

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

DECEMBER 31, 2010

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 January 31, 2011, the Company had 23,245,327 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)**

	<b>Three Months Ended</b>	
	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
	<u>          </u>	<u>          </u>
Revenue	\$ 114,205	\$ 97,672
Cost of goods sold	<u>56,774</u>	<u>47,264</u>
Gross profit	57,431	50,408
Operating expenses:		
Research, development and technical	13,856	12,581
Selling and marketing	7,480	6,322
General and administrative	<u>11,676</u>	<u>11,245</u>
Total operating expenses	<u>33,012</u>	<u>30,148</u>
Operating income (loss)	24,419	20,260
Other income (expense), net	<u>(935)</u>	<u>61</u>
Income before income taxes	23,484	20,321
Provision for income taxes	<u>6,992</u>	<u>7,197</u>
Net income	<u>\$ 16,492</u>	<u>\$ 13,124</u>
Basic earnings per share	<u>\$ 0.73</u>	<u>\$ 0.57</u>
Weighted average basic shares outstanding	<u>22,710</u>	<u>23,167</u>
Diluted earnings per share	<u>\$ 0.71</u>	<u>\$ 0.56</u>
Weighted average diluted shares outstanding	<u>23,131</u>	<u>23,294</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)**

	<b>December 31,</b>	<b>September</b>
	<b>2010</b>	<b>30, 2010</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 262,951	\$ 254,164
Accounts receivable, less allowance for doubtful accounts of \$1,150 at December 31, 2010, and \$1,121 at September 30, 2010	62,740	57,456
Inventories	54,246	51,896
Prepaid expenses and other current assets	11,721	13,973
Deferred income taxes	4,369	3,540
Total current assets	396,027	381,029
Property, plant and equipment, net	115,857	115,811
Goodwill	42,758	40,436
Other intangible assets, net	17,130	17,089
Deferred income taxes	3,423	8,044
Other long-term assets	9,643	9,347
Total assets	<u>\$ 584,838</u>	<u>\$ 571,756</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 16,530	\$ 17,521
Capital lease obligations	983	1,296
Accrued expenses, income taxes payable and other current liabilities	20,208	34,513
Total current liabilities	37,721	53,330
Capital lease obligations	9	12
Other long-term liabilities	4,358	4,071
Total liabilities	42,088	57,413
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common Stock: Authorized: 200,000,000 shares, \$0.001 par value; Issued: 26,954,240 shares at December 31, 2010, and 26,384,715 shares at September 30, 2010	27	26
Capital in excess of par value of common stock	244,244	228,103
Retained earnings	400,259	383,767
Accumulated other comprehensive income	25,669	18,538
Treasury stock at cost, 3,728,363 shares at December 31, 2010, and 3,446,069 shares at September 30, 2010	(127,449)	(116,091)
Total stockholders' equity	542,750	514,343
Total liabilities and stockholders' equity	<u>\$ 584,838</u>	<u>\$ 571,756</u>

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

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

	<b>Three Months Ended December</b>	
	<b>31,</b>	
	<b>2010</b>	<b>2009</b>
Cash flows from operating activities:		
Net income	\$ 16,492	\$ 13,124
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,054	6,373
Provision for doubtful accounts	31	19
Share-based compensation expense	3,429	3,311
Deferred income tax benefit	473	(368)
Non-cash foreign exchange (gain) loss	(532)	652
Loss on disposal of property, plant and equipment	17	52
Other	1,034	35
Changes in operating assets and liabilities:		
Accounts receivable	(4,491)	2,818
Inventories	(1,635)	464
Prepaid expenses and other assets	3,587	90
Accounts payable	(1,412)	(2,644)
Accrued expenses, income taxes payable and other liabilities	(14,506)	3,266
Net cash provided by operating activities	<u>8,541</u>	<u>27,192</u>
Cash flows from investing activities:		
Additions to property, plant and equipment	(3,289)	(833)
Proceeds from sales of property, plant and equipment	1	-
Purchase of patents	-	(115)
Net cash used in investing activities	<u>(3,288)</u>	<u>(948)</u>
Cash flows from financing activities:		
Repurchases of common stock	(11,358)	(751)
Net proceeds from issuance of stock	13,507	90
Windfall tax benefits associated with share-based compensation expense	591	-
Principal payments under capital lease obligations	(316)	(295)
Net cash provided by (used in) financing activities	<u>2,424</u>	<u>(956)</u>
Effect of exchange rate changes on cash	1,110	(430)
Increase in cash and cash equivalents	8,787	24,858
Cash and cash equivalents at beginning of period	254,164	199,952
Cash and cash equivalents at end of period	<u>\$ 262,951</u>	<u>\$ 224,810</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	\$ 1,030	\$ 564
Issuance of restricted stock	6,005	4,478

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

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

**1. BACKGROUND AND BASIS OF PRESENTATION**

Cabot Microelectronics Corporation ("Cabot Microelectronics", "the Company", "us", "we" or "our") supplies high-performance polishing slurries and pads used in the manufacture of advanced integrated circuit (IC) devices within the semiconductor industry, in a process called chemical mechanical planarization (CMP). CMP polishes surfaces at an atomic level, thereby enabling IC device manufacturers to produce smaller, faster and more complex IC devices with fewer defects. We 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, 2010.

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 December 31, 2010, cash flows for the three months ended December 31, 2010, and December 31, 2009, and results of operations for the three months ended December 31, 2010, and December 31, 2009. The results of operations for the three months ended December 31, 2010 may not be indicative of results to be expected for future periods, including the fiscal year ending September 30, 2011. 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, 2010. Certain reclassifications of prior fiscal year cash flow amounts have been made to conform to the current period presentation.

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 December 31, 2010.

**Results of Operations**

The results of operations for the quarter ended December 31, 2010 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. Collectively, these adjustments reduced net income for the first quarter of fiscal 2011 by \$1,710 and diluted earnings per share by approximately \$0.08. These adjustments relate 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.

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

**2. FAIR VALUE OF FINANCIAL INSTRUMENTS**

On October 1, 2008, we adopted various accounting standards issued by the Financial Accounting Standards Board (FASB) for the fair value measurement of all financial assets and financial liabilities. These standards established a common definition for fair value in generally accepted accounting principles, established a framework for measuring fair value and expanded disclosure about such fair value measurements. These standards also clarified the application of fair value measurement in an inactive market and illustrated how an entity would determine fair value when the market for a financial asset is not active. These standards allow measurement at fair value of eligible financial assets and financial liabilities that are not otherwise measured at fair value on an instrument-by-instrument basis (the “fair value option”). We did not elect the fair value option for any financial assets or financial liabilities that were not previously required to be measured at fair value under other generally accepted accounting principles. On October 1, 2009, we adopted the accounting provisions that relate to non-financial assets and non-financial liabilities. We did not elect the fair value option for any non-financial assets or non-financial liabilities that were not previously required to be measured at fair value under other generally accepted accounting principles. The adoption of these new provisions did not have a material impact on our results of operations, financial position or cash flows.

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. Effective April 1, 2009, we adopted new fair value standards issued by the FASB which require disclosures about fair value of financial instruments in interim reporting periods as well as in annual financial statements and require fair value disclosures in summarized financial information at interim periods.

The following table presents assets that we measured at fair value on a recurring basis at December 31, 2010 and September 30, 2010. As permitted under the relevant standards, we have chosen to not measure any of our liabilities at fair value as we believe our liabilities approximate their fair value due to their short-term, highly liquid characteristics. 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.

December 31, 2010	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	\$ 262,951	\$ -	\$ -	\$ 262,951
Auction rate securities (ARS)	-	-	8,066	8,066
<b>Total</b>	<b>\$ 262,951</b>	<b>\$ -</b>	<b>\$ 8,066</b>	<b>\$ 271,017</b>

September 30, 2010	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	\$ 254,164	\$ -	\$ -	\$ 254,164
Auction rate securities (ARS)	-	-	8,066	8,066
<b>Total</b>	<b>\$ 254,164</b>	<b>\$ -</b>	<b>\$ 8,066</b>	<b>\$ 262,230</b>

**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 recorded amounts of cash, accounts receivable and accounts payable approximate their fair values due to their short-term, highly liquid characteristics. The fair value of our long-term ARS is determined through 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.

Effective April 1, 2009, we adopted accounting standards issued by the FASB regarding the classification and valuation of financial instruments, including the recognition and presentation of other-than-temporary impairments for investment securities we own and the determination of fair value of financial instruments when the volume of trading activity significantly decreases. A debt security is considered to be impaired when the fair value of the debt security is less than its amortized cost at the balance sheet date. An other-than-temporary impairment must be recorded when a credit loss exists; that is when the present value of the expected cash flows from a debt security is less than the amortized cost basis of the security. An impairment is considered to be other-than-temporary when: 1) an entity intends to sell a debt security that is impaired; 2) when it is more likely than not that an entity will be required to sell the security before the recovery of its amortized cost basis; or 3) when a credit loss exists. An entity must recognize an impairment related to any of the three of these circumstances currently in earnings.

We applied these standards to the valuation of our investment in ARS at December 31, 2010. Our ARS investments at December 31, 2010 consisted of two tax exempt municipal debt securities with a total par value of \$8,300. 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. There were no changes in the estimated fair value of our ARS during the three months ended December 31, 2010.

Based on our fair value assessment, we determined that one ARS continues to be impaired as of December 31, 2010. This security has a fair value of \$3,116 (par value \$3,350). 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 first recorded in fiscal 2008. 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, 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 December 31, 2010. See Note 5 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. INVENTORIES

Inventories consisted of the following:

	<u>December 31,</u> <u>2010</u>	<u>September 30,</u> <u>2010</u>
Raw materials	\$ 23,720	\$ 23,542
Work in process	3,255	3,189
Finished goods	<u>27,271</u>	<u>25,165</u>
Total	<u>\$ 54,246</u>	<u>\$ 51,896</u>

The increase in inventory from September 30, 2010 was primarily due to the increased level of demand for our products during the first quarter of fiscal 2011.

### 4. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill was \$42,758 as of December 31, 2010, and \$40,436 as of September 30, 2010. The increase in goodwill was due to foreign exchange fluctuation 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. We have consistently determined the fair value of our reporting units using a discounted cash flow analysis of our projected future results. 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 2010 and concluded that no impairment existed. There were no indicators of potential impairment during the quarter ended December 31, 2010, so we did not 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>December 31, 2010</u>		<u>September 30, 2010</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	\$ 8,403	\$ 3,213	\$ 8,206	\$ 2,926
Acquired patents and licenses	8,115	6,213	8,115	6,135
Trade secrets and know-how	2,550	2,550	2,550	2,550
Distribution rights, customer lists and other	12,640	3,792	11,939	3,300
Total other intangible assets subject to amortization	<u>31,708</u>	<u>15,768</u>	<u>30,810</u>	<u>14,911</u>
Total other intangible assets not subject to amortization*	<u>1,190</u>		<u>1,190</u>	
Total other intangible assets	<u>\$ 32,898</u>	<u>\$ 15,768</u>	<u>\$ 32,000</u>	<u>\$ 14,911</u>

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

Amortization expense on our other intangible assets was \$662 and \$594 for the three months ended December 31, 2010 and 2009, 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 2011	\$ 2,052
2012	2,703
2013	2,536
2014	2,491
2015	2,450

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

## 5. OTHER LONG-TERM ASSETS

Other long-term assets consisted of the following:

	<u>December 31,</u> <u>2010</u>	<u>September 30,</u> <u>2010</u>
Long-term investments	\$ 8,066	\$ 8,066
Other long-term assets	1,577	1,281
Total	<u>\$ 9,643</u>	<u>\$ 9,347</u>

As discussed in Note 2 of this Form 10-Q, our two ARS that we owned as of December 31, 2010 are classified as long-term investments. The securities are credit enhanced with bond insurance to a 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 recognized as of September 30, 2010. We assessed the impairment and determined that the impairment was temporary as it was related to the illiquid ARS market rather than credit risk. In addition, we continue to believe this decline in fair value is temporary based on the nature of the underlying debt, the presence of bond insurance, our expectation that the issuer may refinance its debt, the fact that all interest payments have been received, and our intention not to sell the security nor be required to sell the security until the value recovers, which may be at maturity, given our current cash position, our expected future cash flow, and our unused debt capacity.

## 6. ACCRUED EXPENSES, INCOME TAXES PAYABLE AND OTHER CURRENT LIABILITIES

Accrued expenses, income taxes payable and other current liabilities consisted of the following:

	<u>December 31,</u> <u>2010</u>	<u>September 30,</u> <u>2010</u>
Accrued compensation	\$ 10,545	\$ 25,752
Goods and services received, not yet invoiced	4,781	4,359
Warranty accrual	336	375
Taxes, other than income taxes	1,178	1,162
Other	3,368	2,865
Total	<u>\$ 20,208</u>	<u>\$ 34,513</u>

The decrease in accrued compensation was primarily due to the payment of our annual incentive bonus program earned in fiscal 2010, partially offset by one quarter of accrual under our annual incentive bonus program related to fiscal 2011.

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

**7. 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 December 31, 2010, 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 was as follows:

	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		Fair Value at December 31, 2010	Fair Value at September 30, 2010	Fair Value at December 31, 2010	Fair Value at September 30, 2010
Derivatives not designated as hedging instruments					
Foreign exchange contracts	Prepaid expenses and other current assets	\$ -	\$ 5	\$ -	\$ -
	Accrued expenses and other current liabilities	\$ -	\$ -	\$ 249	\$ -

The following table summarizes the effect of our derivative instrument on our Consolidated Statement of Income for the three months ended December 31:

	Statement of Income Location	Gain (Loss) Recognized in Statement of Income Three Months Ended	
		December 31, 2010	December 31, 2009
Derivatives not designated as hedging instruments			
Foreign exchange contracts	Other income (expense), net	\$ (195)	\$ 490

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

**8. 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, in January 2007, we filed a legal action against DuPont Air Products NanoMaterials LLC (DA Nano), a CMP slurry competitor, in the United States District Court for the District of Arizona, charging that DA Nano's manufacturing and marketing of CMP slurries infringe certain CMP slurry patents that we own. The affected DA Nano products include certain products used for tungsten CMP. We filed our infringement complaint as a counterclaim in response to an action filed by DA Nano in the same court in December 2006 that sought declaratory relief and alleged non-infringement, invalidity and unenforceability regarding some of the patents at issue in our complaint against DA Nano. DA Nano filed its complaint following our refusal of its request that we license to it our patents raised in its complaint. DA Nano's complaint did not allege any infringement by our products of intellectual property owned by DA Nano. From June 14 through July 8, 2010, a jury trial for the case was held. All of Cabot Microelectronics' patents at issue in the case were found valid. However, the jury found that DA Nano's products at issue do not infringe the asserted claims of these patents. In November 2010, we filed a Notice of Appeal regarding infringement, and DA Nano filed a cross-appeal, both of which are pending. While the outcome of this and any legal matter cannot be predicted with certainty, we continue to believe that our claims and defenses in the pending action are meritorious, and we intend to continue to pursue and defend them.

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, 2010, 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 three months of fiscal 2011 as follows:

Balance as of September 30, 2010	\$	375
Reserve for product warranty during the reporting period		277
Settlement of warranty		<u>(316)</u>
Balance as of December 31, 2010	\$	<u>336</u>

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

**9. SHARE-BASED COMPENSATION PLANS**

We currently issue share-based payments under the following programs: our Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan, as amended and restated September 23, 2008 (“2000 Equity Incentive Plan”); our Cabot Microelectronics Corporation 2007 Employee Stock Purchase Plan, as Amended and Restated January 1, 2010 (ESPP), and, pursuant to our 2000 Equity Incentive Plan, 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, 2010. In conjunction with certain cost reduction initiatives we implemented in the second quarter of fiscal 2009, the ESPP was amended as of January 19, 2009 to suspend the 15% discount from the fair market value of our stock that employees previously received on their ESPP purchases. Pursuant to the amended ESPP, effective with the six-month period beginning January 1, 2009, the ESPP shares were purchased at a price equal to the lower of the closing price at the beginning or end of each semi-annual offering period. In light of improved economic and industry conditions, the ESPP was amended again as of January 1, 2010 to reinstate the 15% discount effective January 1, 2010.

We record share-based compensation expense for all share-based awards, including stock option grants, restricted stock and restricted stock unit awards and employee stock purchases. 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. We calculate the expected term of our stock options using the simplified method, due to our limited amount of historical option exercise data, and we add a slight premium to this expected term for employees who meet the definition of retirement eligible pursuant to their grants during the contractual term 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. The risk-free rate is derived from the U.S. Treasury yield curve in effect at the time of grant.

Share-based compensation expense for the three months ended December 31, 2010, and 2009, was as follows:

Income statement classifications:	<b>Three Months Ended</b>	
	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
Cost of goods sold	\$ 324	\$ 248
Research, development and technical	311	242
Selling and marketing	316	301
General and administrative	2,478	2,520
Total share-based compensation expense	3,429	3,311
Tax benefit	1,215	1,179
Total share-based compensation expense, net of tax	<u>\$ 2,214</u>	<u>\$ 2,132</u>

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, 2010.

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

#### 10. OTHER INCOME (EXPENSE), NET

Other income, net, consisted of the following:

	<b>Three Months Ended</b>	
	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
Interest income	\$ 78	\$ 44
Interest expense	(44)	(71)
Other income (expense)	(969)	88
Total other income (expense), net	<u>\$ (935)</u>	<u>\$ 61</u>

The decrease in other income (expense) was primarily due to foreign exchange effects on revenues and expenses, primarily related to changes in the exchange rate of the Japanese yen and the New Taiwan dollar to the U.S. dollar, net of the gains and losses incurred on forward foreign exchange contracts discussed in Note 7 of this Form 10-Q.

#### 11. COMPREHENSIVE INCOME

The components of comprehensive income were as follows:

	<b>Three Months Ended</b>	
	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
Net income	\$ 16,492	\$ 13,124
Other comprehensive income:		
Foreign currency translation adjustment	7,126	(1,334)
Minimum pension liability adjustment	5	7
Total comprehensive income	<u>\$ 23,623</u>	<u>\$ 11,797</u>

The foreign currency translation adjustments during the three months ended December 31, 2010 and 2009 primarily resulted from the changes in the exchange rates of the U.S. dollar relative to the Japanese yen and the New Taiwan dollar.

#### 12. INCOME TAXES

Our effective income tax rate was 29.8% for the three months ended December 31, 2010 compared to a 35.4% effective income tax rate for the three months ended December 31, 2009. The decrease in the effective tax rate during the first quarter of fiscal 2011 reflects the election that we made in the fourth quarter of fiscal 2010 to permanently reinvest the earnings of certain of our foreign subsidiaries outside of the U.S. rather than repatriate those earnings to the U.S., and the reinstatement of the U.S. research and experimentation tax credit in December 2010, which is retroactively effective as of January 1, 2010. These decreases were partially offset by the impact of the reversal of a \$497 deferred tax asset related to certain share-based compensation expense, as discussed in Note 1 under the heading "Results of Operations".

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

**13. 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:

	<b>Three Months Ended</b>	
	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
Numerator:		
Earnings available to common shares	\$ 16,492	\$ 13,124
Denominator:		
Weighted average common shares (Denominator for basic calculation)	22,710,250	23,167,213
Weighted average effect of dilutive securities:		
Share-based compensation	420,950	126,677
Diluted weighted average common shares (Denominator for diluted calculation)	23,131,200	23,293,890
Earnings per share:		
Basic	\$ 0.73	\$ 0.57
Diluted	\$ 0.71	\$ 0.56

For the three months ended December 31, 2010 and 2009, approximately 1.6 million and 2.7 million shares, respectively, attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because the exercise price of the options was greater than the average market price of our common stock and, therefore, their inclusion would have been anti-dilutive.

