CABOT MICROELECTRONICS CORPORATION
FOURTH QUARTER FISCAL 2009 CONFERENCE CALL SCRIPT
OCTOBER 22, 2009

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

This morning we reported results for our fourth quarter and full fiscal year 2009, which ended September 30. A copy of our press release is available in the investor relations section of our website, cabotcmp.com, or by calling our investor relations office at 630-499-2600. Today's conference call is being recorded and will be archived for four weeks on our website. The script of this morning's formal comments will also be available there.

Please remember that our discussions today may include "forward-looking statements" that involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from these forward-looking statements. These risk factors are discussed in our SEC filings, including our report filed on Form 10-Q for the third quarter of fiscal 2009, ended June 30th, and Form 10-K for the fiscal year ended September 30, 2008. We assume no obligation to update any of this forward-looking information.

I will now turn the call over to Bill Noglows.

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

We are delighted to close this challenging fiscal year with strong financial results in the fourth fiscal quarter, during which we achieved revenue of $96.5 million , which is only a half million dollars below the quarterly revenue record we set in the June quarter of 2008. In addition, we attained a gross profit margin of 48.4 percent of revenue, our highest level in two years record EPS of 52 cents, when compared to historical results adjusted to include share-based compensation expense, and cash flow from operations of $28.5 million.

We are pleased with our overall performance in fiscal 2009, which was a challenging year for us and our industry. While we were adversely impacted by the severe global economic recession, we continued to successfully execute on our strategic initiatives and maintained and reinforced our customer facing activities. During this difficult period we grew our CMP pad business by 17 percent, we completed our successful acquisition of Epoch Material Company, we introduced next generation products in all major application areas and we achieved over $12 million in operating expense savings, with minimal impact to our workforce and development activities. We are also delighted to report that our Epoch acquisition was accretive to our earnings in fiscal year 2009 and also positively impacted our gross profit margin, despite the severe economic downturn and expenses associated with purchase accounting rules. In addition, the acquisition of Epoch has allowed us to enhance our leadership position in Copper CMP slurry applications.

We believe our flexible business model, solid balance sheet and experienced management team enabled us to successfully manage our company during the significant decline in demand for our products over the first half of our fiscal year, as well as during our extraordinary recovery in the second half of the year. We believe our strong performance and commitment during this challenging period has positioned us well for continued success, as the economy and semiconductor industry recover, and over the longer term.

We ended fiscal 2009 on a high point, but we remain somewhat cautious regarding future demand trends over the near term. We are entering a calendar period of typically lower seasonal demand within the semiconductor industry, and there are mixed signals as to the pace and timing of a recovery, particularly in the US economy. However, having said this, I have recently returned from spending 4 weeks in the Asia Pacific region and I am encouraged by what a number of our customers said about their outlook for the near term. Further, research has shown that over the past 30 years, there have been at least two years of double-digit semiconductor industry revenue growth following every global recession. Since we cannot predict the exact timing and magnitude of an economic recovery, we plan to continue to manage our business to maintain flexibility and respond quickly to changing trends, as we successfully demonstrated during fiscal 2009.

We believe that the solid results we achieved this year reflect a consistent focus on our primary strategy to strengthen and grow our core CMP consumables business through the execution of our three strategic initiatives -- Technology Leadership, Operations Excellence and Connecting with Customers. For the coming year, we continue to put all of our energy and resources into these strategic initiatives, as they have served us well and we believe they will differentiate us from our competitors.

As evidence of our success in our drive to maintain technology leadership, our new product vitality metric, which measures the portion of our sales that are driven by products commercialized within the past three years, grew nearly 40 percent from fiscal 2008.

As we look to current product development activity, we are excited about our new Barrier polishing slurry which is now being evaluated by more than 20 customers, as well as our new Copper polishing slurry that is designed for low cost, high throughput and tunability. In addition, through our close collaboration with several logic device manufacturers, we are now supplying CMP polishing slurries for aluminum applications. These slurries are typically used for polishing metal gate structures within the most advanced logic devices. Currently, this is a small niche business area, but we believe it exemplifies how the number of CMP applications continues to grow with the advancement of chip designs, and how Cabot Microelectronics is uniquely positioned to serve these emerging applications.

Another exciting new technology on which we are working is the development of our second generation CMP polishing pad. Our current CMP pad offering, the D100, is a very robust solution for a wide range of CMP polishing applications and technology nodes. Designed to serve an even greater range of customer applications, our second generation pad, which we call the D200, is a tunable technology platform, which should also provide extended pad life and improved device yield performance, just like the D100. The D200 technology is designed to allow us to adjust both the hardness and porosity of the pad, enabling us to customize solutions to meet the varying needs of our customers. Last quarter we began alpha sampling the D200 with a select group of strategic customers, and have been encouraged with the results to date.

Next I would like to discuss how our achievements through our Operations Excellence initiative have contributed to our solid performance this year. As you know, utilization of our manufacturing capacity affects our profitability at the gross profit level. To minimize the impact of our lower capacity utilization due to the severe downturn, without sacrificing our operations, quality or intellectual capital, we temporarily reduced work schedules across our manufacturing facilities earlier in the year. By taking this approach, we were able to act quickly and reduce costs when demand was low, but maintain our experienced workforce to swiftly and successfully ramp up production to meet the sharp increase in demand for our products during the second half of our fiscal year.

