we believe we are achieving differentiation through robust quality and supply chain management, and our customers continue to recognize our strong operational performance by selecting us for their supplier awards. In May, we were one of only 17 companies out of thousands of suppliers to UMC to be honored with its Outstanding Supplier award for 2009. In addition to demonstrating our commitment to providing innovative, high quality products to our customers, we believe supplier awards like this help us win business with others when they see our consistent, proven track record with top tier semiconductor manufacturers.

Finally, we continue to make progress on our third key initiative, Connecting with Customers. We are leveraging our world-wide technical capabilities and cultivating collaboration to become more of a "solutions" provider to our customers. For example,

we have strategically located clean room facilities in the U.S., Japan and Taiwan, which we are utilizing to team with our customers and assist them with their evaluation of our new CMP solutions. Recently, our clean rooms have become increasingly busy as more and more of our customers are requesting time at our facilities to perform demos of our new CMP products on their wafers. We believe this represents an important competitive advantage within an environment in which our customers' tool time availability is limited due to strong demand. We are pleased to partner with our customers in this fashion to facilitate continued progress on new product and process evaluations.

We have also made excellent progress building on and extending customer engagements within our CMP polishing pad business. We continue the alpha testing of our new tunable D200 pad platform, and we also have customers evaluating new products within our D100 pad product portfolio. For example, we have customers evaluating a new D100 pad, which is designed to meet the demanding needs of copper polishing processes down to the 28 nanometer node. We have also introduced an extended life D100 pad for tungsten applications, which has been shown to successfully polish wafers up to one and a half times longer than our previous D100 pad, which already provided a longer pad life than competitive offerings. We continue to have confidence in our growing pad business, and believe we have the products and customer engagements necessary to grow this business over the long term.

Closing my remarks this morning, we are very pleased with our recent financial and operational performance. With respect to fiscal 2010, we are tracking toward record revenue and earnings for our company. Clearly we are benefitting from a stronger demand environment, but we are also realizing results from the investments we have made globally over the past decade, including the execution of our strategic initiatives and acquisitions. These investments have strengthened our competitive positioning and have made us a stronger, highly valued partner to our global customers. Ultimately, we are well positioned to take advantage of what appears to be a robust outlook for the semiconductor industry.

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

Thanks, Bill, and good morning everyone.

Revenue for the third quarter of fiscal 2010 was a record \$101.7 million, which was up by 17.6 percent from the third quarter of fiscal 2009 and up 3.1 percent from the prior quarter. This increase in revenue from the same quarter last year primarily reflects improved economic and industry conditions. Compared to the prior quarter, sales increased on continued strong demand for our products and typical seasonal strength.

Drilling down into revenue by business area, Tungsten slurries contributed 35.4 percent of total quarterly revenue, with revenue up 9.9 percent from the same quarter a year ago and up 1.6 percent sequentially.

Sales of Copper products represented 19.1 percent of our total revenue, and increased 30.1 percent from the same quarter last year, and 6.8 percent sequentially. Included in our copper business is our barrier removal product line, revenue from which increased by 30.8 percent from the same quarter a year ago and 12.8 percent sequentially.

Dielectric slurries provided 30.0 percent of our revenue this quarter, with sales up 15.3 percent from the same quarter a year ago and up 7.4 percent sequentially.

Sales of polishing pads represented 7.7 percent of our total revenue for the quarter; and increased 48.7 percent from the same quarter last year and 8.4 percent sequentially.

Data Storage products represented 4.7 percent of our quarterly revenue; this revenue was up 13.1 percent from the same quarter last year and down 4.9 percent sequentially.

Finally, revenue from our Engineered Surface Finishes, or ESF business, which includes QED, generated 3.1 percent of our total sales, and our ESF revenue was up 11.4 percent from the same quarter last year and down 27.4 percent sequentially.

Our gross profit this quarter represented 49.1 percent of revenue, compared to 46.6 percent in the same quarter last year and 50.2 percent in the previous quarter. Compared to the year ago quarter, gross profit percentage increased primarily due to increased utilization of our manufacturing capacity on higher demand, partially offset by higher fixed costs. The decrease in gross profit percentage versus the previous quarter was primarily due to a lower 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.

Year to date, gross profit represents 50.3 percent of revenue, the highest year to date level that we have achieved since fiscal 2003, and is slightly above the upper end of our full year guidance range of 46 to 50 percent of revenue. For the full fiscal year, we continue to expect to achieve gross profit margin around the upper end of this guidance range.

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 \$34.5 million were \$9.5 million higher than the \$25.1 million reported in the same quarter a year ago. This increase was primarily driven by higher accruals for our variable incentive compensation program, professional fees, including costs to enforce our intellectual property, other staffing related costs and higher travel expenses.

Operating expenses were \$2.4 million higher than the \$32.1 million reported in the previous quarter, mostly due to higher costs to enforce our intellectual property. In total, we spent approximately \$3.7 million in the third fiscal quarter of 2010 to enforce our intellectual property against DA NanoMaterials. Following the jury trial which was completed on July 8, we expect our litigation costs to decrease significantly in the future.

Year to date, total operating expenses were \$96.8 million, and as we announced in our July 13th press release, we now expect our full year operating expenses to exceed our previous guidance range of \$120 million to \$125 million for fiscal 2010.

Diluted earnings per share were 43 cents this quarter, up from 39 cents in the third quarter of 2009, and down from 47 cents reported in the previous quarter. Note that litigation costs reduced our third quarter diluted earnings per share by 10 cents.

Turning now to cash and balance sheet related items, capital additions for the quarter were \$2.8 million, depreciation and amortization expense was \$6.2 million and share-based compensation expense was \$2.6 million. In addition, we repurchased \$10 million of our stock during the quarter. We ended the quarter with a cash balance of slightly over \$250 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 third fiscal quarter, we saw demand in June increase significantly from the first two months of the quarter. This is similar to our monthly demand pattern within the March quarter. As we observe orders for our CMP consumables products received to date in July that we expect to ship by the end of the month, we see July results trending somewhat below the rate we saw in the month of June. 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.

As I mentioned earlier, our Investor Day, the presentation and archived webcast are available in the Investor Relations section of our website. I encourage you to take a look at this recent material since it contains information and analysis that will likely add to your understanding of our company.

We look forward to the next opportunity to speak with you.