**14. 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 months ended December 31, 2010, and 2009, was as follows:

	<b>Three Months Ended</b>	
	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
Revenue:		
Tungsten slurries	\$ 41,947	\$ 36,047
Dielectric slurries	31,182	26,836
Copper slurries	20,514	17,286
Polishing pads	8,365	6,642
Data storage slurries	7,110	6,069
Engineered Surface Finishes	5,087	4,792
Total revenue	\$ 114,205	\$ 97,672



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

**15. NEW ACCOUNTING PRONOUNCEMENTS**

In October 2010, we adopted new accounting standards regarding the recognition of a controlling financial interest in a variable interest entity (VIE). The primary beneficiary of a VIE is defined as the enterprise that has both: 1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance; and 2) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. The new standards also require ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE. The adoption of these new standards did not have any impact on our results of operations, financial position or cash flows as we do not currently have any interest or arrangements that are considered variable interest entities.

In October 2010, we adopted new accounting standards regarding the recognition of revenue for multiple deliverable revenue arrangements. The new standards modify the fair value requirements regarding the recognition of revenue under multiple deliverable arrangements by allowing the use of the best estimate of selling price in addition to vendor-specific objective evidence (VSOE) and third-party evidence (TPE) for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when VSOE or TPE of the selling price cannot be determined. In addition, the residual method of allocating arrangement consideration is no longer permitted. The adoption of these new standards did not have a material effect on our results of operations, financial position or cash flows.

In October 2010, we adopted new accounting standards regarding revenue arrangements that include software elements. The guidance in these new standards modifies the existing accounting rules regarding the recognition of revenue from the sale of software to exclude: (a) non-software components of tangible products; and (b) software components of tangible products that are sold, licensed or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. The adoption of these new standards did not have a material effect on our results of operations, financial position or cash flows.

In January 2010, the FASB issued ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements" (ASU 2010-06). ASU 2010-06 provides amendments to the rules regarding the disclosure of fair value measurements and clarifies the language in certain existing disclosures. New disclosures include a discussion of the transfers in and out of Level 1 and 2 measurements as well as a reconciliation of gross activity for Level 3 measurements. ASU 2010-06 clarifies the disclosures an entity must make regarding inputs and valuation techniques used in fair value measurements. The ASU also clarifies that an entity should provide fair value disclosures for each class of assets and liabilities. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about the reconciliation of Level 3 measurements which are effective for fiscal years beginning after December 15, 2010. The adoption of the provisions relating to Level 1 and Level 2 measurements did not have a material impact on our results of operations, financial position or cash flows. We are currently assessing the potential impact that the adoption of the provisions related to Level 3 measurements will have on the disclosures in our financial statements.

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

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

This section, "Management's Discussion and Analysis of Financial Condition and Results of Operations", should be read in conjunction with Cabot Microelectronics' annual report on Form 10-K for the fiscal year ended September 30, 2010, including the consolidated financial statements and related notes thereto.

### FIRST QUARTER OF FISCAL 2011 OVERVIEW

The economic and industry growth that we saw during fiscal 2010 in the semiconductor industry and for our Company continued in the first quarter of fiscal 2011 as we experienced strong demand for our products. We are encouraged by reports from industry analysts that estimate annual semiconductor industry revenue will grow in the range of 5% to 10% in 2011. We are also encouraged by capacity increases that some of our customers are currently bringing on-line and the reports that further capacity expansions are expected to occur during 2011. We believe semiconductor market growth drivers will include corporate and enterprise information technology spending, wireless multimedia platforms, such as smart phones and tablets, as well as connected home devices. We are also seeing increased semiconductor content in automobiles. In general, as worldwide semiconductor production increases, we expect the demand for CMP consumables products will increase as well. 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 first quarter of fiscal 2011 was \$114.2 million, which represented an increase of 16.9% from the first quarter of fiscal 2010 and an increase of 3.5% from the previous fiscal quarter. The increase in revenue from the first quarter of fiscal 2010 was primarily due to the economic growth and semiconductor industry growth noted above. Revenue in our first quarter of fiscal 2011 increased from the prior quarter in spite of the traditional seasonal weakening in demand within the semiconductor industry in the fourth quarter of the calendar year. Although historically we have often experienced seasonal softening in demand during our second fiscal quarter, we remain optimistic regarding the demand outlook for our full fiscal year.

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Gross profit expressed as a percentage of revenue for our first quarter of fiscal 2011 was 50.3%. Our gross profit percentage decreased from 51.6% reported in the first quarter of fiscal 2010 and increased from 48.7% in our prior fiscal quarter. The decrease in gross profit percentage from the first quarter of fiscal 2010 was primarily due to the absence of a \$1.6 million raw material supplier credit that the Company recognized during the first quarter of fiscal 2010, as well as higher fixed manufacturing costs, partially offset by the benefit of increased utilization of our manufacturing capacity. The increase in gross profit percentage from the prior fiscal quarter was primarily due to the increased utilization of our manufacturing capacity. We continue to expect our gross profit percentage for full fiscal year 2011 to be in the range of 48% to 50%. 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 \$33.0 million in our first quarter of fiscal 2011, compared to \$30.1 million in the first quarter of fiscal 2010 and \$32.7 million in the previous fiscal quarter. The increase in operating expenses from the comparable quarter of fiscal 2010 was primarily due to increased staffing-related costs, including fringe benefit expenses associated with our annual incentive bonus program, and higher travel-related expense, partially offset by decreased professional fees, including costs to enforce our intellectual property. The increase in operating expenses from the prior fiscal quarter was primarily due to increased staffing-related costs, partially offset by decreased professional fees. We expect full year fiscal 2011 operating expenses to be in the upper end of our guidance range of \$125 million to \$130 million.

Diluted earnings per share for our first fiscal quarter was \$0.71, an increase from diluted earnings per share of \$0.56 reported in the first quarter of fiscal 2010 and the \$0.66 reported in the previous fiscal quarter. The increase in diluted earnings per share from the first quarter of fiscal 2010 is primarily due to the increased revenue and a lower effective tax rate. The increase in diluted earnings per share from the prior fiscal quarter primarily reflects increased revenue and a higher gross profit margin.

The results of operations for the quarter ended December 31, 2010 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. Collectively, these adjustments reduced net income for the first quarter of fiscal 2011 by \$1.7 million and diluted earnings per share by approximately \$0.08. These adjustments relate to: (1) \$1.5 million (\$1.0 million, 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 \$0.5 million deferred tax asset regarding certain share-based compensation expense which is not subject to such tax treatment; and (3) our under accrual of \$0.3 million (\$0.2 million, net of tax) for payments made pursuant to the AIP as a result of the calculation of results against goals under the AIP.

## **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, 2010. We believe there have been no material changes in our critical accounting estimates during the first three months of fiscal 2011. See Notes 2, 7 and 15 of the Notes to the Consolidated Financial Statements for a discussion of new accounting pronouncements.

## RESULTS OF OPERATIONS

### THREE MONTHS ENDED DECEMBER 31, 2010, VERSUS THREE MONTHS ENDED DECEMBER 31, 2009

#### REVENUE

Revenue was \$114.2 million for the three months ended December 31, 2010, which represented a 16.9%, or \$16.5 million, increase from the three months ended December 31, 2009. The increase in revenue was driven by a \$19.8 million increase in sales volume and a \$1.2 million revenue increase due to the effect of foreign exchange rate changes, primarily related to the Japanese yen. These increases were partially offset by a \$2.5 million decrease in revenue due to a lower-priced product mix and a \$2.0 million decrease due to a lower weighted average selling price of for our CMP slurries. We experienced significant demand increases across all product lines compared to the same period last year. Although historically we have often experienced seasonal softening in demand during our second fiscal quarter, we remain optimistic regarding the demand outlook for our full fiscal year.

#### COST OF GOODS SOLD

Total cost of goods sold was \$56.8 million for the three months ended December 31, 2010, which represented an increase of 20.1%, or \$9.5 million, from the three months ended December 31, 2009. The increase in cost of goods sold was primarily due to \$9.6 million from increased sales volume due to the increased demand for our products associated with the continued economic and industry recovery, a \$2.2 million increase due to higher fixed manufacturing costs, and a \$1.9 million increase due to the effect of foreign exchange rate changes, primarily related to the Japanese yen, partially offset by a \$4.0 million decrease in cost of goods sold due to a lower-cost product mix.

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, 2010.

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

#### GROSS PROFIT

Our gross profit as a percentage of revenue was 50.3% for the three months ended December 31, 2010, as compared to 51.6% for the three months ended December 31, 2009. The decrease in gross profit as a percentage of revenue was primarily due to the absence of a \$1.6 million raw material supplier credit we recognized in the first quarter of fiscal 2010 related to the Company achieving a certain volume threshold in calendar 2009, and higher fixed manufacturing costs, partially offset by the benefits of higher capacity utilization in fiscal 2011.

## **RESEARCH, DEVELOPMENT AND TECHNICAL**

Total research, development and technical expenses were \$13.9 million for the three months ended December 31, 2010, which represented an increase of 10.1%, or \$1.3 million, from the three months ended December 31, 2009. The increase was primarily due to \$1.1 million in higher staffing-related costs, including employer-paid fringe benefit expenses related to the payment of our fiscal 2010 annual incentive bonus.

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 December 31, 2010, which represented an increase of 18.3%, or \$1.2 million, from the three months ended December 31, 2009. The increase was primarily due to \$0.7 million in higher staffing-related costs, including employer-paid fringe benefit expenses related to the payment of our fiscal 2010 annual incentive bonus, and \$0.4 million in higher travel-related expenses.

## **GENERAL AND ADMINISTRATIVE**

General and administrative expenses were \$11.7 million for the three months ended December 31, 2010, which represented an increase of 3.8%, or \$0.4 million, from the three months ended December 31, 2009. The increase was primarily due to \$0.6 million in higher staffing-related costs, including fringe benefit expenses related to the payment of our fiscal 2010 annual incentive bonus, \$0.2 million in higher travel-related expense, and \$0.1 million in higher depreciation expense, partially offset by \$0.6 million in lower professional fees, including costs to enforce our intellectual property.

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

Other expense was \$0.9 million for the three months ended December 31, 2010 compared to other income of \$0.1 million during the three months ended December 31, 2009. The increase in other expense was primarily due to foreign exchange effects on revenues and expenses, primarily related to changes in the exchange rate of the Japanese yen and the New Taiwan dollar to the U.S. dollar, net of the gains and losses incurred on forward foreign exchange contracts discussed in Note 7 of the Notes to the Consolidated Financial Statements.

## **PROVISION FOR INCOME TAXES**

Our effective income tax rate was 29.8% for the three months ended December 31, 2010 compared to a 35.4% effective income tax rate for the three months ended December 31, 2009. The decrease in the effective tax rate during the first quarter of fiscal 2011 reflects the election that we made in the fourth quarter of fiscal 2010 to permanently reinvest the earnings of certain of our foreign subsidiaries outside of the U.S. rather than repatriate those earnings to the U.S., and the reinstatement of the U.S. research and experimentation tax credit in December 2010, which is retroactively effective as of January 1, 2010. These decreases were partially offset by the impact of the reversal of a \$497 deferred tax asset related to certain share-based compensation expense, as discussed in Note 1 of the Notes to the Consolidated Financial Statements under the heading "Results of Operations".

## NET INCOME

Net income was \$16.5 million for the three months ended December 31, 2010 which represented an increase of 25.7%, or \$3.4 million, from the three months ended December 31, 2009. The increase was primarily due to the increased sales volume and the decrease in our effective tax rate.

## LIQUIDITY AND CAPITAL RESOURCES

We generated \$8.5 million in cash flows from operating activities in the first three months of fiscal 2011, compared to \$27.2 million in cash from operating activities in the first three months of fiscal 2010. Our cash flows provided by operating activities in the first three months of fiscal 2011 originated from \$16.5 million in net income, \$10.5 million in non-cash items and a \$18.5 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 three months of fiscal 2010 was primarily due to payments of accrued liabilities, including the payment made in the first quarter of fiscal 2011 of our fiscal 2010 annual incentive bonus, as well as changes in accounts receivable and inventory balances due to the significant increase in sales in fiscal 2011, partially offset by increased net income in fiscal 2011.

In the first three months of fiscal 2011, cash flows used in investing activities were \$3.3 million for purchases of property, plant and equipment, the single largest category of which was for improvements in our information technology systems. In the first three months of fiscal 2010, cash flows used in investing activities were \$0.9 million, representing \$0.8 million in purchases of property, plant and equipment and \$0.1 million in other investing activities. We estimate that our total capital expenditures in fiscal 2011 will be approximately \$25.0 million, including \$12.0 million for our manufacturing and research and development facility in South Korea.

In the first three months of fiscal 2011, cash flows generated by financing activities were \$2.4 million. We received \$13.5 million from the issuance of common stock related to the exercise of stock options granted under our Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan (EIP) and our 2007 Employee Stock Purchase Plan, as amended and restated January 1, 2010, and we received \$0.6 million in windfall tax benefits related to exercises of stock options and vesting of restricted stock granted under our EIP. These cash inflows were partially offset by \$10.0 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 employees to cover payroll taxes on the vesting of restricted stock granted under the EIP, and \$0.3 million in principal payments under capital lease obligations. In the first three months of fiscal 2010, cash flows used in financing activities were \$1.0 million, representing \$0.8 million in repurchases of common stock pursuant to the terms of our EIP for shares withheld from employees to cover payroll taxes on the vesting of restricted stock granted under the EIP and \$0.3 million in principal payments under capital lease obligations, partially offset by \$0.1 million received from the issuance of common stock under our EIP.

In January 2008, our Board of Directors authorized a share repurchase program for up to \$75.0 million of our outstanding common stock. Share repurchases are made from time to time, depending on market conditions, in open market transactions, at management's discretion. We repurchased 249,194 shares for \$10.0 million during the first three months of fiscal 2011. No shares were repurchased during the first three months of fiscal 2010. As of December 31, 2010, we had \$15.0 million remaining under this share repurchase program. 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 will commence following the completion of our existing \$75.0 million share repurchase program. We fund share purchases under these programs from our available cash balance.

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We have an unsecured revolving credit facility of \$50.0 million with an option to increase the facility to \$80.0 million. Pursuant to an amendment we entered into in October 2008, the agreement extends through October 2011, with an option to renew for two additional one-year terms. In November 2010, the scheduled termination date was extended by one year through October 2012. Under this agreement, interest accrues on any outstanding balance at either the lending institution's base rate or the Eurodollar rate plus an applicable margin. We also pay a non-use fee. Loans under this facility are intended primarily for general corporate purposes, including financing working capital, capital expenditures and acquisitions. The credit agreement also contains various covenants. No amounts are currently outstanding under this credit facility and we believe we are currently in compliance with the covenants.

We believe that our current balance of cash and long-term investments, cash generated by our operations and available borrowings under our revolving credit facility will be sufficient to fund our operations, expected capital expenditures, 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 December 31, 2010, and September 30, 2010, 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 December 31, 2010, 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>
Purchase obligations	\$ 50.8	\$ 48.0	\$ 1.8	\$ 0.3	\$ 0.7
Capital lease obligations	1.0	1.0	-	-	-
Operating leases	10.7	3.3	3.7	1.9	1.8
Other long-term liabilities	4.4	-	-	-	4.4
Total contractual obligations	<u>\$ 66.9</u>	<u>\$ 52.3</u>	<u>\$ 5.5</u>	<u>\$ 2.2</u>	<u>\$ 6.9</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. The agreement will automatically renew unless either party gives certain notice of non-renewal. We currently anticipate we will not have to pay any shortfall under this agreement. We also operate under a fumed alumina supply agreement with Cabot Corporation that runs through December 2011, under which we are obligated to pay certain fixed, capital and variable costs. Purchase obligations include an aggregate amount of \$17.4 million of contractual commitments for fumed silica and fumed alumina under these contracts.

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, 2010, 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. 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 three months ended December 31, 2010, we recorded \$7.1 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 the general fluctuations of the U.S. dollar relative to the Japanese yen and the New Taiwan dollar. Approximately 15% 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**

We have performed a sensitivity analysis assuming a hypothetical 10% adverse movement in foreign exchange rates. As of December 31, 2010, the analysis demonstrated that such market movements would not have a material adverse effect on our consolidated financial position, results of operations or cash flows over a one-year period. Actual gains and losses in the future may differ materially from this analysis based on changes in the timing and amount of foreign currency rate movements and our actual exposures.

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

At December 31, 2010, we owned two auction rate securities (ARS) with a total estimated fair value of \$8.1 million (\$8.3 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 5 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 December 31, 2010. 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, in January 2007, we filed a legal action against DuPont Air Products NanoMaterials LLC (DA Nano), a CMP slurry competitor, in the United States District Court for the District of Arizona, charging that DA Nano's manufacturing and marketing of CMP slurries infringe certain CMP slurry patents that we own. The affected DA Nano products include certain products used for tungsten CMP. We filed our infringement complaint as a counterclaim in response to an action filed by DA Nano in the same court in December 2006 that sought declaratory relief and alleged non-infringement, invalidity and unenforceability regarding some of the patents at issue in our complaint against DA Nano. DA Nano filed its complaint following our refusal of its request that we license to it our patents raised in its complaint. DA Nano's complaint did not allege any infringement by our products of intellectual property owned by DA Nano. From June 14 through July 8, 2010, a jury trial for the case was held. All of Cabot Microelectronics' patents at issue in the case were found valid. However, the jury found that DA Nano's products at issue do not infringe the asserted claims of these patents. In November 2010, we filed a Notice of Appeal regarding infringement, and DA Nano filed a cross-appeal, both of which are pending. While the outcome of this and any legal matter cannot be predicted with certainty, we continue to believe that our claims and defenses in the pending action are meritorious, and we intend to continue to pursue and defend them.

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

We do not believe there have been any material changes in our risk factors since the filing of our Annual Report on Form 10-K for the fiscal year ended September 30, 2010. However, we may update our risk factors in our SEC filings from time to time for clarification purposes or to include additional information, at management's discretion, even when there have been no material changes.

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

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

Our business is affected by economic and industry conditions and our revenue is dependent upon semiconductor demand. Semiconductor demand, in turn, is impacted by semiconductor industry cycles, and these cycles can dramatically affect our business. These cycles may be characterized by rapid increases or decreases in product demand, excess or low customer inventories, and rapid changes in prices of IC devices. For example, weakness in the U.S. and global economy and stress in the financial markets caused a significant decrease in demand for our products during the first half of fiscal 2009, and our revenue decreased dramatically from revenue earned in fiscal 2008. Demand for our products increased significantly during the second half of fiscal 2009 and this strength in demand has continued through fiscal 2010 and the first quarter of fiscal 2011. While we continue to see positive signs of growth in the semiconductor industry, it is difficult to predict trends due to our limited visibility to future customer orders. If the global economy weakens, we could experience material adverse impacts on our results of operations and financial condition.

Adverse global economic 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 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 customers' production of logic versus memory devices, customers' specific manufacturing process integration schemes, share gains and losses and pricing changes by us and our competitors.