Despite the adverse effect of lower manufacturing capacity utilization on our results, we were still able to achieve a modest productivity improvement in our manufacturing operations for fiscal 2009, marking the fifth consecutive year of positive productivity enhancements. This year's results were driven by improved manufacturing yields, particularly within our CMP pad business, where we have continued to achieve higher yields every quarter since we began high volume manufacturing in fiscal 2008. Also contributing to our productivity improvements this year were logistics optimization initiatives, favorable pricing negotiations on purchased materials, as well as the benefit of our ongoing efforts to optimize our manufacturing capacity.

Looking forward, we are excited about the role our acquisition of Epoch is expected to play in our Operations Excellence initiative. As you know, Epoch is located in Taiwan, which is the largest CMP consumables market in the world. Through this acquisition, we now have a significant manufacturing and development footprint close to some of our largest customers in both Taiwan and China. We are already leveraging Epoch's automated warehouse to drive meaningful logistics synergies, and we are utilizing our global buying power to realize purchasing synergies. Over the longer term, we are also exploring opportunities to expand production at our Epoch plant, in order to further optimize our manufacturing and logistics costs.

Our acquisition of Epoch also supports our key initiative of Connecting with Customers. As part of the integration of Epoch, we expect to leverage its strong customer relationships and extensive infrastructure in Taiwan to enhance our ability to collaborate more effectively with our customers there and in China.

Also in Taiwan, we completed the installation of our on-site pad finishing facility at TSMC, achieved ISO 9001 certification, and have begun supplying pads to TSMC from this new facility. We believe this type of collaboration is unique in the industry, and has the potential to cultivate increased interaction on a day-to-day basis with this important, strategic customer.

Another illustration of success with our Connecting with Customers initiative is our progress on customer adoptions for our D100 CMP polishing pad. Most recently, we gained three new customer application wins in our fourth fiscal quarter, and as an indication of the success we have achieved, we are now selling our pads to nearly all the IC manufacturers in Taiwan.

Beyond pads, we have also continued our ongoing participation in a number of joint development programs with our customers. As the largest CMP slurry supplier, with extensive CMP knowledge and breadth of experience, we are well positioned to be the trusted partner of our customers when it comes to developing reliable, low cost and innovative solutions to solve today's challenges and help enable tomorrow's technology.

In parallel with our efforts to strengthen and grow our core CMP consumables business, we are continuing to execute on our strategy to advance our Engineered Surface Finishes business, or ESF. Under this strategy, we continue to work on cultivating our two ESF acquisitions – QED Technologies and Surface Finishes, as well as supplementing these efforts with our own organic development in a few focused areas. During fiscal 2009, QED, which represents the largest portion of our ESF business, continued to pursue its business strategy of increasing its sales of standard machines and expanding its global customer base. Also, we are excited about QED's new ASI metrology system which is the first commercial metrology solution that enables widespread use of non-spherical surfaces, or aspheres, in optical systems design. This is important because aspheres have the ability to drive reduced weight, size and cost of optical systems.

Looking forward to fiscal 2010, we plan to continue to execute on our primary strategy of strengthening and growing our core CMP consumables business. As an element of our primary strategy, we continue to pursue potential acquisitions that we expect will exhibit a high degree of strategic fit with our company, and we are focusing on opportunities that would allow us to leverage our world-class supply chain management, quality systems and global infrastructure. In pursuing these opportunities, we hope to bring more products to our existing customer base, such as we have accomplished with Epoch.

We are encouraged by the progress we have made this year on our strategic initiatives, which we believe positions us well to emerge from this recession with stronger competitive standing within our core CMP consumables business. Our product pipeline is robust, we have a talented team of dedicated and experienced employees, and we have the financial strength to take advantage of potential opportunities as they arise. In our view, there are a number of indications that the semiconductor industry has begun to stabilize, but we are still cautious regarding near term industry trends. We remain confident in our ability to adapt to a range of industry environments, such as we demonstrated in fiscal year 2009, and we are optimistic about the long term growth prospects for our company, across all of our business areas.

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

Thanks, Bill, and good morning everyone.

Revenue for the fourth quarter of fiscal 2009 was $96.5 million, which was up by 7.1 percent from the fourth quarter of last year and up 11.6 percent from the prior quarter. The increase in revenue from the same quarter last year primarily reflects contributions from our acquisition of Epoch in February 2009. Excluding the revenue contribution from Epoch, our quarterly sales were roughly in-line with the same period last year. Compared to the prior quarter, revenue increased across all of our business areas, led by sales to manufacturers of logic devices.

Total revenue for the full fiscal year was $291.4 million, which represents a 22.3 percent decline from fiscal year 2008. Despite the adverse impact of the global recession on sales of our slurry products for semiconductor applications and our ESF business, revenue for our CMP pads, as well as our data storage slurries increased from the prior year.

