CABOT MICROELECTRONICS CORPORATION
SECOND QUARTER FISCAL 2010 CONFERENCE CALL SCRIPT
April 22, 2010

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

This morning we reported results for our second quarter of fiscal year 2010, which ended March 31. 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 first quarter of fiscal 2010, ended December 31, 2009, and Form 10-K for the fiscal year ended September 30, 2009. We assume no obligation to update any of this forward-looking information.

Before we deliver our prepared remarks, I would like to remind you about our upcoming Investor Day, which will be held Thursday, June 3 at the NASDAQ MarketSite in Times Square. For more information, please see the upcoming events page within the investor relations section of our corporate website. I will now turn the call over to Bill Noglows.

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

This morning we announced strong financial results for our second fiscal quarter of 2010. We reported our second consecutive quarter of record revenue, totaling $98.6 million. This record is particularly noteworthy as the March quarter has historically been seasonally soft for both the industry and our company. Additionally, we reported gross profit margin of 50.2 percent of revenue. This quarter's results benefited from solid utilization of our manufacturing capacity, continued productivity gains within our manufacturing operations, the integration of our Epoch acquisition and revenue growth in our CMP pad business.

Our revenue this quarter was generally consistent with the monthly trends reported by the large foundries in Taiwan, which included slightly lower revenue in January and February than in the preceding months, followed by an uptick in revenue in March. During the quarter, a number of industry analysts increased their 2010 semiconductor revenue growth estimates from mid-teen to mid-twenty percent growth versus the prior year. Within our business, demand across each major semiconductor segment -- logic, memory and foundry, appears healthy as we head into the second half of our fiscal year, which is typically a strong seasonal period. In the short term, we are encouraged by reports of continued strong end-use electronics demand, including a potential boost in corporate IT spending over the remainder of the calendar year, including the PC renewal cycle and Windows 7. Over the longer term, we believe we are well positioned to benefit from the capacity additions underway by many of our customers, reflecting their efforts to meet increasing demand. Given the current positive industry indicators and solid near-term forecasts from our customers, we continue to have a strong outlook for fiscal 2010.

We recently commemorated our 10th anniversary as a public company, and it's interesting to reflect on the changes that have occurred since we went public ten years ago. At that time, we had 281 employees, demand for our products was primarily driven by U.S. customers and we reported revenue of $99 million in the fiscal year leading up to our IPO. Since that time, the company has grown to approximately 900 employees, now 80 percent of our revenue is derived from customers in the Asia Pacific region and we believe we are on track to exceed our fiscal 2008 revenue level of $375 million, following the severe industry contraction in fiscal 2009. Over the past 10 years we have steadily built up our infrastructure in Asia, so that we now have approximately half of our workforce and assets located in the Asia Pacific region. In addition, we have transitioned to a direct sales model in nearly every region of the world, resulting in much closer relationships with our customers. We have also completed three successful acquisitions, we have maintained our leadership in CMP slurries, and we have become the second largest supplier of CMP pads. While a lot has changed over the years, we have remained dedicated to our primary strategy of strengthening and growing our core CMP consumables business through the execution of our three key strategic initiatives – Technology Leadership, Operations Excellence and Connecting with Customers. By adhering to our strategy and consistently executing on these three initiatives, we believe we have built a strong foundation for sustainable, long-term profitable growth.

Technology leadership has always been an important key initiative for our company, and it has evolved over time as our business and customers have evolved. What started out as a sharp focus on product performance has transitioned into a drive to develop solutions that improve our customers' total cost of ownership through improving customer yields, increasing customer throughput, as well as simply developing products that cost less. With our consistent investments in research and development, we believe our product portfolio is full and productive, with enabling solutions in all major CMP application areas, many of which can be tuned to meet a wide range of customer requirements.

In the current environment, where semiconductor fab capacity utilization is very high, it can be challenging to gain access to our customers' tool and engineering time to qualify new products. However, we are encouraged by the inroads we are making with customer evaluations for a variety of our new products, including our next-generation slurries for copper and barrier applications. We also continue to gain customer positions with our CMP polishing pad, and are making good progress in the alpha testing of our next generation CMP pad platform.

Operations Excellence has and continues to be another important key initiative for our company, and one that we believe has begun to provide a competitive advantage. To a customer, a product is only as good as the supplier's ability to provide it exactly the same, day-after-day, year-after-year. Given that our customers are working on leading-edge processes, with ever increasing complexity, they have extremely low tolerances for product variation. Over the years we have executed on quality and productivity initiatives aimed at reducing variability in our products and improving quality throughout our supply chain. Evidence of our success in this area can be seen through the numerous supplier awards that we have been granted by our customers. Most recently, Intel, which is known in the industry for its strict quality and technology standards, honored us with its Preferred Quality Supplier award for 2009. We were one of only 16 companies, out of approximately ten thousand suppliers, to receive this prestigious award, and this was the third time out of the last four years that we have earned this recognition.

In addition to enhancing customer value, executing on our Operations Excellence initiative has contributed to our strong financial performance. This quarter, we continued to realize productivity gains across a number of projects directed at variation reduction and manufacturing optimization, including the completion of our transition to in-source the small portion of our total CMP slurry production that had previously been outsourced.

In addition, we are benefiting from strong utilization of our manufacturing capacity. Production during the quarter was near record levels, and was particularly strong at our facility in Japan. Even with increased customer demand, we are filling customer orders seamlessly, and we have the flexibility within our manufacturing operations to accommodate an even higher level of demand, when needed.