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

Our business is substantially dependent on a single class of products, CMP slurries, which account for the majority of our revenue. Our business in CMP pads is also developing and growing. Our business would suffer if these products became obsolete or if consumption of these products decreased. Our success depends on our ability to keep pace with technological changes and advances in the semiconductor industry and to adapt, improve and customize our products for advanced IC applications in response to evolving customer needs and industry trends. Since its inception, the semiconductor industry has experienced rapid technological changes and advances in the design, manufacture, performance and application of IC devices, and our customers continually pursue lower cost of ownership of materials consumed in their manufacturing processes, including CMP slurries and pads. We expect these technological changes and advances, and this drive toward lower costs, will continue in the future. Potential technology developments in the semiconductor industry, as well as our customers' efforts to reduce consumption of CMP 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 customer base is concentrated among a limited number of large customers. One or more of these principal customers could stop buying CMP consumables from us or could substantially reduce the quantity of CMP consumables 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 three months ended December 31, 2010 and 2009, our five largest customers accounted for approximately 48% and 46% of our revenue, respectively. During the three months ended December 31, 2010, Taiwan Semiconductor Manufacturing Company (TSMC) and United Microelectronics Corporation (UMC) were our largest customers accounting for approximately 18% and 11%, respectively, of our revenue. During the three months ended December 31, 2009, TSMC and UMC accounted for approximately 18% and less than 10%, respectively, of our revenue. During full fiscal year 2010, our five largest customers accounted for approximately 48% of our revenue, with TSMC and UMC accounting for approximately 18% and 11%, respectively.

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

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

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

We depend on our supply chain to enable us to meet the demands of our customers. Our supply chain includes the raw materials we use to manufacture our products, our production operations, and the means by which we deliver our products to our customers. Our business could be adversely affected by any problem or interruption in our supply of the key raw materials we use in our CMP slurries and pads, including fumed silica, 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. 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.

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

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

We currently have operations and a large customer base outside of the United States. Approximately 86% of our revenue was generated by sales to customers outside of the United States for both the three months ended December 31, 2010 and the full fiscal year ended September 30, 2010. 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 the 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.

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

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

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

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

Protection of intellectual property is particularly important in our industry because we develop complex technical formulas for CMP products that are proprietary in nature and differentiate our products from those of our competitors. Our intellectual property is important to our success and ability to compete. We attempt to protect our intellectual property rights through a combination of patent, trademark, copyright and trade secret laws, as well as employee and third-party nondisclosure and assignment agreements. Due to our international operations, we pursue protection in different jurisdictions, which may provide varying degrees of protection, and we cannot provide assurance that we can obtain adequate protection in each such jurisdiction. Our failure to obtain or maintain adequate protection of our intellectual property rights for any reason, including through the patent prosecution process or in the event of litigation related to such intellectual property, such as the current litigation between us and DuPont Air Products NanoMaterials (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. For example, in fiscal 2010, costs associated with enforcing our intellectual property caused our operating expenses to increase.

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

We owned auction rate securities (ARS) with an estimated fair value of \$8.1 million (\$8.3 million par value) at December 31, 2010, 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; 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. Until April 2010, we had a rights plan which expired according to the terms of the plan.

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**

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)</u>
Oct. 1 through Oct. 31, 2010	324	\$33.72	-	\$25,005
Nov. 1 through Nov. 30, 2010	255,735	\$40.11	249,194	\$140,005
Dec. 1 through Dec. 31, 2010	26,235	\$41.51	-	\$140,005
<b>Total</b>	<b>282,294</b>	<b>\$40.24</b>	<b>249,194</b>	<b>\$140,005</b>

In January 2008, our Board of Directors authorized a share repurchase program for up to \$75.0 million of our outstanding common stock. Share repurchases are made from time to time, in open market transactions, depending on market conditions, at management's discretion. We repurchased 249,194 shares for \$10.0 million under this program during the first three months of fiscal 2011. The program, which became effective on the authorization date, may be suspended or terminated at any time, at the Company's discretion. 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 will commence following the completion of our existing \$75.0 million share repurchase program. We fund share purchases under these programs from our available cash balance.

Separate from this share repurchase program, a total of 33,100 shares were purchased during the first quarter of fiscal 2011 pursuant to the terms of our Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan (EIP) as shares withheld from award recipients and to cover payroll taxes on the vesting of shares of restricted stock granted under the EIP.

## 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>
10.4	Form of Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan Non-Qualified Stock Option Grant Agreement (employees (including executive officers)).
10.5	Form of Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan Restricted Stock Award Agreement (employees (including executive officers)).
10.34	Code of Business Conduct.
10.46	Non-Employee Directors' Compensation Summary to be effective as of March 2011.
10.54	Cabot Microelectronics Corporation Annual Incentive and Sales Incentive Programs.
10.58	Employee Stock Purchase Plan Prospectus as of November 24, 2011.
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: February 8, 2011

/s/ WILLIAM S. JOHNSON

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

Date: February 8, 2011

/s/ THOMAS S. ROMAN

Thomas S. Roman  
Corporate Controller  
[Principal Accounting Officer]



**Exhibit 10.4**

**Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan  
Non-Qualified Stock Option Grant Agreement  
(United States Employees)**

GRANT DATE

[Employee Name]  
[Employee Address]  
[City, State ZIP]

Dear NAME:

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 Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan, as amended and restated September 23, 2008 (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".

<b>PARTICIPANT</b>	<b>Type of Grant</b>	<b>Number of Option Shares Granted</b>	<b>Exercise Price Per Share on [grant date]</b>	<b>Participant ID Number</b>
NAME	Non-Qualified Stock Option	[ ]	\$XX.XX [general: grant date (GD) fmv/close price]	XXX-XX-XXXX
	<b>Grant Date</b>	<b>Vesting Dates</b>	<b>Expiration Date</b>	<b>Grant Number</b>
	[date of grant]	25% 1 <sup>st</sup> anniv. GD 25% 2 <sup>nd</sup> anniv GD 25% 3 <sup>rd</sup> anniv. GD 25% 4 <sup>th</sup> anniv. GD	[general: tenth anniv. GD]	00000XXXXXX

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%	[2 <sup>nd</sup> anniv. GD]
25%	[3 <sup>rd</sup> 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.

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 or Advisors. The Company's grant of the Option does not confer any contractual or other rights of employment or service with the Company or Advisors. 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) December 1, 2020;
- (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 or an Advisor; (ii) second, if no such employment agreement exists, the long-term disability program maintained by the Company, an Advisor employing the Participant or any governmental entity covering the Participant; or (iii) third, if no such agreement or program exists, as defined under local law;
- (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.

For purposes of the foregoing, the Participant's termination date (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 the Company or an Advisor; (ii) the date on which the Company or an Advisor first provides notice of termination of employment; or (iii) the first date of any statutory notice period provided under local law.

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. Tax and Social Insurance Contributions Withholding.

- (a) As permitted under applicable law, the Participant hereby authorizes the Company or an Advisor to withhold from payroll and any other amounts payable to the Participant, and otherwise agrees to make adequate provision for, any sums required to satisfy the federal, state, local and foreign tax and social insurance contributions withholding obligations of the Company or an Advisor, if any, which arise in connection with the Option, including, without limitation, obligations arising upon (i) the grant of the Option to the Participant, (ii) the exercise of the Option and the transfer of shares of Stock to the Participant, or (iii) the sale, disposition or other transfer by the Participant of any shares of Stock. The Company shall have no obligation to deliver any shares of Stock to the Participant until any and all tax and social insurance contributions withholding obligations of the Company or an Advisor, if any, have been satisfied by the Participant.
- (b) Unless otherwise prohibited under applicable law, the Company may withhold a number of whole shares of Stock otherwise deliverable to the Participant to satisfy all or any portion of the Company's or an Advisor's tax and social insurance contributions withholding obligations. The number of shares of Stock withheld shall have a fair market value, as determined by the Company as of the date on which the tax and social insurance contributions withholding obligations arise, not in excess of the amount of such tax and social insurance contributions withholding obligations determined by the applicable statutory withholding rates or, in the absence of any minimum statutory withholding rates, by the Company in its sole discretion. The Participant acknowledges and agrees that should the shares of Stock withheld for tax and social insurance contributions purposes be in excess of the amounts required to be withheld under applicable law, the Company shall refund the excess to the Participant, without interest, as soon as administratively practicable. Any adverse consequences to the Participant resulting from the procedure permitted under this subparagraph, including, without limitation, tax and social insurance contributions consequences, shall be the sole responsibility of the Participant.
- (c) Subject to approval by the Company and as permitted under applicable law, the Participant may satisfy all or any portion of the Company's or an Advisor's tax and social insurance contributions withholding obligations with respect to the Participant by tendering to the Company a number of whole vested shares of Stock acquired by the Participant otherwise than pursuant to the Option having a fair market value, as determined by the

Company as of the date on which the tax and social insurance contributions withholding obligations arise, not in excess of the amount of such tax and social insurance contributions withholding obligations determined by the applicable statutory withholding rates or, in the absence of any minimum statutory withholding rates, by the Company in its sole discretion. The Participant acknowledges and agrees that should the shares of Stock tendered for tax and social insurance contributions purposes be in excess of the amounts required to be withheld under applicable law, the Company will refund the excess to the Participant, without interest, as soon as administratively practicable. Any adverse consequences to the Participant resulting from the procedure permitted under this subparagraph, including, without limitation, tax and social insurance contributions consequences, shall be the sole responsibility of the Participant.

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. Consent to Collection, Processing and Transfer of Personal Data. Pursuant to applicable personal data protection laws, the Company hereby notifies the Participant of the following in relation to the Participant's personal data and the collection, processing and transfer of such data in relation to the Company's grant of this Award and the Participant's participation in the Plan. The collection, processing and transfer of the Participant's personal data is necessary for the Company's administration of the Plan and the Participant's participation in the Plan, and the Participant's denial and/or objection to the collection, processing and transfer of personal data may affect the Participant's participation in the Plan. As such, the Participant voluntarily acknowledges and consents (where required under applicable law) to the collection, use, processing and transfer of personal data as described in this paragraph.

The Company, the Advisors and the Participant's employer hold certain personal information about the Participant, including the Participant's name, home address and telephone number, date of birth, social security number or other employee identification number, salary, nationality, job title, any shares of Stock or directorships held in the Company, details of all options or any other entitlement to shares of Stock awarded, canceled, purchased, vested, unvested or outstanding in the Participant's favor, for the purpose of managing and administering the Plan ("Data"). The Data may be provided by the Participant or collected, where lawful, from third parties, and the Company will process the Data for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan. The Data processing will take place through electronic and non-electronic means according to logics and procedures strictly correlated to the purposes for which Data are collected and with confidentiality and security provisions as set forth by applicable laws and regulations in the Participant's country of residence. Data processing operations will be performed minimizing the use of personal and identification data when such operations are unnecessary for the processing purposes sought. Data will be accessible within the Company's organization only by those persons requiring access for purposes of the implementation, administration and operation of the Plan and for the Participant's participation in the Plan.

The Company and/or the Advisors will transfer Data amongst themselves as necessary for the purpose of implementation, administration and management of the Participant's participation in the Plan, and the Company and/or any of the Advisors may each further transfer Data to any third parties assisting the Company in the implementation, administration and management of the Plan. These recipients may be located in the European Economic Area, or elsewhere throughout the world, such as the United States. The Participant hereby authorizes (where required under applicable law) them to receive, possess, use, retain and transfer the Data, in electronic or other form, for purposes of implementing, administering and managing the Participant's participation in the Plan, including any requisite transfer of such Data as may be required for the administration of the Plan and/or the subsequent holding of shares of Stock on the Participant's behalf to a broker or other third party with whom the Participant may elect to deposit any shares of Stock acquired pursuant to the Plan.

The Participant may, at any time, exercise his or her rights provided under applicable personal data protection laws, which may include the right to (a) obtain confirmation as to the existence of the Data, (b) verify the content, origin and accuracy of the Data, (c) request the integration, update, amendment, deletion, or blockage (for breach of applicable laws) of the Data, and (d) to oppose, for legal reasons, the collection, processing or transfer of the Data which is not necessary or required for the implementation, administration and/or operation of the Plan and the Participant's participation in the Plan. The Participant may seek to exercise these rights by contacting the Company's Human Resources Department.

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



**ACKNOWLEDGEMENT AND RECEIPT**

**FOR FISCAL YEAR 2011 NON-QUALIFIED STOCK OPTION (NQSO) GRANT AGREEMENT**

<b>GRANTED TO</b>	<b>Type of Grant</b>	<b>Number of Option Shares Granted</b>	<b>Exercise Price Per Share</b>	<b>Participant ID Number</b>
NAME	Non-Qualified Stock Option	[ ]	[general: GD fmv/close price]	XXX-XX-XXXX
	<b>Grant Date</b>	<b>Vesting Dates</b>	<b>Expiration Date</b>	<b>Grant Number</b>
	[date of grant]	25% 1 <sup>st</sup> anniv. GD 25% 2 <sup>nd</sup> anniv. GD 25% 3 <sup>rd</sup> anniv. GD 25% 4 <sup>th</sup> anniv GD	[general: tenth anniv. GD]	00000XXXXX

I hereby acknowledge receipt of the Non-Qualified Stock Option Award (the "Award") issued to me on the date shown above, which has been granted under and is governed by the terms and conditions of the Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan, as amended and restated September 23, 2008 (the "Plan") and the Non-Qualified Stock Option Agreement (the "Agreement"). I further acknowledge receipt of the copy of the Plan, certify that I am in conformance with and agree to conform to all of the terms and conditions of the Agreement and the Plan, including giving explicit consent to the Company to transfer personal data related to the Plan administration outside of the country in which Participant is employed and to the United States.

I further acknowledge that I have received a paper copy of the U.S. prospectus for the Plan and the Employee Information Statement for my country of residence. I hereby consent to receiving all future prospectuses for the remainder of my employment with the Company or an Advisor through the Company's intranet website. I am aware that I may withdraw my consent to receive future prospectuses from the company's intranet website at any time and upon such withdrawal will be entitled to a paper copy of any future prospectus deliveries.

Signature \_\_\_\_\_

Date \_\_\_\_\_

Any discrepancies between the Acknowledgement and Receipt, and the Agreement with respect to the information shown above, should be corrected and brought to the attention of the Committee. Please be sure to initial any corrections made to this form.

Please return a copy of the enclosed Acknowledgement and Receipt form by January 5, 2011 to:

Director of Human Resources  
Cabot Microelectronics Corporation  
870 Commons Drive  
Aurora, IL 60504

HR Confidential FAX: 630/375-5587

Please keep a copy of the signed Acknowledgement and Receipt for your own records. Also, please retain the Agreement. If you have any questions, please contact your Human Resources Manager.

Exhibit 10.5

**Second Amended and Restated  
Cabot Microelectronics Corporation 2000 Equity Incentive Plan  
Restricted Stock Award Agreement  
(United States Employees)**

GRANT DATE

[Employee Name]  
[Employee Address]  
[City, State ZIP]

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 Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan, as amended and restated September 23, 2008 (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/closing price]	[xxx-xx-xxxx]
<b>Date Restrictions Lapse (Vesting)</b>				
	Date of Award	Date(s)	Award Number	
	[award date]	25% 1 <sup>st</sup> anniv. AD 25% 2 <sup>nd</sup> anniv. AD 25% 3 <sup>rd</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:

1. 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	Vesting Date(s)
25%	1 <sup>st</sup> anniv. AD
25%	2 <sup>nd</sup> anniv. AD
25%	3 <sup>rd</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.

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

**ACKNOWLEDGEMENT AND RECEIPT  
FOR RESTRICTED STOCK AWARD FISCAL YEAR 2011 AWARD AGREEMENT**

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

I hereby acknowledge receipt of the Restricted Stock Award (the "Award") issued to me on the date shown above, which has been granted under and is governed by the terms and conditions of the Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan, as amended and restated September 23, 2008 (the "Plan") and the Restricted Stock Award Agreement (the "Agreement"). I further acknowledge receipt of the copy of the Plan and certify that I am in conformance with and agree to conform to all of the terms and conditions of the Agreement and the Plan, including giving explicit consent to the Company to transfer personal data related to the Plan administration outside of the country in which Participant is employed and to the United States.

According to the terms and conditions of the Award, shares awarded pursuant to it are scheduled to vest (lapse of restrictions) in four equal installments upon each anniversary of the Award. When such shares vest, pursuant to the terms of the Plan, you will be free to hold these shares, or to sell, pledge, or give gifts of them, subject, of course, to the Company's policy on trading in Cabot Microelectronics stock as set forth in the Company's Insider Trading Policy and Trading Guidelines for Directors, Officers and Other Key Employees and the requirements of the federal securities laws.

Unless you make an 83(b) election to satisfy your tax obligations pursuant to the Award (see attached), the Company will be required at vesting to withhold the minimum federal, state and FICA taxes, on the total value of your award upon vesting. The value of the shares upon vesting will be based on the closing price of the Company common stock (as reported on Nasdaq) as of the vesting date.

For your convenience, you may elect now to satisfy your future tax obligation on the value of the Award at the time of vesting by either (please elect and initial one):

- Providing a personal check, bank draft or money order payable to the Company at the time of each of the four vesting dates (instructions for doing so will be provided in advance of each vesting date) \_\_\_\_\_.
- Selling enough shares of those that vest from the Award at the time of each of the four vesting dates ("withhold to cover") to satisfy your tax liability \_\_\_\_\_. My initialed election of this option confirms that at the time that I am making this election, I am not in possession of any material non-public information regarding the Company and am in compliance with the Company's Insider Trading Guidelines.
- I prefer to decide whether to "withhold to cover" or pay my tax obligation through personal check, bank draft or money order payable to the Company in advance of each vesting date (instructions for doing so will be provided in advance of each vesting date)\_\_\_\_\_.

I further acknowledge that I have received a paper copy of the prospectus related to the Plan. I hereby consent to receiving all future prospectuses for the remainder of my employment with the company through the company's intranet website. I am aware that I may withdraw my consent to receive future prospectuses from the company's intranet website at any time and upon such withdrawal will be entitled to a paper copy of any future prospectus deliveries.

Any discrepancies between the Acknowledgement and Receipt, and the Agreement with respect to the information shown above, should be corrected and brought to the attention of the Committee. Please be sure to initial any corrections made to this form.

Signature \_\_\_\_\_

Date \_\_\_\_\_

Please return a copy of the enclosed Acknowledgement and Receipt form by January 5, 2011 to:

Director of Human Resources  
Cabot Microelectronics Corporation  
870 Commons Drive

Aurora, IL 60504  
HR Confidential FAX: 630/375-5587

Please keep a copy of the signed Acknowledgement and Receipt for your own records. Also, please retain the Agreement. If you have any questions, please contact your Human Resources Manager.

**CONSENT OF SPOUSE**

I, \_\_\_\_\_, spouse of \_\_\_\_\_, have read and approve the Restricted Stock Agreement dated December 1, 2010 (the "Agreement"). In consideration of granting of the right to my spouse to receive or purchase shares of stock of Cabot Microelectronics Corporation, a Delaware corporation, as set forth in the Agreement, I hereby appoint my spouse as my attorney-in-fact with respect to the exercise of any rights under the Agreement and agree to be bound by the provisions of the Agreement insofar as I may have any rights in said Agreement or any shares issued pursuant thereto under the community property laws or similar laws relating to marital property in effect in the state of our residence as of the date of the signing of the foregoing Agreement.

Spouse Signature

Date

Name (Print)

ATTACHMENT A

ELECTION UNDER SECTION 83(b) OF THE INTERNAL REVENUE CODE OF 1986

The undersigned taxpayer hereby elects, pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended, to include in its gross income for the taxable year ending December 31, \_\_\_\_\_, the amount of any compensation taxable to it in connection with its receipt of the property described below:

1. The name, address and taxpayer identification number of the undersigned taxpayer are as follows:

NAME :

ADDRESS:

TAXPAYER I.D. NUMBER:

2. The property with respect to which the election is made is described as follows: [ \_\_\_\_\_ ] shares of Cabot Microelectronics Corporation Common Stock.

3. The date on which the property was transferred and the taxable year for which this election is made are as follows:

4. The property is subject to the following restrictions:

The property is subject to a repurchase option in favor of Cabot Microelectronics Corporation, a Delaware corporation which lapses if the taxpayer provides services to the Corporation over a period of years. The property is also subject to restrictions on transferability for a period of years.