Drilling down into revenue by business area,
Tungsten slurries contributed 34.7 percent of total quarterly revenue, with revenue down 9.5 percent from the same quarter a year ago and up 2.1 percent sequentially. For the full year, Tungsten slurry revenue decreased by 27.3 percent.

Sales of Copper products represented 19.0 percent of our total revenue, and increased 46.3 percent from the same quarter last year and 22.9 percent sequentially. For the full year, our Copper product revenue decreased by 9.3 percent, as the adverse impact of the global recession was partially offset by contributions from Epoch. Also included in our Copper business is our Barrier removal product line, revenue from which increased this year by 8.3 percent from fiscal 2008.

Dielectric slurries provided 29.3 percent of our revenue this quarter, with sales down 1.5 percent from the same quarter a year ago and up 6.7 percent sequentially. For the full year, Dielectric slurry revenue decreased by 28.6 percent.

Data Storage slurry products represented 5.7 percent of our quarterly revenue; this revenue was up 92.7 percent from the same quarter last year and up 29.3 percent sequentially. For the full year, revenue for data storage slurries increased by 7.3 percent, benefiting from an important customer win at the end of fiscal 2008.

Sales of our polishing pads represented 6.7 percent of our total revenue for the quarter; and increased 18.4 percent from the same quarter last year and 23.8 percent sequentially. For the full year, polishing pad revenue was up by 17.2 percent, as we achieved application wins with new and existing customers.

Finally, revenue from our ESF business, which includes QED, generated 4.7 percent of our total sales, and was up 24.1 percent from the same quarter last year and up 60.7 percent sequentially. For the full year, ESF revenue decreased by 34.2 percent, driven by the adverse capital equipment environment.

Our gross profit this quarter represented 48.4 percent of revenue, compared to 46.6 percent in both the same quarter a year ago and in the prior quarter. Compared to the year ago quarter, gross profit percentage increased primarily due to increased utilization of our manufacturing capacity, improved manufacturing yields and lower logistics costs, partially offset by a lower valued product mix. The increase in gross profit percentage versus the previous quarter was primarily due to increased utilization of our manufacturing capacity.

For the full year, gross profit as a percentage of revenue was 44.1 percent, which was down from 46.5 percent last year, primarily due to a decrease in utilization of our manufacturing capacity driven by the severe economic environment.

Now I'll turn to operating expenses, which include research, development and technical, selling and marketing, and general and administrative costs. Operating expenses this quarter of $28 million were 11.8 percent lower than the $31.7 million reported in the fourth quarter of fiscal 2008. The decrease was primarily driven by lower staffing related costs, lower professional fees, which include costs to enforce our intellectual property, and lower travel expenses. These cost savings were partially offset by incremental expenses related to Epoch. Operating expenses were $2.9 million higher than the $25.1 million reported in the previous quarter, mainly due to higher staffing related costs, professional fees and expenses for clean room materials.

For the full fiscal year, total operating expenses were $112.4 million, which represents a $12.6 million, or 10.1 percent decrease from the $125.0 million reported in fiscal 2008, as we implemented focused cost reduction initiatives. The decrease was driven primarily by lower staffing related costs, professional fees and travel expenses. These cost savings were partially offset by incremental Epoch related expenses, including a $1.4 million write-off of in-process research and development expenses required by purchase accounting rules.

We are pleased with the cost savings that we achieved in fiscal 2009 and expect to continue this cost discipline into fiscal 2010. Looking forward, assuming solid performance against internal goals, we expect certain temporary cost savings initiatives to end during fiscal 2010, such as the suspension of certain employee benefits and a return to more “normal” levels of variable compensation. In addition, fiscal year 2010 will include a full year of Epoch related operating expenses, compared to just seven months in fiscal 2009. Taking all of these factors into account, we expect our operating expenses for full fiscal year 2010 to be in the range of $120 million to $125 million. This represents a flat to slightly lower spending outlook from what we achieved in fiscal 2008, as we aim to more than offset the incremental costs of Epoch.

Diluted earnings per share were 52 cents this quarter, up from both the 36 cents reported in the fourth quarter of fiscal 2008 and 39 cents reported in the prior quarter, on the higher level of revenue and higher gross profit margin. Diluted earnings per share for the full year were 48 cents, which is down from one dollar and 64 cents in fiscal 2008, reflecting the global economic recession.

Turning now to cash and balance sheet related items, capital additions for the quarter were $1.7 million, bringing our full year capital spending to $8.5 million. For fiscal 2010, we expect capital spending to be around $13 million. Depreciation and amortization expense was $6.3 million for the fourth quarter and share-based compensation expense was $2.8 million. We ended the quarter with a healthy cash balance of $200 million, which is $28.7 million higher than last quarter and represents more than $8 per share. In addition, we have no debt outstanding.

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

Examining order patterns within the three months of our fourth fiscal quarter, we saw demand for our CMP consumables products trend relatively flat across all three months of the quarter, at about the same level as June. As we observe orders for our CMP consumables products received to date in October that we expect to ship by the end of the month, we see October results trending at roughly the same rate as we have seen for the past four months. However, I would caution, as I always do, that several weeks of CMP related orders out of a quarter represent only a limited window on full quarter results.

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