Finally, our third key initiative, Connecting with Customers, has continued to increase in importance, as the technology advances, because more challenging technologies require closer customer collaboration to develop robust and timely solutions. In our early years, we recognized the importance of being physically close to our customers and have steadily expanded our infrastructure in the Asia Pacific region, as a result. More recently, we are utilizing our technical capabilities and offerings to be a more solutions-centric, rather than product-centric supplier to our customers. This means that rather than just marketing our "of-the-shelf" products, we are more actively engaged with our customers to provide solutions that meet their specific needs. The resulting products can be customized, from both a formulation and process integration perspective, to optimize our customers' performance.

Closing my remarks this morning, our journey as a public company has been exciting and rewarding. We believe the progress we have made over the years, through our consistent execution of our strategies, has been instrumental in building our company to be the strong industry leader that we are today. We are pleased with our recent financial performance, particularly during a quarter that is typically seasonally soft. In our view, we have momentum in our business going into the second half of our fiscal year, and we believe we are poised to capture significant new opportunities over the long-term. We believe the productivity initiatives within our manufacturing and supply chain operations are driving sustainable, improved gross profit margin performance, and we are optimistic about our ability to add value to our customers by leveraging and optimizing our world-class technical support capabilities to improve our customers' operations.

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

Thanks, Bill, and good morning everyone.

Revenue for the second quarter of fiscal 2010 was a record $98.6 million, which was up by 117.1 percent from the second quarter of fiscal 2009 and up 0.9 percent from the prior quarter. This increase in revenue from the same quarter last year primarily reflects significantly improved economic and industry conditions. Compared to the prior quarter, sales increased slightly on continued strong demand for our products.

Drilling down into revenue by business area,

Tungsten slurries contributed 35.9 percent of total quarterly revenue, with revenue up 85.3 percent from the same quarter a year ago and down 1.8 percent sequentially.

Sales of Copper products represented 18.4 percent of our total revenue, and increased over 150 percent from the same quarter last year, which includes the benefit of our Epoch acquisition, and increased 5.1 percent sequentially. Included in our copper business is our barrier removal product line, revenue from which increased by 71.8 percent from the same quarter a year ago.

Dielectric slurries provided 28.8 percent of our revenue this quarter, with sales up nearly 150 percent from the same quarter a year ago and up 5.9 percent sequentially.

Sales of polishing pads represented 7.3 percent of our total revenue for the quarter; and increased 192.1 percent from the same quarter last year and 8.6 percent sequentially.

Data Storage products represented 5.1 percent of our quarterly revenue; this revenue was up nearly 50 percent from the same quarter last year and down 16.9 percent sequentially.

Finally, revenue from our Engineered Surface Finishes, or ESF business, which includes QED, generated 4.4 percent of our total sales, and our ESF revenue was up 142.6 percent from the same quarter last year and down 10.2 percent sequentially.

Our gross profit this quarter represented 50.2 percent of revenue, compared to 28.0 percent in the same quarter last year and 51.6 percent in the previous quarter. Compared to the year ago quarter, gross profit percentage increased primarily due to increased utilization of our manufacturing capacity on significantly higher demand. The decrease in gross profit percentage versus the previous quarter was mostly due to the absence of a $1.6 million raw material supplier credit related to achieving a certain volume threshold, which benefited our first fiscal quarter results.

Year to date, gross profit represents 50.9 percent of revenue, which is slightly above the upper end of our full year guidance range of 46 to 50 percent of revenue. For the full fiscal year, we currently expect to achieve gross profit margin toward the upper end of this guidance range.

Now I'll turn to operating expenses, which include research, development and technical, selling and marketing, and general and administrative costs. Operating expenses this quarter of $32.1 million, were $2.2 million higher than the $30.0 million reported in the same quarter a year ago, primarily driven by increased staffing related costs, including higher accruals for our annual variable incentive compensation program, as well as higher travel expenses and professional fees, including costs to enforce our intellectual property. These cost increases were partially offset by the absence of certain expense items reported in the second fiscal quarter of 2009, which included a $1.5 million write-off of in-process research and development related to our acquisition of Epoch, a $1.1 million impairment related to certain research and development equipment and a $1.0 million increase in reserve for bad debt expenses. Operating expenses were $2.0 million higher than the $30.1 million reported in the previous quarter, mostly due to increased staffing costs, including higher accruals for our annual variable incentive compensation program, the reinstatement of certain employee benefits that were suspended during the economic downturn, and the impact of salary increases that became effective January 1st. Additionally, we incurred higher professional fees, including costs to enforce our intellectual property.

Year to date, total operating expenses were $62.3 million, and we continue to expect full year operating expenses to be in the range of $120 million to $125 million for fiscal 2010. We currently expect to report full year operating expenses at the upper end of this range, which includes previously anticipated costs related to our upcoming patent infringement trial against DuPont AirProducts NanoMaterials, which is scheduled to begin on June 8th.

Diluted earnings per share were 47 cents this quarter, up from a diluted loss per share of 44 cents in the second quarter of 2009, and down from diluted earnings per share of 56 cents reported in the previous quarter.

Turning now to cash and balance sheet related items, capital additions for the quarter were $4.5 million, depreciation and amortization expense was $6.3 million and share-based compensation expense was $3.1 million. We ended the quarter with a healthy cash balance of $241.7 million, which is nearly $17 million higher than last quarter. In addition, we have no debt outstanding.

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

Examining revenue patterns within the three months of our second fiscal quarter, we saw demand for our CMP consumables products trend slightly lower in January and February versus the prior quarter run rate, followed by a strong increase in March. As we observe orders for our CMP consumables products received to date in April that we expect to ship by the end of the month, we see April results trending at roughly the average run rate of the March quarter. 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.

Now I'll turn the call back to the operator, as we prepare to take your questions.

Thank you for your time this morning and your interest in Cabot Microelectronics, and we look forward to seeing many of you at our upcoming Investor Day in New York on June 3rd. Goodbye.