5. The fair market value at the time of transfer, determined without regard to any restriction other than a restriction which by its terms will never lapse, of such property is:

6. The amount paid for such property is:

The undersigned has submitted a copy of this statement to the person for whom the services will be performed in connection with the undersigned's receipt of the above-described property. The transferee of such property is the person performing the services in connection with the transfer of said property.

The undersigned understands that the foregoing election may not be revoked except with the consent of the Commissioner.

Dated: \_\_\_\_\_, \_\_\_\_\_

Print Name: \_\_\_\_\_

Sign Name: \_\_\_\_\_

TO: [Sample]  
FROM: Director, Human Resources  
DATE:  
RE: Tax Withholding Requirement on Vested Restricted Stock Award

According to the terms and conditions of your Restricted Stock Award (the "Award"), \_\_\_\_\_ shares awarded to you under the Second Amended and Restated Cabot Microelectronic Corporation's 2000 Equity Incentive Plan, as amended and restated September 23, 2008 (the "Plan"), on \_\_\_\_\_ lapsed on \_\_\_\_\_. As previously indicated to you, you are free to hold these shares, or to sell, pledge, or give gifts of them, subject, of course, to the Company's policy on trading in Cabot Microelectronics stock as set forth in the Company's Insider Trading Policy and Trading Guidelines for Directors, Officers and Other Key Employees and the requirements of the federal securities laws.

The Company is required at vesting to withhold the minimum federal, state and FICA taxes, on the total value of your award upon vesting. The value of the shares upon vesting is based on the closing price of the Company common stock (as reported on Nasdaq) as of the vesting date.

The taxes on the value of this award may be satisfied by either (please check one and return a signed acknowledgement of this memo to my attention by \_\_\_\_\_):

- sending a personal check, bank draft or money order payable to Cabot Microelectronics Corporation to my attention by \_\_\_\_\_.
- you may elect to use Shares to satisfy your tax liability.

Based on current payroll data as of \_\_\_\_\_, the value and withholding taxes due on the award are as follows:

# of Restricted Shares Lapsing: \_\_\_\_\_

FMV of Company common Stock on \_\_\_\_\_ (Date of Grant / Date of vesting)

Most Recent year to date FICA paid (i.e. based on payroll through \_\_\_\_\_): [ **\$0.00**]

Once taxes due are satisfied, a certificate representing the remaining number of vested shares will be forwarded to you, or you may elect to have the shares held on account for you at \_\_\_\_\_. If you have any questions with regard to the vesting of your award, please feel free to call me at 630/499-8019.

Date: \_\_\_\_\_  
Participant

\_\_\_\_\_



**Cabot Microelectronics Corporation Code of Business Conduct**

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## **0.0 CABOT MICROELECTRONICS CORPORATION'S VISION AND VALUES**

### **Vision**

Be the trusted industry partner, providing high quality solutions with speed, and delivering superior cost of ownership. Our mission is to create value by developing reliable and innovative solutions, through close customer collaboration, that solve today's challenges and help enable tomorrow's technology. Our purpose is perfecting the surfaces of tomorrow.

### **Values**

#### Integrity

- We are honest and ethical in all of our dealings with all of our employees, customers, business partners, suppliers, competitors, and other stakeholders.
- We adhere to all laws, regulations, and our business practices.

#### Respect

- We value people's differences.
- We value diverse opinions, we listen and learn.
- We treat people fairly and respect their need for work/life balance.
- We provide honest, constructive, and discreet feedback.

#### Courage

- We have the strength and willingness to take risks and do what is right.

#### Accountability

- We admit mistakes, we learn from our mistakes, we ask for help.
- We take ownership and responsibility for our actions and performance.
- We take initiative to make a difference and to help.
- We focus on results.
- We recognize and celebrate our successes.

#### Excellence

- We value the talent, ambition, and drive of each employee to be his or her best and to achieve superior results.

## **1.0 A LETTER FROM THE CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER**

Dear Fellow CMC Employee:

This Code of Business Conduct essentially is about Cabot Microelectronics' Vision and Values, which are the foundation of our company. We have recently revised our Vision, after thoughtful analysis by a team of our fellow employees throughout the business, to more comprehensively reflect our business today. Our Values, which include Integrity, Respect and Accountability, remain the same, and along with our Vision, act as the starting point for all of our actions.

Each employee has the responsibility to act according to our Vision and Values. CMC operates in one of the most competitive and fast-moving industries, and this environment emphasizes the importance of each employee's responsibility to exercise sound business judgment and act ethically. This Code of Business Conduct gives you the basic guidelines for understanding your responsibilities.

While we each know that ethical behavior is important in its own right, it also is essential to our business success because it fosters our relationships with our customers, suppliers, communities in which we operate, and other stakeholders.

We ask you to read our Code of Business Conduct, follow it, and continue to exhibit the Vision and Values and ethical conduct that have been a fundamental principle of our company since our beginning.

William P. Noglows  
Chairman, President and Chief Executive Officer  
December, 2009

## **2.0 INTRODUCTION**

At Cabot Microelectronics Corporation, the Chief Executive Officer and other executive officers, along with CMC's Board of Directors, are responsible for setting standards of business ethics and overseeing compliance with these standards for CMC and its subsidiaries ("CMC"). It is the individual responsibility of each employee (including directors and officers) of CMC and its subsidiaries ("CMC employees") to comply with these standards.

As CMC employees, we frequently encounter a variety of ethical and legal questions. We should decide these situations in ways that are consistent with CMC's Vision and Values. CMC expects all employees to obey the law and to act ethically. CMC's Code of Business Conduct provides general guidance for resolving a variety of legal and ethical questions for CMC employees.

Because rapid changes in our business and industry present new ethical and legal issues on an ongoing basis, no one set of guidelines should be considered the definitive statement for all circumstances. If you have any questions about interpreting or applying this Code of Business Conduct--or about guidelines and procedures published by CMC or its subsidiaries or operating units --it is your responsibility to consult your manager, the Human Resources Department or the Office of the CMC General Counsel. A violation of any CMC guidelines or this Code of Business Conduct can result in disciplinary action, including dismissal.

Each section of this Code of Business Conduct covers an area in which we have responsibilities to CMC as employees:

- Personal conduct and protection of CMC's assets
- Obligations in conducting CMC's business with other people and organizations
- Conflicts of interest and other considerations affecting CMC that may arise from our own activities

Our responsibilities as CMC employees generally can be summarized as:

- Acting according to CMC's Vision and Values
- Acting honestly
- Treating others fairly
- Protecting CMC's physical and intellectual property
- Avoiding conflicts of interest
- Complying with laws

While CMC employees are expected to comply with all of the provisions of CMC's Code of Business Conduct, certain sections of the Code will be more applicable to certain of our employees, depending on their job responsibilities (for example, Section 5 will be especially informative for those CMC employees whose jobs involve working with our customers, suppliers or other outside organizations, like research universities or laboratories).

### 3.0 YOU AND YOUR JOB AT CMC

#### 3.1 Communications Channels

If you know of an unlawful or unethical situation, or become aware of or are concerned about any violation or potential violation of the Code of Business Conduct, you should immediately tell CMC whatever you know or have heard about it; you can do so in one of several ways. Contacting your manager is the best place to start, but you can also contact CMC's Human Resources Department, CMC counsel, including CMC's General Counsel, who has been designated CMC's Compliance Officer, CMC's Director of Internal Audit, or any other CMC manager.

To report any concern you may have, you may contact us in person, on the phone, through email, or in writing, either by identifying yourself or anonymously:

- You may call the CMC Ethics Line at 630/499-2702 (either direct or collect):
- You may send an email to Ethics [Email@cabotcmp.com](mailto:Email@cabotcmp.com):
- You may contact directly any member of our Board of Directors, including any member of our Board's Audit Committee by sending an email to Audit [Committee@cabotcmp.com](mailto:Committee@cabotcmp.com):
- We also have instituted an independent, multi-language contact that you may access from the places in which we do business in a wide variety of languages:
  - via email to [www.listenupreports.com](http://www.listenupreports.com)
  - via letter to Listen Up Reports, Box 274, Highland Park, IL, USA, 60035
  - via phone, per country:

*China: 10-800-130-0614*

*France: 0800-909-260*

*Germany: 0800-182-4524*

*Japan: 0053-113-0898*

*Korea: 0030-813-1350*

*Singapore: 0800-130-1147*

*Taiwan: 0800-114-8528*

*United Kingdom: 0800-032-5546*

*United States: 866-398-0010*

CMC will promptly review your report of unlawful or unethical conduct, and CMC will not tolerate threats or acts of retaliation against you for notifying us of your concerns.

#### 3.2 Personal Conduct

We should never take for granted CMC's reputation for integrity and business ethics – it's in each of our hands. To maintain that reputation, you must follow all of CMC's Code of Business Conduct and exercise good judgment in your decisions and actions.

If CMC finds that your conduct on or off the job adversely affects your performance, that of other employees, or CMC's legitimate business interests, you can be subject to disciplinary measures, including dismissal.

#### 3.3 Work Environment

CMC strives to maintain a healthy, safe and productive work environment that is free from discrimination or harassment based on race, color, religion, sex, sexual orientation, age, national origin, disability, genetic information or other factors that are unrelated to CMC's legitimate business interests. CMC will not tolerate sexual advances, actions or comments or racial or religious slurs, jokes or any other comments or conduct in the workplace that creates, encourages or permits an offensive, intimidating or inappropriate work environment.

If you believe that you are subject to such conduct, or have observed others subject to such conduct, you should tell CMC through any of the communication channels that you feel most comfortable in using – your manager, the Human Resources Department, CMC counsel, or any of the communications channels referenced above. Your complaint of such conduct will be reviewed promptly. Employees who are found to have engaged in harassment or discrimination, or to have misused their positions of authority in this regard, will be subject to disciplinary measures, including dismissal.

Other conduct that is prohibited because of its adverse impact on the work environment includes: (1) threats; (2) violent behavior; (3) the possession of weapons of any type; (4) the use of recording devices, including videophones and Web cameras, for other than management approved purposes; and (5) the use, distribution, sale or possession of illegal drugs or any other controlled substance, except for approved medical purposes. In addition, employees should not be on CMC premises, in the CMC work environment or at CMC-sponsored events if they are under the influence of or affected by illegal drugs, controlled

substances used for nonmedical purposes or alcoholic beverages. Consumption of alcoholic beverages on CMC premises is only permitted, with prior management approval, for company-sponsored events.

### *3.4 Employee Privacy*

CMC and CMC authorized companies and individuals collect and maintain personal information that relates to your employment, including compensation, medical and benefit information. Because CMC is a global organization with business processes, management structures and technical systems that cross country borders, you acknowledge that, to run its business, CMC and its authorized companies may transfer personal information about you as a CMC employee to any of the countries where we do business. While not all countries have a data protection law, CMC has world-wide policies that are intended to protect information wherever it is stored or processed. For example, access to your personal information is restricted to people with a need to know. Personal information is normally released to outside parties only with employee approval, except that CMC and authorized companies and individuals may also release personal information to verify employment, to satisfy the legitimate requirements of a company or other entity which is considering acquiring some of CMC's business operations, or for appropriate investigatory, business or legal reasons. Employees who have access to personal information must ensure that the information is not disclosed in violation of CMC's policies or practices.

Personal items, messages or information that you consider personal or private should not be placed or kept anywhere in the CMC workplace, such as in computers, laptops, handheld devices (e.g., blackberrys), telephone systems, office systems, electronic files, desks, credenzas, cubicles, lockers, or offices. CMC's management has the right to access those areas and any other CMC furnished facilities. Additionally, in order to protect its employees and assets, CMC may ask to search an employee's personal property, including briefcases and bags, located on or being removed from CMC locations; the employee is expected to cooperate with such a request. Employees, however, should not access another employee's workspace, including laptops or electronic files, without prior approval from management.

### *3.5 Protecting CMC's Assets*

CMC has a large variety of assets. Many are of great value to CMC's competitiveness and success as a business. They include our physical, financial and information assets and our extremely valuable proprietary information, such as CMC's intellectual property and CMC's confidential information.

Protecting all of these assets is critical. Their loss, theft or misuse jeopardizes the future of CMC.

You are personally responsible for protecting CMC's property entrusted to you and for helping to protect the company's assets in general. To do this, you should be aware of and understand CMC's security and information protection procedures. You should be alert to any situations or incidents that could lead to the loss, misuse or theft of company assets and property. You should report all such situations to your manager or the Office of the General Counsel as soon as they come to your attention.

Let's review the types of assets you should be concerned about protecting, and your related responsibilities.

#### *3.5.1 Physical Assets*

CMC's physical assets, such as equipment, systems, facilities, corporate charge cards and supplies, must be used only for conducting CMC's business or for purposes authorized by management.

#### *3.5.2 Financial Assets*

CMC's financial assets and funds must be used properly, accurately, and only for conducting CMC's business. No undisclosed or unrecorded fund or asset of CMC may be established for any purpose. No entity, fund or asset of CMC may be created or maintained for any purpose that is not properly reflected in CMC's books and records. No payment on behalf of CMC may be approved or made with the intention, understanding or awareness that any part of such payment is to be used for any purpose other than that described by the documents supporting the payment.

#### *3.5.3 CMC Information and Communication Systems*

CMC's information and communication systems, including CMC connections to the Internet, are vital to CMC's business; you should only use them for appropriate purposes. You can use them for conducting CMC business or for other incidental purposes authorized by your management or by applicable CMC guidelines, such as those on Internet use. For example, it is inappropriate to use CMC systems to visit Internet sites that feature sexual content or that advocate intolerance of others. It is also inappropriate to use them in a manner that interferes with your productivity or the productivity of others. You are responsible to ensure that your use of CMC systems is appropriate; inappropriate use of our systems is a misuse of CMC assets.

#### *3.5.4 Proprietary Information*

CMC proprietary information is any information that is owned by CMC, including information in CMC databases. Much, but not all, of CMC proprietary information is confidential. It may also be subject to copyright, patent or other intellectual property or legal rights. Proprietary information includes such things as: CMC's technical, manufacturing or scientific information relating to current and future products, offerings, and research; formulas and formulations; work instructions; business or marketing plans or projections; merger and acquisition plans or materials; earnings and other financial data; personnel information including organizational changes; and software.

CMC's proprietary information is the result of the ideas and hard work of many of your fellow employees and of substantial investments by CMC in planning, research and development. This information, particularly CMC confidential information, gives CMC a competitive advantage in the marketplace, and CMC would be damaged if its competitors learned of it.

The value of CMC's proprietary information is well known not only to CMC's competitors but also to others in the industry, such as security analysts, members of the press, and consultants. CMC would be harmed by unauthorized disclosures of its proprietary information to, or the unauthorized use of that information by, any of those people. For example, unauthorized disclosure of an unannounced CMC product can hurt us by giving competitors more time to match our product. Or, unauthorized disclosure of financial information or issues with particular suppliers or customers, or potential or existing partners, whether positive or negative, can impact our stock and our responsibilities with respect to securities laws. Another example is unauthorized disclosure of an unannounced organizational or personnel change that can adversely affect employee morale and can interfere with our plans.

As a CMC employee, you will have access to information that CMC considers proprietary. Given outside interest in CMC and the increasingly competitive nature of our industry, you might come into contact with someone who is interested in acquiring CMC proprietary information. It is critical that you do not disclose or distribute that information except as authorized by CMC and that you follow all CMC safeguards for protecting that information.

##### *3.5.4.1 Inadvertent Disclosure*

You should be careful to avoid the inadvertent disclosure of proprietary information.

To avoid inadvertent disclosure, never discuss with any unauthorized person proprietary information that CMC considers confidential or which CMC has not made public. Furthermore, you should not discuss such information even with authorized CMC employees if you are in the presence of others who are not authorized—for example, at a trade show reception or in a public area, such as an airplane, or when using a cellular or wireless telephone or an electronic bulletin board or database. You should also not discuss such information with family members or with friends, who might innocently or unintentionally pass

the information on to someone else.

Finally, keep in mind that a harmful disclosure may start with the smallest leak of bits of information. Fragments of information you disclose may be pieced together with fragments from other sources to form a fairly complete picture.

#### *3.5.4.2 Direct Requests for Information and Contacts with the Press, Analysts, Attorneys and Others*

CMC's business activities are monitored closely by reporters, industry consultants and securities analysts. You should not initiate contact with these individuals or groups or respond to their inquiries without authorization as follows:

- Reporters – CMC Chief Financial Officer
- Consultants – CMC Chief Financial Officer
- Securities or Financial Analysts - CMC Investor Relations

Similarly, if you receive a request for information on CMC from an attorney, investigator, law enforcement official, or government official or agency, you should not respond to their inquiries and instead refer the request to CMC's General Counsel or Associate General Counsel – Intellectual Property.

If you do not know what functional area a questioner should be referred to, ask your manager before responding.



### *3.5.4.3 Using Proprietary Information*

Besides your obligation to protect CMC proprietary information from unauthorized disclosure or distribution, you are also required as an employee to use such information only in connection with CMC's business. This obligation applies whether or not you developed the information yourself, and it applies by law in virtually all countries in which CMC does business.

### *3.5.5 CMC Intellectual Property Rights*

When you joined CMC or its predecessor in interest (or a subsidiary before it became part of CMC), you were required to sign an agreement under which you, as an employee of CMC, assumed specific obligations relating to intellectual property as well as the treatment of confidential information. Among other things in the agreement, you assign to CMC all of your right, title, and interest in intellectual property you develop. The intellectual property you assign includes such things as ideas, inventions, computer programs and documents which relate to CMC's actual or anticipated business, research or development or that are suggested by, or result from, work or tasks you perform for, or on behalf of, CMC. Subject to the laws of each country, this obligation applies no matter where or when--at work or after hours--such intellectual property is created. You must report that intellectual property to CMC, and protect it like any other proprietary information of the company. However, if you believe that your idea, invention, computer program, or other material neither falls within the area of CMC's actual or anticipated business interests, nor resulted from, nor was suggested by, any of your work assignments at CMC, you should discuss it with CMC's Associate General Counsel – Intellectual Property. Throughout your employment with CMC, you should receive advice and direction from CMC's Associate General Counsel – Intellectual Property before taking any action with respect to an invention that may be patentable, and provide her with copies of any patent you have applied for or obtained outside of CMC.

### *3.5.6 Leaving CMC*

If you cease to be an employee of CMC for any reason, you must return all CMC property, including documents, media and devices which contain CMC proprietary information, and you may not disclose or use CMC proprietary information, including CMC confidential information. Also, CMC's ownership of intellectual property that you created while you were a CMC employee continues after you leave the company.

### *3.5.7 Legal Remedies*

Regrettably, there have been cases in which CMC's physical, financial or intellectual property assets have been wrongfully taken or misused, or employees or former employees have violated their agreements with CMC with respect to protecting our property or refraining from competing against CMC. In some of these instances, CMC has not limited its response to disciplinary action against offending employees or former employees, but has taken legal action as well. Also, individuals can be subject to prosecution for their actions by government authorities and convicted of crimes for their part in stealing CMC assets.

CMC will continue to take every step necessary, including legal measures, to protect its assets.

### *3.6 Recording, Reporting and Retaining Information*

You must record and report all information accurately and honestly.

Every employee records information of some kind and submits it to the company. For example: an engineer fills out a product test report; a marketing representative reports orders; an accountant records revenues and costs; a scientist prepares a research report; a quality technician completes a time-card; and, a product line manager makes an employee benefit claim. Each employee must accurately and honestly fill in reports.

One important report that many employees use is the expense account. Employees are entitled to reimbursement for reasonable expenses--but only if those expenses were actually incurred. To submit an expense account for meals not eaten, miles not driven, airline tickets not used or for any other expense not incurred is dishonest reporting and is prohibited.

Under various laws, such as tax and securities laws, environmental laws, or the Foreign Corrupt Practices Act, CMC is required to maintain books and records reflecting CMC's transactions. It is essential that these books and records are accurate. Regardless of whether reporting is required by law, dishonest reporting within CMC, for example to CMC management or internal auditors or during an internal investigation, or to CMC's independent auditors or outside counsel, or to organizations and people outside the company, is strictly prohibited. This includes not only reporting information inaccurately but also organizing it in a way that is intended to mislead or misinform those who receive it. Employees must ensure that they do not make false or misleading statements in external financial reports, environmental monitoring reports and other documents submitted to or maintained for government agencies. Dishonest reporting can lead to civil or even criminal liability for you or CMC. Employees who are found to have engaged in dishonest reporting, or to have misused their positions of authority in this regard, will be subject to disciplinary measures, including dismissal.

Employees must also comply with CMC's Document Retention Policy in their retention and disposal of CMC documents, including information in any media, whether hard copy or electronic formats (e.g., email, word processing program, "pdf", "world drive", "thumb drive", etc.). Information whose retention period has expired pursuant to our Document Retention Policy should be disposed of as soon as possible, unless it is subject to a retention instruction from CMC counsel.

### *3.7 Authority to Make Commitments on Behalf of CMC*

CMC's management and contracting processes are designed to help CMC protect its assets and to provide the appropriate controls needed for CMC to run its business appropriately and effectively with its customers, suppliers, and other third parties. These processes contain well-defined authority and delegations to

certain organizations and levels of management for pricing and certain other contract terms and conditions, such as the provision of samples to customers without charge, customer credits, return material authorizations, and barter arrangements. Making business commitments outside of these processes, through side arrangements or otherwise, is not acceptable; specifically, you should not make any oral or written commitments that create a new agreement or that modifies an existing agreement with a third party without approval, consistent with delegation levels, from the appropriate CMC organizations, such as Finance, Legal, Supplier Management, Global Business Team management and/or other line management. In addition, all such commitments must be communicated to CMC Finance (Accounting) to help us ensure the accuracy of CMC's books and records. If you have any questions about a specific situation, you can contact CMC Finance or Legal personnel.

## **4.0 DEALING WITH OTHERS OUTSIDE OF CMC**

### *4.1 Bribes, Gifts and Entertainment*

Gifts offered by employees of different companies vary widely. They can range from widely distributed advertising novelties of nominal value, which you may give or accept, to bribes, which you unquestionably may not give or accept.

Gifts include not only material goods, but also services, promotional premiums and discounts.

The following are CMC's guidelines on giving and receiving gifts and business amenities. Exceptions may be approved by an executive officer, but those exceptions must not be prohibited by law or known customer business practice.

#### *4.1.1 Business Amenities*

With management approval, you may give or accept customary business amenities, such as meals and entertainment, provided the expenses involved are kept at a reasonable level and are not prohibited by law or known customer business practice; in general, each CMC country entity has work rules that set forth these requirements. Suppliers, including CMC, frequently find it appropriate to provide education and briefings for their customers or suppliers. It is all right to provide or accept some services in connection with this type of activity, such as transportation, and food and lodging, if you have prior management approval.

#### *4.1.2 Receiving Gifts*

Neither you nor any member of your family may solicit or accept from a supplier or customer money or a gift that could influence or could reasonably give the appearance of influencing CMC's business relationship with that supplier or customer. However, unless CMC has specified to the contrary, you may accept promotional premiums and discounts offered by transportation companies, hotels, auto rental agencies and restaurants if they are based upon membership in bonus programs for individuals and are offered to travelers generally. Furthermore, you may accept a gift of nominal value, such as an advertising novelty, when it is customarily offered to others having a similar relationship with the customer or supplier. If you have any doubts about a particular situation, you should consult your manager.

If you are offered a gift which has more than nominal value or which is not customarily offered to others, or money, or if either arrives at your home or office, tell your manager immediately. Appropriate arrangements will be made to return or dispose of what has been received, and the supplier or customer will be reminded of CMC's policy in this regard.

#### *4.1.3 Referral Fees*

When authorized by CMC, you may refer customers to third party vendors, such as CMC's distributors, transportation and shipping entities, or support organizations. However, CMC employees may not accept or provide any fee, commission or other compensation for this type of activity from or to anyone.

#### *4.1.4 Giving Gifts*

You may not give money or any gift to an executive, official or employee (or related person) of any supplier, customer or any other organization if doing so would influence or could reasonably give the appearance of influencing the organization's relationship with CMC. You may, however, provide a gift of nominal value, such as a CMC advertising novelty, if it is not prohibited by law or the customer's, supplier's or other organization's known business practices; in general, each CMC country entity has work rules that set forth these requirements

#### *4.1.5 Relationships with Government Employees*

When we are dealing with government employees or those who act on the government's behalf, practices that are acceptable in the commercial business environment, such as providing education, transportation, meals, entertainment or other things of value, may be entirely unacceptable, and may even violate certain federal, state, local or foreign laws and regulations. Therefore, you must be aware of, and adhere to, the relevant laws and regulations governing relations between government employees and business entities in every country where you conduct business. You should contact the Office of the CMC General Counsel for guidance.

You must not give money or a gift to an official or an employee of a governmental entity if doing so could be reasonably construed as having any connection with CMC's business relationship. U.S. and foreign laws often prohibit such actions: for example, the Foreign Corrupt Practices Act (FCPA), a U.S. law, makes it a crime to pay money or to give anything of value to a foreign official to assist the company or another to obtain or retain business with the government, whether the improper payment or gift is made directly by a company or indirectly through someone acting for the company. Any proposed payment or gift to a foreign official, political party or candidate must have prior review and approval by the CMC General Counsel, even if such payment or gift is common in that country. Keep in mind that foreign officials, under the FCPA, can include executives and employees of government-owned or sponsored corporations, such as universities, research laboratories and other entities such as industrial or science parks. Always ask if you have some doubt regarding government ownership or participation. If you are involved in a public sector or government-sponsored procurement, whether for goods or services (e.g., research and development services), you should not try to improperly influence the decisions of the customer or entity or obtain restricted information about the procurement; if you have questions about this, you should contact the Office of the General Counsel for guidance.

In countries where local customs call for giving gifts to customers or others on special occasions, you may, with prior approval from management and the

CMC General Counsel, present gifts that are lawful, appropriate, and of nominal value, provided the action cannot be seen as seeking special favor (see above).

Furthermore, certain legal or ethical restrictions may exist with respect to the hiring by CMC of current or former employees of the government or their family members. You should consult with the CMC General Counsel before any attempts, even preliminary discussions, are made to hire any such persons.

#### *4.1.6 Public Official and Campaign Visits, Speaking Engagements and Honoraria*

CMC encourages public officials to make non-partisan visits to CMC locations to better understand our company, products, programs and our views on public policy issues. However, political campaigning is not allowed on CMC property or on CMC's behalf.

Likewise, public officials, candidates and prominent former officials may request or be invited to speak at various CMC events. We generally do not pay honoraria or travel expenses since in many instances such a payment would not be lawful. You should review any matters in this area with CMC's Office of the General Counsel.

## *4.2 Complying with Laws*

CMC's policy is to comply with all laws and regulations that apply to its business. As you conduct CMC's business, you may encounter a variety of legal issues, particularly in the areas described below. If you have questions on specific laws or regulations, contact CMC's Office of the General Counsel.

### *4.2.1 Competition*

Laws governing competition exist in most of the countries in which CMC does business. The purpose of competition laws, which also may be known as antitrust, monopoly, fair trade or cartel laws, is to prevent interference with the functioning of a competitive market system. While the purpose of such laws is primarily economic, their effect is often seen as going beyond consumer or customer welfare to protecting other values of society, including individual freedoms.

Under these laws, companies may not enter into agreements with other companies, including their distributors and competitors, however informally, that unreasonably restrict the functioning of the competitive system, such as price fixing, or dividing customers or territories.

Companies also may violate competition laws without acting jointly with other companies by, for example, illegally monopolizing or attempting to monopolize an industry or unlawfully abusing a dominant position through arrangements such as "tie-in", certain pricing, or exclusive dealing arrangements. CMC's policy is to comply fully with competition laws throughout the world. You can help by adhering to CMC's Code of Business Conduct and related policies and procedures, by being sensitive to legal concerns under competition laws, and by raising any such concerns with CMC's General Counsel.

### *4.2.2 Export*

It is CMC's policy to comply with the export control laws and regulations of all countries in which we do business. When certain CMC products and technical data are exported, CMC may have to obtain an export authorization from the U.S. or appropriate foreign government.

It is against the law to export without authorization or to facilitate the unauthorized export of CMC technology. Penalties for failure to comply with export laws and regulations are severe and can result in fines, loss of export privileges for our products and imprisonment. If you have questions on export-related issues, talk with your manager or the CMC General Counsel.

### *4.2.3 Antiboycott*

U.S. law prohibits CMC and its subsidiaries and affiliates and their agents from complying with or supporting a foreign country's boycott of a country that is "friendly" to the United States. CMC is also required to report promptly to the U.S. Government any request to support a boycott or to furnish information concerning a boycott. A foreign country or an entity associated with the country could make such a request in writing, orally in connection with a transaction or in a number of other ways. Examples of improper boycott requests are requests that we refuse to do business with a boycotted country, including its corporation and citizens, or with so-called blacklisted companies who do business with the boycotted country or that we provide information about activities in a boycotted country or implement letters of credit with boycott conditions. If you hear of a boycott or receive a request to support a boycott or to provide information related to a boycott, you should contact CMC's General Counsel.

### *4.2.4 Import*

As an importer, CMC must comply with import regulations and requirements when engaging in international trade. Because of the continued globalization of CMC's business, there are many situations, some of them very subtle, in which your work may have import implications. For example, in addition to the obvious one in which you are importing raw materials, parts or products into the U.S. or another country, there may be import implications in activities, -- such as development process activity requiring non-U.S. sourcing, customer activity requiring the shipment of products to another country, or the shipment of samples. In addition, experience has shown that designing parts and ensuring accuracy of inventory of parts will have import implications whenever those parts will cross international borders. You need to be aware of import regulations and requirements, especially if you are involved in importing. A failure to comply with the law can result in fines, penalties, imprisonment and/or a loss of import privileges. If you have questions about imports, contact your manager, Director of Logistics, or the Office of the General Counsel.

### *4.2.5 Safety, Health and the Environment*

CMC is committed to leadership in safety, health and environmental protection. Not only will we comply with all safety, health and environmental laws in the countries in which we operate, but if there is no law or if the law does not protect the safety and health of our employees and the environment, we will set and adhere to stringent standards of our own. Each of us must comply with safety, health and environmental laws and CMC's related policies.

If you are involved with processes that affect the environment, such as measuring, recording or reporting discharges and emissions to the environment or handling hazardous wastes, you must be sure to comply with environmental regulations and permits. You must also maintain CMC standards and ensure that reports are accurate and complete.

As an employee, you have a role to play in working in a manner that supports your own safety and health and that of others, as well as in protecting the environment. If you become aware of any violation of safety, health or environmental law or any action that may appear to conceal such a violation, you should immediately report the matter to your manager, CMC's Director, Safety, Health and Environment, or to CMC's General Counsel.

### *4.2.6 Lobbying*

Any contact with government personnel for the purpose of influencing legislation or rule making, including how CMC operates in a particular country or locality, is considered lobbying. Some laws also define lobbying even more broadly to include our normal marketing activities. You are responsible for knowing and adhering to all the relevant lobbying laws and associated gift laws, if applicable, and for compliance with all reporting requirements. In general, any and all lobbying activity related to CMC is coordinated through CMC's General Counsel. You must obtain the prior approval of CMC's General Counsel to lobby or authorize anyone else (for example, a consultant or agent) to lobby on CMC's behalf.

#### *4.2.7 Accounting, Financial Reporting and Disclosure Obligations*

As a public company, CMC is required to follow strict accounting principles and standards, to report financial information accurately and completely, and to have appropriate internal controls and processes to ensure that our accounting and financial reporting and disclosure comply with relevant law. Each of us has an obligation to comply with these requirements and to do what is needed to help CMC comply.

To this end, the rules for accounting and financial reporting require the proper recording of, and accounting for, revenues, costs, expenses, and other assets and liabilities; if you have involvement in or responsibility for these matters, you need to understand and follow these rules. Similarly, each of us needs to ensure that we comply with related rules, such as those that prohibit anyone from assisting others to account improperly or make false or misleading financial reports.

You must accurately and completely record and report all information, and you must not assist anyone to record or report any information inaccurately or in a way that could be misleading. In addition, you must never provide advice to anyone outside of CMC, including customers, suppliers or business partners, about how they should record or report their own revenues, costs, expenses and other assets and liabilities. If you become aware of any action related to accounting or financial reporting that you believe may be improper, you are encouraged and expected to contact CMC's General Counsel, CEO, CFO, Controller, Director of Internal Audit, or other CMC manager by using the various communications channels described in this Code of Business Conduct.

Furthermore, CMC's policy is to provide full, fair, accurate, timely and understandable disclosure in reports and documents that CMC submits to or files with the Securities and Exchange Commission, other regulatory bodies, and in other public communications made by us. The accuracy and timeliness of public disclosure can have an impact on the investment decisions of hundreds of investors. CMC's executive, financial, and accounting officers are responsible for assuring that the information we release to the public is free from material misstatements, omissions, or inaccuracies, but you must also do your part. Your first responsibility is to assure that all of our business is conducted in accordance with our Vision and Values and with this Code of Business Conduct. If you become aware of any facts or circumstances that cause you to believe that any information that has been or will be released to the public contains material misstatements, omissions, or inaccuracies, you are encouraged and expected to contact CMC's General Counsel, CEO, or CFO to discuss the matter. See Section 3.1. Communications Channels, for a complete description of the channels open to you to express any concerns about this or other matters covered by the Code of Business Conduct or otherwise.

In certain situations and pursuant to and in compliance with relevant law, CMC in its discretion may recover, cancel or rescind equity incentive program or annual incentive program bonus awards where certain material misstatements, omissions or inaccuracies have occurred subsequent and in relation to such awards being delivered.

### **5.0 FURTHER GUIDANCE REGARDING WORKING WITH CUSTOMERS, SUPPLIERS AND OTHER OUTSIDE PARTIES**

You must be ethical and lawful in all of your business dealings whether you are selling, buying or representing CMC in any other capacity.

Today CMC is engaged in a variety of business relationships with other companies and organizations, including customers, suppliers, distributors, and co-suppliers/original equipment manufacturers. No matter what type of organization you are dealing with or what its relationship is to CMC, you should always observe the following general standards.

#### *5.1 Avoiding Misrepresentation*

Never make misrepresentations or dishonest statements to anyone. If you believe that the other person may have misunderstood you, promptly correct any misunderstanding. Honesty based on clear communication is integral to ethical behavior. The resulting trustworthiness is essential to forming and maintaining sound, lasting relationships.

#### *5.2 Dealing with Suppliers*

In deciding among competing suppliers, we weigh the facts impartially to determine the best supplier. You should do so whether you are in a purchasing job, a local office or any other part of our business, and without regard to the type or volume of transaction.

Whether or not you are in a position to influence decisions involving the evaluation or selection of suppliers, you must not exert or attempt to exert influence to obtain "special treatment" for a particular supplier. Even to appear to do so can undermine the integrity of our established procedures. CMC uses an evaluation process to select the best suppliers. Prices and other information submitted by suppliers and our evaluation of that information are confidential to CMC. Employees and former employees may not use any of this information outside of CMC without written permission from management. It is essential that suppliers competing for our business have confidence in the integrity of not only our selection process but also our working relationship with them once they have been selected as a supplier.

##### *5.2.1 Avoiding Reciprocal Dealing*

Seeking reciprocity is contrary to CMC policy and may also be unlawful. You should not tell a prospective supplier that your decision to buy its goods or services is conditioned on the supplier's agreement to buy CMC products or services.

This does not mean that a customer of CMC cannot be a supplier to CMC or that CMC can never consider its other relationships with the supplier when it is evaluating the supplier. It simply means that CMC's decision to buy from a supplier must be made independently from that supplier's decision to buy from CMC.

### *5.3 Competing in the Field*

CMC will compete vigorously for business. If circumstances require modified pricing or service or support terms, the modifications must be specifically approved by the appropriate level of management. Never extend any modified contract terms to any customer without prior authorization.

If you are performing a marketing or customer service or support activity, CMC expects you to compete not just vigorously and effectively, but lawfully and ethically as well.



### 5.3.1 *Working with Customers and Avoiding False and Misleading Statements about Competitors*

It is CMC's policy to sell our products and offerings on their merits, enabling our customers to make their choices in an unrestrained manner, based on accurate information. Never force or suggest that it is a requirement that our customers take other CMC products or offerings as a condition of delivery of the desired product or offering. In addition, we will not sell a product on the condition that the customer will not use or purchase the products of a particular competitor. Also, false or misleading statements and innuendoes about competitors, their products or their offerings are improper. All of this type of conduct only invites disrespect from customers and complaints from competitors.

Be sure that all comparisons to competitors and their products and offerings are substantiated, and that they are complete, accurate and not misleading whenever they are made. Certain countries prohibit comparative advertising. Advice on this subject is available from the Office of the General Counsel.

### 5.4 *Relationships with Other Organizations*

Frequently, other organizations have multiple relationships with CMC. For example, a co-supplier/original equipment manufacturer may be both an end user and a competitor. Another organization may be a CMC supplier and customer at the same time, or a supplier to us in one aspect of its business and a competitor in another. Still another organization may be an agent for our customer (for example, a third party chemical manager), and also a competitor to us. In any dealings, it is important that you understand each one of the relationships involved, and act accordingly.

#### 5.4.1 *Complementary Third Parties*

CMC has various relationships with complementary third parties, such as distributors and sales representatives, to help CMC market and support CMC's products and offerings, and those relationships are governed by the arrangements we have with those third parties as well as relevant law in many countries. If your responsibilities bring you into contact with these third parties, and you have questions about how to work with them, please contact the Office of the General Counsel.

#### 5.4.2 *Business Contacts with Competitors*

It is important to recognize when a company you are dealing with, as a supplier, customer, or agent to a customer of ours, is also a CMC competitor. Such relationships require extra care. It is inevitable that you and competitors will, from time to time, meet, talk and attend the same industry or association meetings. Many of these contacts are perfectly acceptable as long as you follow established procedures. Acceptable contacts include: sales to other companies in our industry and purchases from them; approved participation in joint meetings or interactions with mutual customers; and attendance at business shows, standards organizations and trade associations. But even these contacts require caution. If in doubt, you should seek advice from the Office of the General Counsel.

#### 5.4.3 *Prohibitions*

In all contacts with competitors, *do not* discuss pricing policy, contract terms, costs, inventories, marketing and product plans, market surveys and studies, production plans and capabilities, arrangements with, or identity of, suppliers -- and, of course, any other proprietary or confidential information.

Discussion of these subjects or collaboration on them with competitors can be illegal. If a competitor raises any of them, even lightly or with apparent innocence, you should object, stop the conversation immediately, and tell the competitor that under no circumstances will you discuss these matters. If necessary, you should leave the meeting.

In summary, disassociate yourself and CMC from participation in any possibly illegal activity with competitors; confine your communication to what is clearly legal and proper. Finally, report immediately to the CMC General Counsel any incident involving a prohibited subject.

### 5.5 *Acquiring and Using Information about Others*

In the normal course of business, it is not unusual to acquire information about many other organizations, including competitors. Doing so is a normal business activity and is not unethical in itself. In fact, CMC quite properly gathers this kind of information for such purposes as evaluating suppliers and creditworthiness. We also collect information on competitors from a variety of legitimate sources to evaluate the relative merits of their products, services, and marketing methods. This activity is proper and necessary in a competitive system.

There are, however, limits to the ways that information should be acquired and used, especially information about competitors. No company should use improper means to acquire a competitor's trade secrets or other confidential information. Illegal practices such as trespassing, burglary, wiretapping, bribery and stealing are obviously wrong; so is attempting to acquire a competitor's confidential information from the competitor's employees or CMC's customers. CMC will not tolerate any form of questionable intelligence-gathering.

Information about other companies, especially that of our customers and suppliers, should be treated with sensitivity and discretion. Such information is often about individuals. Other companies are rightly concerned about their proprietary information, reputations and the privacy of their people.

In addition, individuals, such as the employees of customers and suppliers, are also concerned about their privacy, especially now that internet use is so widespread. CMC remains committed to protecting the privacy of personal information of others. CMC will only collect, use, process, and disclose an individual's personal information in accordance with our privacy policies and guidelines.

When working with sensitive information about other companies and individuals, you should use that information in the proper context and make it available only to other CMC employees with a legitimate need to know. In presenting such information, you should disclose the identity of the organization or individuals only if necessary. If disclosure is not necessary, you should present the information in the aggregate or by some other means.

## 5.6 Information Owned by Others

Like CMC, other organizations and some individuals have intellectual property, including confidential information, they want to protect. They are sometimes willing to disclose and allow others to use their proprietary information for a particular purpose. If you receive another party's proprietary information, you must proceed with caution to prevent any accusations that CMC misappropriated or misused the information.

### 5.6.1 Receiving Information that May Be Confidential or Have Restrictions on Its Use

To avoid the risk of CMC being accused of misappropriating or misusing someone's confidential or restricted information, there are certain steps you must take before receiving such information. The receipt of confidential or restricted information (whether oral, visual or written) must not take place until the terms of its use have been formally agreed to by CMC and the other party in a written agreement approved by CMC's Associate General Counsel – Intellectual Property. Once another party's confidential or restricted information is properly in your hands, you must not use, copy, distribute or disclose that information unless you do so in accordance with the terms of the agreement.

In any case, do not take the status of information for granted. If you have information in your possession that you believe may be confidential to a third party or may have restrictions on its use, you should consult immediately with CMC's Associate General Counsel – Intellectual Property.

### 5.6.2 Acquiring Software

Special care should be taken in acquiring software from others. As intellectual property, software is protected by copyright, and may also be protected by patent or trade secret laws. Software includes computer programs in "beta" or finished form, databases and related documentation. The software may be on CD-ROMs or diskettes or it may reside on electronic online bulletin boards or databases or be available through the internet. Before you accept software, access software or data on or from a network, or accept a license agreement, you must review the matter with CMC's Associate General Counsel – Intellectual Property. The terms and conditions of any license agreement--such as provisions not to copy or distribute programs--must also be strictly followed. If you acquire software for your personally owned equipment, you should not copy any part of such software in any work you do for CMC or place such software on any CMC-owned computer system. This includes any copies of software which reside on any electronic online bulletin boards or databases.

It is your responsibility to make sure that all third party software you are using is appropriately licensed and that you use it only in accordance with the terms of its license.

## 5.7 Using Trademarks

CMC and many other companies have trademarks--words, names, symbols or devices--that are used to identify and distinguish the company's products. Two of CMC's most prominent trademarks are our logo and name, Cabot Microelectronics. Some trademarks are registered in the U.S. Patent and Trademark Office; others are not. For example, "iCue" and "Epic" are registered trademarks of CMC, indicated by an "(R)". There are other trademarks of CMC that are not yet registered, for example, "LUSTRA". Its trademark status is indicated by "TM". There may be additional or different trademark designations outside of the U.S.

In all countries, it is important that you properly acknowledge and use CMC trademarks and the trademarks of other companies. Specifically, you should always ensure that the trademark is spelled correctly and written the way the owner of the trademark writes it. You should not use the trademark as a generic name and should use the trademark only as an adjective. Also, you should indicate the first time the trademark is mentioned in a publication that it is a trademark of CMC or of the company who owns it.

You should consult CMC's Associate General Counsel – Intellectual Property if you have questions on the proper use of a trademark.

## 6.0 YOUR OWN ACTIVITIES

### 6.1 Conflicts of Interest

Your private life is very much your own. Still, a conflict of interest may arise if you engage in any activities or advance any personal interests, at the expense of CMC's interests. It's up to you to avoid situations in which your loyalty may become divided. Each individual's situation is different, and in evaluating your own, you will have to consider many factors. The most common types of conflicts are addressed here to help you make informed decisions. You should consult with CMC's General Counsel if you have any questions about these matters.

#### 6.1.1 Assisting a Competitor or Other Organizations Related to Our Industry or Business

An obvious conflict of interest is providing assistance, services or information to an organization that markets products and offerings in competition with CMC's current or potential products or offerings. Similarly, another conflict of interest is providing assistance, services or information related to our industry or business to an organization that is in the business of information-gathering for financial, investment or industry assessment or analysis purposes (e.g., "expert networks", industry consulting, or investment analysis firms). You may not work for or provide services to any such organizations in any capacity, such as an employee, a consultant, an information source, an "expert", or as a member of its board of directors; you may not hold more than a nominal financial interest in such an organization if it is publicly traded, and not hold any interest if it is privately held. Such activities are prohibited because they could divide your loyalty between CMC and that organization. In addition, they could involve your disclosing inside or other information of CMC or a third party such as a customer or a supplier.

In addition, you may not serve as a member of the board of directors of any for-profit entity, whether publicly or privately held, without prior approval from the CMC General Counsel.

### 6.1.2 Competing against CMC

Employees should be careful to avoid activities that conflict with CMC's business interests.

Obviously, you may not commercially market or develop products or services in competition with CMC's current or potential products or offerings. Such activities are "commercial" if you receive direct or indirect remuneration of any kind. In addition, certain non-commercial activity, such as research collaborations with universities or consortiums, also might conflict with CMC's business interests.

Because CMC is expanding into new lines of business and new areas of interest, the company will redraw lines of acceptable activity on an ongoing basis. It is unlikely that you will find definitive answers to many of your questions regarding the boundaries of acceptable activity in published guidelines. It is therefore your responsibility to consult with your management or the Office of the General Counsel to determine whether your planned activity will compete with any of CMC's actual or potential businesses. This should be done before you pursue any activity that might create a conflict of interest or the appearance of a conflict of interest with CMC.

### 6.1.3 Supplying to or Other Relationships with CMC

Unless approved in advance by an executive officer and CMC's General Counsel, you may not be a supplier of any kind of product or services to CMC, represent a supplier to CMC, work for a supplier to CMC, hold more than a nominal financial interest in a supplier, or be a member of its board of directors while you are an employee of CMC. In addition, you may not accept money or benefits of any kind for any advice or services you may provide to a supplier in connection with its business with CMC. These same prohibitions also apply to your dealings with any entity with whom CMC does business.

### 6.1.4 Other Personal Financial Interests

In addition to the restrictions discussed above, you should not have any financial interest in any organization with whom CMC does business or competes if that interest would give you or would appear to give you a conflict of interest with CMC. Such organizations include suppliers, competitors, customers, distributors and co-suppliers/original equipment manufacturers. You should consult with CMC's General Counsel if you have any questions remaining after considering the following:

#### 6.1.4.1 Publicly Traded Securities

To determine whether an improper interest exists, ask yourself the following questions:

- What is the extent of the competition or the nature of the relationship between CMC and the other company?
- If the other company is in more than one line of business, how significant is the part that competes with or supplies CMC?
- What is the size of my investment in relation to my salary and other family income, including income from other investments?
- Is it significant enough to cause me to take some action as a CMC employee to protect or enhance my investment?
- Given the nature of my job in CMC, could my actions as a CMC employee affect the value of my investment in the other company (for example, do you have anything to do, either directly or indirectly, in deciding whether CMC does business with that company)?
- Could my actions significantly enhance my investment, even if it is a relatively modest one?

A financial interest is improper if your job, the amount of your investment, or the particular company in which you invested could--when viewed objectively by another person--influence your actions as a CMC employee.

Additionally, from time to time, an existing or prospective CMC supplier, distributor or customer may offer stock options or other securities to a select small group of investors in connection with the company's initial public offering. You should not accept or buy any of that company's securities in such a situation without receiving prior approval from CMC's General Counsel.

You should not evade these guidelines on investments by acting indirectly through anyone else.

#### 6.1.4.2 Privately Held Organizations

Investments in privately (sometimes referred to as "closely") held organizations--typically, privately held corporations, partnerships or even sole proprietorships--raise additional concerns over those in publicly traded companies because of the closer ties of investors to most privately held organizations. For example, there are generally relatively few investors or owners of such companies, giving each a greater stake in ownership; the investors often have a chance to participate in the company's day-to-day operations; and the investors may be perceived to be closely identified with the company.

This relatively close relationship may give the appearance to competitors of the privately held organization that it derives some benefit from CMC. Such a relationship may also give the appearance to CMC employees that the investing employee is using CMC's time, facilities or confidential information for the benefit of the privately held company. For these reasons, employees may not make any investment in a privately held organization that is a competitor, supplier, distributor, customer or other organization with whom CMC does business.

## *6.2 Using Inside Information and Insider Trading*

In the course of your employment with CMC, you may become aware of information about CMC or other companies that has not been made public. The use of such nonpublic or "inside" information about CMC or another company for your financial or other benefit not only is unethical, but also may be a violation of law. U.S. law makes it unlawful for any person who has "material" nonpublic information about a company to trade the stock or other securities of the company or to disclose such information to others who may trade. Violation of such laws may result in civil and criminal penalties, including fines and jail sentences. CMC will not tolerate the improper use of inside information. These prohibitions also apply outside the U.S.

Material inside information is information which is not available to the general public and which could influence a reasonable investor to buy, sell or hold stock or securities. While it is not possible to identify in advance all information that could be viewed as material inside information, some examples might include nonpublic information about: CMC's financial performance including earnings and actions related to its stock; acquisitions or other business combinations; divestitures; major new product announcements; significant advances in research; significant contracts or the loss of them; and, other significant activities affecting CMC. Here are some examples of how you can avoid the improper use of inside information:

- If you know that CMC is considering an alliance or is about to announce a new product or make a purchasing decision that could affect the price of the stock of a CMC supplier or other company, you should not buy or sell the stock of that company until after the information becomes public.
- Similarly, if you know that CMC is about to make an announcement that could affect the price of its own stock, you should not buy or sell CMC stock on the open market until after the announcement.
- You should not buy or sell the stock of a customer, supplier or other company with whom CMC does business based on any inside information you have about that company.
- If you have nonpublic information that CMC is about to build a new facility or expand an existing facility, you should not invest in land or in any business near the new site.
- You should not disclose inside information to CMC employees who do not have a business need to know or to anyone outside of CMC.

CMC's directors, officers, and other key employees are also subject to additional responsibilities and guidelines with respect to trading in CMC's stock, such as a prohibition on trading during quarterly "blackout" periods.

As with investments, you should not evade these guidelines by acting through anyone else or by giving inside information to others for their use even if you will not financially benefit from it.

If you have any doubt about what you can or cannot do in this area, you should consult with CMC's General Counsel.

## *6.3 Using CMC's Time and Assets*

You may not perform non-CMC work or solicit such business on CMC premises or while working on CMC time, including time you are given with pay to handle personal matters. Also, you are not permitted to use CMC assets, including equipment, information systems, telephones, materials, resources or proprietary information for any outside work.

## *6.4 Public Service*

CMC encourages employees to be active in the civic life of their communities. However, such service may, at times, place you in a situation that poses a conflict of interest with CMC. As a board or committee member, you may, for example, be confronted with a decision involving CMC. It might be a decision by a board of tax assessors or a zoning board that affects CMC property. In such circumstances, your interest in CMC and your obligation to the civic organization might pull you in opposite directions. The law may require you to abstain, depending on your position in CMC and whether you stand to gain personally from the decision. On the other hand, there may be circumstances in which the law does not permit you to abstain. While you are in the best position to make the decision and bear the responsibility for the decision, before making your decision, you should get advice from the civic organization's lawyer and from the Office of the General Counsel. In order to protect CMC from embarrassment or other issues, whether or not you finally abstain, you should make it clear that you are a CMC employee and thereby head off any charges of trying to conceal your association with CMC. If you decide to abstain, state clearly that you are doing so because there would be a conflict of interest--or the appearance of one--if you did not.

## *6.5 Participation in Political Life*

CMC will not make contributions or payments or otherwise give any endorsement of support which would be considered a contribution directly or indirectly to political parties or candidates, including through intermediary organizations, such as political action committees or campaign funds. For example, CMC will not purchase tickets or pay fees for you or anyone else to attend any event where any portion of the funds will be used for election campaigns. In many countries, political contributions by corporations are illegal. CMC will not make such contributions, even in countries where they are legal. Also, the company will not provide any other form of support that may be considered a contribution.

You must not make any political contribution as a representative of CMC. You may not request reimbursement from CMC, nor will CMC reimburse you, for any personal contributions you make. In addition, you should recognize that your work time or use of CMC assets is the equivalent of such a contribution. Therefore, you will not be paid by CMC for any time spent running for public office, serving as an elected official or campaigning for a political candidate, unless required by law. You can, however, take reasonable time off without pay for such activities if your CMC duties permit the time off and it is approved by your manager. You also may use vacation time for political activity.

### *6.5.1 Speaking Out*

When you speak out on public issues, make sure that you do so as an individual. Don't give the appearance that you are speaking or acting on CMC's behalf.

#### *6.6 Someone Close to You Working in the Industry*

With the growth in two-career families and the expansion of our industry, you may find yourself in a situation where your spouse, another member of your immediate family or someone else you are close to is a competitor or supplier of CMC or is employed by one. While everyone is entitled to choose and pursue a career, such situations call for extra sensitivity to security, confidentiality and conflicts of interest. The closeness of the relationship might lead you to inadvertently compromise CMC's interests.

There are several factors to consider in assessing such a situation. Among them are the relationship between CMC and the other company, the nature of your responsibilities as a CMC employee and those of the person close to you, and the access each of you has to your respective employer's confidential information.

If you have any questions about your situation, you should review it with your manager to assess the nature and extent of any concern and how it can be resolved. Frequently, any risk to CMC's interests is sufficiently remote that your manager need only remind you to guard against inadvertently disclosing CMC confidential information. However, in some instances, a change in the job responsibilities of one of the people involved may be necessary.

## 7.0 SOME ADDITIONAL GUIDANCE

As already stated, while this Code of Business Conduct provides you with basic guidelines for performing your responsibilities as a CMC employee in a lawful and ethical way and in conjunction with CMC's Vision and Values, it cannot serve as a definitive statement for each situation that you may encounter as a CMC employee. If you are in doubt about a particular business conduct situation, you might ask yourself the following questions:

- Is it legal?
- Does it violate CMC's policy?
- Is it consistent with CMC's Vision and Values?
- Is it fair and just? How does it make me feel about myself?
- What would my family think about it?
- How would it look in a newspaper article?
- Will I sleep soundly tonight?
- What would I tell a child to do?

If you are unsure about what to do, ask questions – contact your manager, a more senior-level manager, the Human Resources Department or the Office of the General Counsel.

To keep pace with the complexity and change that is an ongoing part of our business and industry, we will maintain this Code of Business Conduct online and update it on an ongoing basis as necessary. Employees also need to comply with CMC's employee policies and procedures, and employees who work with particular matters – for example, safety, health and environment, human resources, finance, export/import – also may have additional guidelines to follow.

Any exceptions to CMC's Code of Business Conduct for CMC employees other than Directors or Executive Officers must be specifically approved by CMC's Chief Compliance Officer, who is CMC's General Counsel; any exceptions for Directors or Executive Officers must be specifically approved by the Board of Directors of CMC.



### **CODE OF BUSINESS CONDUCT CERTIFICATION**

I acknowledge that I have received and will comply with Cabot Microelectronics Corporation's Code of Business Conduct. I understand that if I have questions related to the Code of Business Conduct, or become aware of any violations or potential violations of it, I need to discuss them promptly with my manager, any other CMC manager, the Human Resources Department, CMC counsel, including CMC's General Counsel, who is CMC's Compliance Officer, or CMC's Director of Internal Audit, call the Ethics Line at 630/499-2702, send an email to [Ethics\\_Email@cabotcmp.com](mailto:Ethics_Email@cabotcmp.com), contact any member of CMC's Board of Directors, including any member of the Audit Committee of the Board, by sending an email to [Audit\\_Committee@cabotcmp.com](mailto:Audit_Committee@cabotcmp.com), or contact the independent, multilanguage service Listen Up via either phone, email ([listenupreports.com](http://listenupreports.com)) or letter, as detailed in Section 3.1 of the Code of Business Conduct. I understand I can make any inquiry or notification either anonymously or by identifying myself.

Signature

Name

Date

**Exhibit 10.46**Non-Employee Directors' Compensation Summary to be effective as of March 2011

As of March 2011, non-employee directors will be eligible for the following compensation:

<b>Annual Retainer Fee*</b>	\$60,000
<b>Committee Membership Fee*:</b>	
Audit committee member	\$12,500
Compensation committee member	\$10,000
Nominating and corporate governance committee member	\$10,000
<b>Committee Chair Annual Retainer Fees* :</b>	
Audit committee chairperson	\$25,000
Compensation committee chairperson	\$15,000
Nominating and corporate governance committee chairperson	\$15,000
<b>No Standing Committee or Board Meeting Fees**</b>	
<b>Annual Non-qualified Stock Option Grant***</b>	6,000 options
<b>Annual Restricted Stock Unit Award***</b>	2,000 units
<b>Initial Non-qualified Stock Option Grant****</b>	7,500 options
<b>Initial Restricted Stock Unit Award****</b>	2,500 units

\*Paid quarterly beginning with the quarter end following each the effective date of appointment, and subsequently, beginning with the quarter end following our annual meeting

\*\*To the extent a special committee is established by board of directors to address a unique matter, committee meeting fee of \$1,500 will be provided

\*\*\*Made at the time of our annual meeting, with 100% vesting occurring on the first anniversary of the grant/award date

\*\*\*\*Made as of the effective date of appointment to the board of directors, with vesting occurring 25% immediately on the grant/award date, and 25% per year on the next three anniversaries of the grant/award date

Upon a non-employee director's termination of service as a director of the Company for reason of Death, Disability or a Change in Control, as defined in the 2000 Equity Incentive Plan and/or an award agreement, the grant or award will continue to be fully vested. In addition, if 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 2000 Equity Incentive Plan, the non-employee director has completed at least two full terms as a director, as defined in our bylaws, the grant or award will continue to be fully vested.

Under our Directors' Cash Compensation Umbrella Program, which only applies to non-employee directors and is filed as an exhibit to our Annual Report on Form 10-K filed with the SEC on December 10, 2003, each non-employee director may choose to receive his compensation either in cash, in fully vested restricted stock under our 2000 Equity Incentive Plan (as of the date the fees are earned, the fees would be converted into the equivalent number of fully vested restricted shares, which would be beneficially owned and reported on Form 4 filings), or as deferred compensation under our Directors' Deferred Compensation Plan, as amended September 23, 2008, which first became effective in March 2001, and is filed as an exhibit to our Annual Report on Form 10-K filed with the SEC on November 25, 2008. At present, non-employee directors continue to receive their respective annual retainer fees, committee chair annual retainer fees and annual restricted stock unit awards and non-qualified stock option grants at the time of our annual meeting, or upon the effective date of a director's original election to the board of directors, if other than the annual meeting date, and as described in greater detail above, as of March, 2011, they will receive their annual retainer and committee chair and member fees on a quarterly basis. Non-employee directors also are eligible for reimbursement of travel and other out-of-pocket costs incurred in attending meetings. Non-employee directors are not eligible for any other compensation arrangement.

**CABOT MICROELECTRONICS CORPORATION  
ANNUAL INCENTIVE AND SALES INCENTIVE PROGRAMS**

**ARTICLE I. GENERAL**

Section 1.1. Purpose. Cabot Microelectronics Corporation (the "Corporation") maintains the Cabot Microelectronics Annual Incentive Program and Sales Incentive Program (the "Programs") to benefit and advance the interests of the Corporation by providing to the Corporation's employees performance-based cash bonuses ("Bonuses") that are based upon the achievement of financial, business and other performance goals.

Section 1.2. Administration of the Program. The Compensation Committee of the Corporation's Board of Directors (the "Committee") shall administer the Programs. The Committee may adopt such rules as it deems appropriate in order to carry out the purpose of the Programs. Questions of interpretation, administration and application of the Program shall be determined by the Committee. The Committee may authorize any one or more of its members, or any officer of the Corporation, to execute and deliver documents on behalf of the Committee with respect to the Programs. The determinations of the Committee shall be final and binding in all matters relating to the Programs. The Committee shall have authority to determine the terms and conditions of Bonuses. With the exception of any determination or payment of any Bonus to any Executive Officer of the Corporation (as defined by relevant Securities and Exchange Commission regulations), the Committee may delegate some or all of its authority under the Programs to the Chief Executive Officer, other officers or the Corporation's Global Human Resources Director.

Section 1.3. Eligible Persons. Bonuses may be granted to employees of the Corporation. The Committee or, if applicable, its delegate(s) shall determine the employees who are eligible to participate in the Programs ("Participants"). An individual shall not be deemed an employee for purposes of the Programs unless such individual is classified and receives compensation from the Corporation for services performed as an employee of the Corporation.

**ARTICLE II. BONUSES**

Section 2.1. Bonuses. The Committee may grant annual Bonuses to employees subject to the provisions of the Programs.

Section 2.2. Terms of Bonuses. The Committee or, if applicable, its delegate(s) shall (i) establish for the relevant period of the Programs ("Performance Period") the applicable performance goals and objectives ("Performance Objectives") for the Corporation and each Participant, and the particular allocation to each such Performance Objective, and (ii) establish target bonuses for each Participant, which shall equal a percentage of the Participant's base salary. In general, for the Annual Incentive Program, the Performance Period is the Corporation's fiscal year (October 1 – September 30). In general, for the Sales Incentive Program, the Performance Period is each the first two (October 1 – March 31) and the last two (April 1 – September 30) quarters of the Corporation's fiscal year. Performance Objectives under the Programs may include, but shall not be limited to, various financial, business and operational goals (for example, those related to earnings per share, revenue, gross margin, cash flow, earnings before interest and taxes, customer satisfaction, product quality, securing new opportunities, new product introductions, productivity improvements, customer return rate, and, new business area growth).

Section 2.3. Determination of Bonuses. Following the close of the relevant Performance Period, the Committee, or, with respect to Participants other than Executive Officers, the Committee's delegate(s), shall determine the amount of Bonus (if any) to be paid to each Participant, based on assessment of achievement of the Performance Objectives of the Programs, as well as reflecting an assessment of each Participant's individual performance or other factors during the relevant Performance Period, in the Committee's (or delegate(s)') sole discretion. In no event shall a determination of a Bonus for an Executive Officer be made other than by the Committee.

Section 2.4. Payment of Bonuses. Payment of a Bonus to a Participant shall be made as soon as practicable after determination of the amount of the Bonuses under Section 2.3 above, and after the Committee has approved the aggregate bonus payout amount for the Performance Period, and individual Bonuses for the Corporation's Executive Officers, but in no event later than 75 days after the end of the Performance Period. In no event shall a payment of a Bonus be made to an Executive Officer other than as specifically authorized by the Committee. Participants whose employment is terminated, whether by the Corporation or voluntarily by the Participant, prior to the payment date of a Bonus shall not be entitled to receive a Bonus, whether or not a Bonus amount previously had been designated for such Participant pursuant to the terms of the Programs. According to the intent of the Corporation to award the entire accrual of Bonus amounts for the relevant Performance Period, which is set by the Committee in conjunction with the closing of the Corporation's financial books for such Performance Period, to the extent a Bonus amount had been accrued for and/or designated for such Participant in advance of the termination of such Participant's employment, the Corporation shall reallocate such amount to the pool of other Participants (with the exception of Executive Officers unless specifically agreed upon by the Committee) in the Programs, to the extent administratively practical.

Section 2.5 Recovery of Bonuses. The Corporation may rescind or recover a Bonus paid to a Participant immediately under certain circumstances, including, but not limited to, the Participant's: actions constituting Cause, as determined by the Corporation in its discretion and as otherwise enforceable under local law; rendering of services for a competitor prior to, or within six (6) months after, the payment of a Bonus or the termination of Participant's Service with the Corporation; unauthorized disclosure of any confidential/proprietary information of the Corporation to any third party; failure to comply with the Corporation's policies regarding the identification, disclosure and protection of intellectual property; violation of the Cabot Microelectronics Corporation Employee Confidentiality, Intellectual Property and Non-Competition Agreement; violation of the Cabot Microelectronics Corporation Code of Business Conduct, including those provisions related to financial reporting. In the event of any such rescission or right of recovery, the Participant must repay the Bonus to the Corporation, and the Company shall be entitled to set-off against the amount of the Bonus any amount owed to the Participant by the Corporation.



### ARTICLE III MISCELLANEOUS

Section 3.1. No Additional Participant Rights. The participation of an employee in the Programs shall not give such employee any right to be retained in the employ of the Corporation or any of its affiliates, and the Corporation specifically reserves the right to dismiss a Participant or to terminate any arrangement pursuant to which any such Participant provides services to the Corporation, with or without cause. No person shall have claim to a Bonus under the Programs, except as otherwise provided for herein, or to continued participation in the Programs. There is no obligation for uniformity of treatment of Participants under the Programs. The benefits provided for Participants under the Programs shall be in addition to and shall in no way preclude other forms of compensation to or in respect of such Participants. It is expressly agreed and understood that the employment of a Participant is terminable at the will of either party and, if such Participant is a party to an employment agreement with the Corporation or one of its affiliates, in accordance with the terms and conditions of the Participant's employment agreement.

Section 3.2. No Assignment. The rights of a Participant with respect to any Bonuses granted under the Programs shall not be transferable by the Participant.

Section 3.3. Tax Withholding. The Corporation or a subsidiary thereof, as appropriate, shall have the right to deduct from all payments made under the Programs to a Participant or to a Participant's beneficiary or beneficiaries any federal, state or local taxes required by law to be withheld with respect to such payments.

Section 3.4. No Restriction on Right of Corporation to Effect Changes. The Programs shall not affect in any way the right or power of the Corporation or its stockholders to make or authorize any recapitalization, reorganization, merger, acquisition, divestiture, consolidation, spin-off, combination, liquidation, dissolution, sale of assets, or other similar corporate transaction or event involving the Corporation or a subsidiary thereof or any other event or series of events, whether of a similar character or otherwise.

Section 3.5. Source of Payments. The Corporation shall not have any obligation to establish any separate fund or trust or other segregation of assets to provide for payments under the Programs. To the extent any person acquires any rights to receive payments hereunder from the Corporation, such rights shall be no greater than those of an unsecured creditor.

Section 3.6. Amendment and Termination. The Committee may at any time and from time to time alter, amend, suspend or terminate the Programs in whole or in part.

Section 3.7. Governing Law and Severability. The Programs and all rights and Bonuses hereunder shall be construed in accordance with and governed by the laws of the State of Illinois without regard to conflicts of law principles and applicable federal law. The jurisdiction and venue for any disputes arising under, or any action brought to enforce (or otherwise relating to), the Programs shall be exclusively in the courts in the State of Illinois, including the Federal Courts located therein (should Federal jurisdiction exist). If any portion of the Programs is deemed to be in conflict with local law, that portion of the Programs, and that portion only, will be deemed null and void under that local law. All other provisions of the Programs will remain in full effect.

Section 3.8. Miscellaneous. Notwithstanding any provision of the Programs to the contrary, any and all Bonuses made under the Programs are intended to be exempt from or, in the alternative, comply with Section 409A of the Internal Revenue Code of 1986, as amended, and the interpretive guidance thereunder, including the exceptions for short-term deferrals. The Programs shall be construed and interpreted in accordance with such intent.

## Take Stock in Your Future

**Share in the future of Cabot Microelectronics Corporation (CMC). Enroll in the Employee Stock Purchase Plan (ESPP) and become a shareholder in CMC! As an ESPP participant, you are investing in the potential of the company. You have an opportunity to purchase CMC stock at a favorable price not available to non-employee investors. Stock ownership also entitles you to attend shareholder meetings and vote in elections.**

### **Eligibility**

You may elect to participate in the Plan if you are an employee of CMC and you are regularly scheduled to work:

- at least 20 hours per week; and
- more than 5 months out of the year.

### **How the Employee Stock Purchase Plan Works**

If you meet the above criteria, you may purchase CMC common stock via after-tax payroll deductions. To participate, you must complete the Enrollment/Change Form located on the CMC Intranet and return it to the Corporate Human Resources Department or your designated HR representative during the designated enrollment periods. Enrollment periods take place semi-annually before the beginning of each six-month offering period, during which you make contributions. Enrollments will be effective with the corresponding offering period. For example, if you enroll on December 15, your deductions will occur during the January 1 – June 30 offering period. See the chart below for applicable dates.

<b>Enrollment Period</b> (When You Enroll)	<b>Offering Period</b> (When You Make Contributions)
December 1 through 31	January 1 through June 30
or	or
June 1 through 30	July 1 through December 31

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### **Offering Periods – The Time to Buy**

Stock is purchased semi-annually at the end of each of the two offering periods. The total amount of your ESPP payroll deductions during an offering period are used to purchase shares of CMC common stock in your name at a discounted price on the exercise date. You will receive an account statement from Computershare indicating your stock purchases following the end of each offering period.

### **How to Make Changes to Your Deductions**

To make changes to your contribution amount, complete the ESPP Enrollment/Change Form and return it to the Corporate Human Resources Department or your designated HR representative. If you are not an executive officer or have not been identified as a “key employee” as it relates to CMC’s Insider Trading Policy, you may change your contribution percentage at any time during the offering period, as long as you are in compliance with the provisions of the Policy and are not in possession of any material non public information regarding CMC. Those who are executive officers or have been identified as “key” employees may only make changes outside the designated blackout periods, and after receiving pre-clearance from CMC’s General Counsel, as per the Policy. Changes take effect on the pay period following the processing of your Enrollment/Change Form.

### **Stopping Deductions**

To discontinue your contributions, complete the ESPP Notice of Withdrawal Form and return it to the Corporate Human Resources Department or your designated HR representative. If you have not been identified as a “key employee” as it relates to CMC’s Insider Trading Policy, you may discontinue your contribution percentage at any time during the offering period. Those who are executive officers or identified as “key” employees may only make changes outside the designated blackout periods, and after receiving pre-clearance from CMC’s General Counsel, as per the Policy. Changes take effect on the pay period following the processing of your Enrollment/Change Form. Any accumulated deductions during that offering period may be held to purchase stock or employees may elect to have these deductions reimbursed. Reimbursements take place on the pay period following processing of the employee’s Withdrawal Form. **NOTE: When you stop your deductions during an offering period, you may not re-enroll until the next offering period.**

### **Contribution Maximums**

You may elect to contribute between 1-10% of your compensation\*, or any whole dollar amount that equates to from one percent (1%) through ten percent (10%) of your compensation, up to U.S. \$12,500 (or local currency equivalent) per offering period. For each offering period, you may not purchase more than the number of shares determined by dividing U.S. \$12,500 (or the local currency equivalent) by the fair market value of a

share of common stock on the first day of the offering period (the “enrollment date”). During any one calendar year, you may not purchase more than U.S. \$25,000 (or the local currency equivalent) worth of CMC common stock based on its fair market value on the applicable enrollment dates.

\*Compensation includes your straight time gross earnings, overtime pay, shift differential, cash bonuses exclusive of relocation and sign-on bonuses, and any salary continuation or short-term disability payments paid to you by Cabot Microelectronics Corporation.



### **Purchase Price**

On the last day of the offering period (the "date of exercise" or "exercise date"), the fair market value of CMC's common stock as of such exercise date is compared with the fair market value of the stock on the first day of the offering period (the "enrollment date"). The price per share you pay for the stock, called the "purchase price", is 15% less than the lower of these two prices. You'll always pay less than the fair market value on the lower of the exercise date or the enrollment date, which is the closing price of the stock as of such date, respectively.

### **Selling Stock**

You may sell your shares of stock at any time following the purchase date by contacting Computershare at 1-800-633-9394, subject to CMC's Insider Trading Policy, pre-clearance requirements, and quarterly blackout periods for key employees and executive officers.

### **Tax Obligations**

**U.S. Employees:** You'll have taxable income in the year in which there's a "disposition" of the purchased shares. "Disposition" generally includes any transfer of legal title, including a transfer by sale, exchange or gift. However, because the Plan meets all Internal Revenue Code Section 423 requirements, under current tax law, if you hold your stock for a period of one year from the exercise date and two years from the start of the offering period in which the shares of stock were purchased, you will receive favorable tax treatment on that sale. For more information on taxes, please consult your personal tax advisor.

**International Employees:** Tax treatment on shares varies from country to country. For specific information on the tax treatment that applies to you, please consult your personal tax advisor.

**All Employees:** You are advised to consult with your personal tax advisor to determine the tax implications of participation in the Plan under your personal circumstances.

### **NO GUARANTEES**

*If you enroll in the Employee Stock Purchase Plan, you accept the risk of stock ownership. There are no guarantees on your investment returns. There are potential risks and gains when purchasing stock, as with any other type of investment. Be sure to read this entire enrollment guide/prospectus and review CMC's annual and quarterly reports before investing.*

### **What Happens If.....**

#### **You Leave the Company**

If you leave CMC and the next exercise date will occur within 3 months of your termination date, your accumulated payroll contributions will be used to purchase CMC common stock on the first exercise date after your departure, unless you elect to have your accumulated payroll deductions returned to you. Any cash balance remaining after the purchase of shares will be returned to you.

If you leave CMC and the next exercise date will occur more than 3 months after your termination date, no shares will be purchased on your behalf, and all of your accumulated payroll deductions will be returned to you.

#### **You Die**

Any cash balance in your account will be paid directly to your estate within 30 days of CMC receiving notification of your death.

### **Accessing Your Account**

Once your CMC stock has been purchased, you may access your account by calling the Computershare Customer Service Center at: 1-800-633-9394.

U.S. callers are required to enter their Social Security Number.

When accessing your account for the first time, the system will ask for the last 4 digits of your account number, which is located on your statement. Next, you will be required to select a Personal Identification Number (PIN). Be sure to remember your PIN, as you will need this PIN to access your account for future

transactions.

International employees are required to enter an access code, which is mailed along with the account statement following the purchase of shares. International employees are also required to enter the Global Identification Number that was assigned following enrollment in the Plan.

Once you reach the main menu, you may select from the following options:

- get account balance information
- get duplicate 1099-DIVs
- sell shares
- get market price quotes
- get Computershare's address
- speak with a customer service representative

**Note: Your account with Computershare will not be activated until your first stock purchase has been made and an account has been set up in your name. This will take place at the end of the offering period in which you initially enrolled.**

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This document is not the official Plan document. The purpose of this document is to summarize the major features of the Plan and the principal rights and benefits available to the participating employees. In the event of any inconsistency between this summary and the actual provisions of the Plan document, the Plan document provisions will govern. Cabot Microelectronics Corporation reserves all right to amend or terminate its employee benefits plans, including the ESPP, at any time.

**Cabot Microelectronics Corporation  
Employee Stock Purchase Plan  
Summary and Prospectus**

This document constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933, as amended.

We established the Cabot Microelectronics Corporation Employee Stock Purchase Plan to allow our eligible employees to purchase shares of Cabot Microelectronics Corporation common stock periodically through payroll deductions.

The Plan is not intended to be a qualified plan under Internal Revenue Code Section 401(a), nor is the Plan subject to the Employee Retirement Income Securities Act of 1974.

This document is not the official Plan document. The purpose of both parts of this prospectus is to summarize, in question-and-answer format, the major features of the Plan and the principal rights and obligations of participants. In the event of any inconsistency between this summary and the actual provisions of the Plan, the Plan will govern.

**The date of this part of the prospectus is November 24, 2010.**

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## **Some Background Information**

**Q:**What is the purpose of the Plan?

**A:**The Plan gives eligible employees the opportunity to acquire a stock ownership interest in Cabot Microelectronics Corporation through convenient payroll deductions. These deductions are applied semi-annually to the purchase of shares of Cabot Microelectronics Corporation common stock at a discount from the then-current market price.

**Q:**When was the Plan adopted?

**A:**The Plan was originally adopted by Cabot Microelectronics Corporation's Board of Directors on March 24, 2000, and offered a total of 475,000 shares (this is referred to as the "Prior Plan"). Cabot Corporation approved the Prior Plan on March 27, 2000 as our sole stockholder on that date. At the annual meeting of the stockholders of Cabot Microelectronics Corporation on March 4, 2008, the Prior Plan was amended to authorize the offering of an additional 500,000 shares and to change the name of the Prior Plan to the Cabot Microelectronics 2007 Employee Stock Purchase Plan. The Prior Plan, as amended, is referred to throughout this Prospectus as the "Plan." The Plan was most recently amended and restated January 1, 2010.

## **Eligibility and Enrollment**

**Q:**Who is eligible to participate in the Plan?

**A:**You're eligible to participate in the Plan if you're a full-time or part-time employee of Cabot Microelectronics Corporation, any of its international branch locations or any designated subsidiary of CMC (this means that you are regularly scheduled to work at least 20 hours per week and more than 5 months per year).

**Q:**Will any subsidiaries of Cabot Microelectronics Corporation participate in the Plan?

**A:**Any subsidiary of Cabot Microelectronics Corporation that the Plan administrator designates as eligible may participate in the Plan.

**Q:**When may I enroll?

**A:**Eligible employees may participate in an offering period under the Plan if they enroll in the Plan before the cutoff date for that offering period. The cutoff date for an offering period generally will be last business day before the offering period begins. You may not begin participating in an offering period once the cutoff date for that offering period has passed.

Employees will be eligible to enroll at the beginning of the offering period following their date of hire, with enrollment forms received after the enrollment period being applied to the next offering period.

**Q:**How do I enroll?

**A:**Eligible employees who are not executive officers or have not been identified as a "key employee" as it relates to CMC's Insider Trading Policy may enroll in the Plan by contacting Cabot Microelectronics Corporation's Human Resources department and completing the appropriate enrollment form, as long as you are in compliance with the provisions of the Policy and are not in possession of any material non public information regarding CMC. Those who are executive officers or have been identified as "key" employees may only enroll outside the designated blackout periods, and after receiving pre-clearance from CMC's General Counsel, as per the Policy.

## **Payroll Contributions**

**Q:** How much of my paycheck can I contribute?

**A:**You may authorize payroll contributions to the Plan of not less than 1% and not more than 10%, or any whole dollar amount that equates to from one percent (1%) through ten percent (10%), of your compensation per payroll period. Please also note that in any offering period you may not purchase more than the number of shares determined by dividing U.S. \$12,500 (or the local currency equivalent) by the fair market value of a share of common stock on the first day of the offering period, also called the "enrollment date". During any one calendar year, you may not purchase more than U.S. \$25,000 (or the local currency equivalent) worth of Cabot Microelectronics Corporation common stock based on its fair market value on the applicable enrollment dates. Your compensation includes your straight-time gross earnings, overtime pay, shift differential, cash bonuses exclusive of relocation and sign-on bonuses, and any salary continuation or short-term disability payments paid to you by Cabot Microelectronics Corporation, in each case before any contributions you make to the Cabot Microelectronics Corporation 401(k) and Savings Plan or any Plan qualified under Internal Revenue Code Section 125 (in the U.S. only).

Your compensation for this purpose does not include severance payments, moving allowances, reimbursement of expenses, any other additional compensation paid to you during a payroll period, or any non-cash compensation.

**Q:**When do my payroll deductions begin?

**A:**Payroll deductions begin on the first payday of the offering period for which you enroll and continue at the same rate until you change your payroll deduction amount or stop participating in the Plan.

**Q:**Can I change my payroll deductions?

**A:** To make changes to your contribution amount, complete the ESPP Enrollment/Change Form and return it to the Corporate Human Resources Department or your designated HR representative. If you are not an executive officer or have not been identified as

a “key employee” as it relates to CMC’s Insider Trading Policy, you may change your contribution percentage at any time during the offering period, as long as you are in compliance with the provisions of the policy and are not in possession of any material non public information regarding CMC. Those identified as “key” employees may only make changes outside the designated blackout periods, and after receiving pre-clearance from CMC’s General Counsel, as per the Policy. Changes take effect on the pay period following the processing of your Enrollment/Change Form.

**Q:**What happens to my payroll deductions?

**A:**Although all your payroll deductions are credited to you, we will not establish separate accounts to hold them. Instead, we will hold all payroll deductions as part of our general assets and use them for any corporate purpose. No interest is payable under the Plan.

## Options, Stock Purchases and Sales

**Q:**What is an “offering period”?

**A:**The Plan will have two offering periods per calendar year, each of which will be approximately six months in duration. The two offering periods will occur during the following dates:

January 1st through June 30th; and

July 1st through December 31st

Each offering period will begin and end on a business day. For example, if the offering period ends on December 31, which falls on a Saturday in a given year, the actual offering period would end on Friday, December 30, which is a business day.

**Q:**What is an “enrollment date”?

**A:**The “enrollment date” is the first day of an offering period.

**Q:**What happens on the enrollment date?

**A:**On the enrollment date, each participant in the offering period is deemed to have been granted an option to purchase shares of Cabot Microelectronics Corporation common stock with the participant’s accumulated payroll deductions for the offering period, up to the Plan’s share maximums. This option will then be deemed exercised on the exercise date.

**Q:**What is an “exercise date”?

**A:**The “exercise date” is the last day of an offering period, when the options granted to participants under the Plan on the preceding enrollment date are deemed exercised and shares of Cabot Microelectronics Corporation common stock are purchased with your accumulated payroll deductions.

**Q:**How will my accumulated payroll deductions be converted into U.S. \$ for the purchase of shares?

**A:**Shares are purchased in the open market in U.S. \$ by Computershare, the Plan administrator, transfer agent and record keeper. For employees based outside the U.S., payroll deductions will have to be exchanged from local currency into U.S. \$. Your contributions will be exchanged from your local currency into U.S. \$, using the average of the official exchange rates on the last day of each month over the six-month offering period.

**Q:**When are my shares purchased?

**A:**The total amount of payroll deductions made on your behalf during the offering period will be used to purchase full and deemed fractional shares of Cabot Microelectronics Corporation common stock in your name at the discounted price on the exercise date.

**Q:**What is the purchase price of common stock?

**A:**At the end of each offering period - on or about June 30th and December 31st - the fair market value of Cabot Microelectronics Corporation common stock on the exercise date is compared with the fair market value of the stock on the enrollment date. The price per share you pay for the stock - called the “purchase price” - is 15% less than the lower of these two prices.

**Example:** When the share price is higher on the exercise date than on the enrollment date:

Price on January 1st (enrollment date): \$25

Price on June 30th (exercise date):\$30

What you pay per share of Cabot Microelectronics Corporation common stock:

\$25 less 15%, or \$3.75 = \$21.25 per share

**Example:** When the share price is lower on the exercise date than on the enrollment date:

Price on January 1st (enrollment date): \$25

Price on June 30th (exercise date): \$20

What you pay per share of Cabot Microelectronics Corporation common stock:

\$20 less 15%, or \$3 = \$17 per share

**Q:** If I'm based outside the U.S., what exchange rate will be used when my shares are converted?

**A:** The exchange rate used to convert local currency into U.S.\$ for the purchase of shares will be determined by Cabot Microelectronics Corporation's internal Treasury department and will be the average of the official exchange rates on the last day of each month over the six-month offering period.

**Q:** What is the purchase price of common stock and how would it be determined outside the U.S.?

**A:** At the end of each offering period - on or about June 30th and December 31st - the fair market value of Cabot Microelectronics Corporation common stock on the exercise date is compared with the fair market value of the stock on the enrollment date. The price per share you pay for the stock - called the "purchase price" - is 15% less than the lower of these two prices.

**Example:** When the share price is higher on the exercise date than on the enrollment date:

Price on January 1st (enrollment date): 2560 Japanese Yen

Price on June 30th (exercise date): 3071 Japanese Yen

What you pay per share of Cabot Microelectronics Corporation common stock:

2176 Japanese Yen (15% less than 2560)

**Example:** When the share price is lower on the exercise date than on the enrollment date:

Price on January 1st (enrollment date): 2560 Japanese Yen

Price on June 30th (exercise date): 2048 Japanese Yen

What you pay per share of Cabot Microelectronics Corporation common stock:

1740 Japanese Yen (15% less than 2048)

**Q:** How is the fair market value of Cabot Microelectronics Corporation common stock determined?

**A:** Our common stock is listed on the Nasdaq Global Select Market and its fair market value on any date is the closing sales price (or the closing bid, if no sales were reported) quoted for it on the Nasdaq system on that date, as reported in The Wall Street Journal or another source the board of directors deems reliable. In the absence of an established market for the common stock, the fair market value will be determined in good faith by the Plan administrator.

**Q:** Are there any limitations on the number of shares I may purchase?

**A:** Yes. The following limitations apply:

- The number of shares of Cabot Microelectronics Corporation common stock available for purchase by all Plan participants together is (i) 500,000 plus (ii) the number of shares previously reserved for issuance but not issued under the Plan (which was 7,222 as of September 30, 2010). These numbers are subject to adjustment as discussed in "What happens if there's a change in Cabot Microelectronics Corporation's capital structure?" below.
- In any offering period you may not purchase more than the number of shares determined by dividing U.S. \$12,500 (or the local currency equivalent) by the fair market value of a share of common stock on the enrollment date.
- During any one calendar year, you may not purchase more than U.S. \$25,000 (or the local currency equivalent) worth of Cabot Microelectronics Corporation common stock based on its fair market value on the applicable enrollment dates.
- You may not purchase shares in the Plan if you own 5% or more of the total voting power or value of all classes of stock of Cabot Microelectronics Corporation or any parent corporation or subsidiary corporation.
- Any payroll deductions that cannot be applied to the purchase of Cabot Microelectronics Corporation common stock because of any of the last four of these limitations will be refunded on the exercise date without interest.

**Q:** What if there aren't enough shares available to cover all the exercised purchase rights on a particular exercise date?

**A:** If the total number of shares to be issued on any particular exercise date is greater than the maximum number of shares that may be issued under the Plan, the Plan administrator will:

Allocate the available shares pro rata to participants in a uniform manner; and promptly refund to participants any payroll deductions not applied to the purchase of stock.

**Q:** When can I sell the shares I've purchased?

**A:** As a general rule, participants who are not executive officers or have not been identified as a "key employee" as it relates to CMC's Insider Trading Policy can sell their shares at any time, as long as you are in compliance with the provisions of the Policy and are not in possession of any material non public information regarding CMC. Those who are executive officers or have been identified as "key" employees may only make changes outside the designated blackout periods, and after receiving pre-clearance from CMC's General Counsel, as per the Policy. All employees must comply with CMC's Insider Trading and Nondisclosure Policy and applicable company procedures.

**Q:** Are there exercise transaction fees?

**A:** There is no charge for certificate issuance; however the following transaction fees are charged by Computershare.

Fee Type	Fee	Commission		
		(up to 1000)	(1000 - 5000)	5001 & above
Sales- Web/IVR	\$ 24.95	\$ 0.03		
Sales - Representative Assisted	\$ 39.95	\$ 0.07	\$ 0.05	\$ 0.03
Handling Fee	\$ 5.35			
Foreign Currency Check	\$ 35.00			
Outgoing Wire	\$ 35.00			
Stop Payment of Check	\$ 25.00			
Share Delivery	\$ 30.00			
Overnight Check Delivery	\$ 25.00			



## Account Statements

**Q:**Who is the Plan's recordkeeper?

**A:**Computershare is the Plan's recordkeeper. Computershare performs recordkeeping services for a wide range of clients and is independent of Cabot Microelectronics Corporation. Computershare is also Cabot Microelectronics Corporation's "transfer agent" for all stock-related transactions. Computershare's address is:

Computershare Trust Company, N.A.  
P. O. Box 43021  
Providence RI 02940-3021  
Telephone: 800-633-9394  
E-mail: [espp@computershare.com](mailto:espp@computershare.com)  
Internet: <http://www-us.computershare.com/employee>

**Q:**Will I receive a statement indicating the amount and status of my account?

**A:**Yes. After the exercise date for each offering period, you'll receive a statement indicating:

- Your account balance;
- The amount of payroll contributions you made during the offering period;
- The number of shares purchased in your name;
- The purchase price per share;
- The fair market value on the date of purchase; and
- A summary of year-to-date activity.

**Q:**Where do my shares of stock go after they're purchased?

**A:**As soon as practicable after each exercise date, your account at Computershare will be credited with the shares purchased on your behalf. Stock certificates for shares you purchase under the Plan will be issued to you if you so request, at no cost, but you do not need a stock certificate to have full rights as a stockholder.

## Ending Your Participation

**Q:**If I wish to stop participating in the Plan, how do I do so?

**A:**To discontinue your participation in the Plan, complete the ESPP Notice of Withdrawal Form and return it to the Corporate Human Resources Department or your designated HR representative. If you are not an executive officer or have not been identified as a "key employee" as it relates to CMC's Insider Trading Policy, you may discontinue your contribution percentage at any time during the offering period. Those who are executive officers or identified as "key" employees may only elect to discontinue outside the designated blackout periods, and after receiving pre-clearance from CMC's General Counsel. Changes take effect on the pay period following the processing of your Enrollment/Change Form. Any accumulated deductions during that offering period may be held to purchase stock or employees may elect to have these deductions reimbursed. Reimbursements take place on the pay period following processing of the employee's Withdrawal Form. **NOTE: When you stop your deductions during an offering period, you may not re-enroll until the next offering period.**

Of course, you'll still own the stock you've previously purchased under the Plan. If you stop participating in the Plan, you may re-enroll for any future offering period in which you're eligible to participate by completing an Enrollment/Change Form and returning it to the Human Resources department before the applicable cutoff date, assuming compliance with CMC's Insider Trading Policy (if you are an executive officer or identified as a "key employee" pursuant to the Policy, you may only reenroll outside of the company's quarterly blackout periods and pursuant to the Policy, including pre-clearance requirements).

**Q:**How do I rejoin the Plan if I stop participating in it?

**A:**Complete the appropriate form, available on the CMC Intranet, if you wish to re-enroll. The completed form should be returned to the Corporate Human Resources Department or your designated HR representative by the enrollment deadline.

**Q:**What happens if I leave Cabot Microelectronics Corporation?

- A:**
- If you leave Cabot Microelectronics Corporation and the next exercise date will occur within 3 months of your termination date, your accumulated payroll deductions will be used to purchase Cabot Microelectronics Corporation common stock on the first exercise date after your departure unless you elect to have your accumulated payroll deductions returned to you. Any cash balance remaining after the purchase of shares, together with cash in lieu of any deemed fractional shares, will be returned to you.
  - If you leave Cabot Microelectronics Corporation and the next exercise date will occur more than 3 months after your termination date, no shares will be purchased on your behalf, and all of your accumulated payroll deductions and cash in lieu of deemed fractional shares will be returned to you.

**Q:**If I die, what happens to my payroll deductions?

**A:**Your accumulated payroll deductions and cash in lieu of deemed fractional shares will be refunded to your estate in the event of your death.

## **Stockholder Rights**

**Q:**When do I receive rights as a stockholder?

**A:**Once shares are purchased in your name, you'll have all rights as a stockholder with respect to those shares, including voting rights, even if you don't have physical possession of a stock certificate.

**Q:**Will fractional shares be purchased under the Plan?

**A:**Deemed fractional shares will be allocated to participants in the Plan, but fractional shares of Cabot Microelectronics Corporation common stock will never be issued under the Plan. Rather, deemed fractional shares purchased in one offering period will be added to deemed fractional shares purchased in future offering periods, and then whole shares will be issued for these deemed fractional shares. Deemed fractional shares will always be paid in cash.

**Q:**Can I assign or transfer any of my Plan rights?

**A:**No. Your rights under the Plan (including the right to purchase shares under the Plan) cannot be assigned or transferred to anyone else, except by will or the laws of inheritance following your death.

**Q:**Does participating in the Plan affect the terms of my employment?

**A:**Participating in the Plan doesn't provide you with any right to any continued employment by Cabot Microelectronics Corporation.

**Q:**What restrictions apply if I become an "affiliate" or a "Section 16 insider/executive officer"?

**A:**Only certain members of top management are "affiliates" or "Section 16 insiders/executive officers." Cabot Microelectronics Corporation will notify you if you are or become an affiliate or a Section 16 insider/executive officers and will provide you with further information on the following restrictions.

In general, Rule 144 of the Securities Act of 1933, as amended, and Section 16 of the Securities Exchange Act of 1934, as amended, restrict the transfer of stock by affiliates of Cabot Microelectronics Corporation and Section 16 insiders/executive officers under certain circumstances. If you are, or become, an affiliate or a Section 16 insider/executive officer, you may be subject to, among other rules, special notice and reporting requirements, time and volume limitations with respect to the number of shares you can sell and the short-swing profit recovery rules of Section 16.

### **Plan Administration and General Plan Provisions**

**Q:**Who administers the Plan?

**A:**The Plan is administered by the Compensation Committee of the Board of Directors. In this capacity, the Board or the Committee is also called the "Plan administrator." Committee members serve as long as the Board thinks it appropriate and may be removed by the Board at any time. If Rule 16b-3 of the Securities Exchange Act of 1934, as amended, or any later provision provides specific requirements for the administrators of Plans of this type, the Plan will comply with those requirements. The daily administration of the Plan has been delegated to the Human Resources Department.

You should address any inquiries you may have to the Human Resources Department at Cabot Microelectronics' Corporation headquarters in Aurora, Illinois.

**Q:**What powers does the Plan administrator have?

**A:**The Plan administrator has broad discretion to set and change the terms and conditions of participation in the Plan and to construe and interpret the Plan. For example, the Plan administrator may change the length of the offering periods, the maximum number of shares that can be purchased in any offering period, and the discount offered under the Plan.

**Q:**What is the maximum number of shares of common stock that may be issued under the Plan?

**A:**No more than 500,000 shares plus the number of shares previously reserved for issuance under the Plan but not issued (7,222 as of September 30, 2010) may be issued as part of the Plan (subject to adjustment as discussed in "What happens if there's a change in Cabot Microelectronics Corporation's capital structure?" below). The shares may be unissued shares or reacquired shares, including shares purchased on the open market.

**Q:**What is the maximum "lifetime" of the Plan?

**A:**The Plan will terminate when all shares available for issuance under it have been sold, unless the board terminates the Plan earlier.

**Q:**What happens if there's a change in Cabot Microelectronics Corporation's capital structure?

**A:**If there is any change in the shares of Cabot Microelectronics Corporation as the result of a merger, consolidation, reorganization, recapitalization, declaration of stock dividends, stock split-up, combination of shares, exchange of shares, change in corporate structure or similar event, the Committee may make appropriate adjustments to the class and number of shares the Plan can issue, the class and number of shares each Plan participant can purchase and the class and number of shares and the price per share under each outstanding purchase right. These adjustments are intended to prevent any dilution or enlargement of the rights and benefits of Plan participants. The Committee's determinations on these matters are binding and conclusive.

**Q:**What happens if there is a change in control of Cabot Microelectronics Corporation?

**A:**If there is a change in control of Cabot Microelectronics Corporation, the offering period in which the change in control will occur will accelerate to the last U.S. deduction date before the date of the change in control. That last payday will then become the exercise date for that offering period.

**Q:**Can the Plan be amended?

**A:**The Board may amend or suspend the Plan at any time. However, no such action may, without stockholder approval:

- Increase the number of shares that may be issued under the Plan;
- Change the employees who are eligible to participate in the Plan; or
- Make any other change that in the Board's determination requires stockholder approval under applicable law or regulatory

standards.

**Q:**When can Cabot Microelectronics Corporation terminate the Plan?

**A:**The Board may terminate the Plan at any time. If it does, the Plan will terminate in its entirety, and no further purchase rights will be granted or exercised and no further payroll deductions will be collected.

**Q:**What else do I need to know?

**A:**Cabot Microelectronics Corporation is a corporation organized and existing under the laws of the State of Delaware and currently maintains its principal executive offices at 870 N. Commons Drive, Aurora, Illinois 60504. You may contact Cabot Microelectronics Corporation at this address or at the telephone number provided below for further information concerning the Plan and its administration.

Copies of documents delivered to Cabot Microelectronics Corporation's shareholders, including Cabot Microelectronics Corporation's Annual Report, will be provided to each Plan participant without charge upon request to the Plan administrator at the following address:

Human Resources Department - ESPP  
Cabot Microelectronics Corporation  
870 Commons Drive  
Aurora, IL 60504  
Telephone: (800) 811-2756

In addition, the SEC allows us to incorporate documents by reference into this prospectus, and we are doing so with respect to the following documents:

- (a) Our Annual Report on Form 10-K for the fiscal year ended September 30, 2010 filed with the SEC (File No. 000-30205) on November 23, 2010, which includes our audited financial statements for the fiscal year ended September 30, 2010; and
- (b) Our Registration Statement on Form 8-A filed with the SEC on April 3, 2000, which describes the terms of the Common Stock (File No. 000-30205).

In addition, we are incorporating into this prospectus by reference all documents that we file after the date of this prospectus pursuant to Sections 13(a), 13(c), 14, and 15(d) of the Securities Exchange Act of 1934, as amended, and prior to the filing of a post-effective amendment which indicates that all securities offered hereby have been sold or which deregisters all securities then remaining unsold. These incorporated documents will be deemed to be incorporated in this prospectus by reference and to be a part of this prospectus from the date of their filing. Any statement contained in this prospectus or in one of the incorporated documents will be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or in any other subsequently filed incorporated document modifies or supersedes that statement. Any statement that is modified or superseded in this manner will not be deemed, except as so modified or superseded, to constitute a part of this prospectus. We will provide you with a copy of any of these documents without charge upon your request to our Human Resources Department.

#### **Employee Tax Obligations**

CMC understands that every employee's financial circumstances are different. As such, we recommend that you consult your personal tax/financial advisor for answers to your specific financial planning and tax questions.

**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: February 8, 2011

/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: February 8, 2011

/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 December 31, 2010 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: February 8, 2011

/s/ WILLIAM P. NOGLOWS

William P. Noglows  
Chief Executive Officer

Date: February 8, 2011

/s/ WILLIAM S. JOHNSON

William S. Johnson  
Chief Financial Officer



