Cabot Microelectronics Corporation
2008 Second Fiscal Quarter Earnings Report
April 24, 2008

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 2008, which ended on 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 2008, ended December 31, 2007, and Form 10-K for the fiscal year ended September 30, 2007. We assume no obligation to update any of this forward-looking information.

Before we deliver our prepared comments, I would like to remind you about our upcoming Investor Day, which will be held the afternoon of Thursday, June 5th at the Millennium UN Plaza Hotel in New York. For more information, please send an e-mail to me at IR@cabotcmp.com.

I will now turn the call over to Bill Noglows.

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

This morning we announced solid financial results for our second quarter of fiscal 2008. We reported our fourth consecutive quarter of record revenue, totaling $94.5 million. This record is particularly noteworthy as the March quarter has historically been seasonally soft for both the industry and our company. Additionally, our diluted EPS of 34 cents was up 79 percent compared to the same quarter last year, and excluding share-based compensation expense, represents the highest second fiscal quarter EPS in our history as a public company. Our EPS was down 34 percent compared to the previous quarter, reflecting what we believe are two short-term company-specific factors that adversely affected results, which we previously discussed at our Annual Meeting on March 4th. These are lower manufacturing yields in our rapidly expanding polishing pad business, and higher legal fees associated with our ongoing intellectual property enforcement litigation against DuPont AirProducts NanoMaterials. I will discuss both of these items in more detail in a few minutes.

From a broad semiconductor industry standpoint, it appears that despite the uncertain global economic environment, semiconductor unit production remained relatively in-line with seasonal trends in the March quarter, and forecasts for wafer start growth in calendar 2008 are relatively robust. A number of industry analysts have recently reduced their semiconductor revenue growth forecasts for 2008, but it is our understanding that these reductions were primarily driven by lower than expected average selling prices for memory devices during the first calendar quarter, rather than lower expectations for unit sales. Unit growth predictions continue to be strong for 2008, which we view as a positive sign for our business since we sell CMP consumables, and demand for our products is driven by wafer starts.

Industry experts also expect 2008 to be a down year for semiconductor capital equipment investments, this seems to have put a cloud over near term prospects for much of the industry. Capital investment by our customers is relevant to our business over the long term, but of greater interest to us in the near term are wafer starts. And again, the industry outlook for wafer start growth this year appears relatively strong. Although some semiconductor manufacturers have recently reduced their planned spending on capital equipment, we believe that total wafer start capacity is continuing to grow. Chip manufacturers have been placing greater emphasis on improving productivity in their existing operations, enabling them to produce more devices from the production capacity that they already have in place.

Regardless of how the semiconductor industry performs for the rest of calendar 2008, we continue to believe we are well-positioned to operate successfully over a range of future industry and economic environments. We have a proven track record of weathering industry cycles, and have historically generated solid cash flow even during market environments of moderating growth.

We also continue to believe that our business results reflect the consistent and successful execution of our three strategic initiatives within our core CMP business – Technology Leadership, Operations Excellence, and Connecting with Customers. I would like to update you on our progress in these areas.

We are pleased with the advancements we have made on our Technology Leadership initiative. We continue to innovate with a priority on providing high performing, low cost of ownership products for our customers. By creating products that increase yields or throughput for our customers, we can improve their cost of ownership. A great example of progress in this area is our D100 polishing pad, which we believe delivers significant value on multiple levels.

First, our continuous pad manufacturing process, coupled with the innovative thermoplastic material from which our pads are formed, has resulted in a differentiated pad product that clearly demonstrates a significant advantage in terms of longer pad life. The longer pad life has been shown to effectively reduce our customers' total spending on pads. Second, a longer pad life increases our customers' throughput by reducing tool downtime since the frequency with which their pads must be replaced and conditioned for polishing is reduced. And third, in a number of cases our customers have seen higher yields in their manufacturing operations, in terms of lower defectivity, using our D100 pad. Given the huge capital investment in equipment for a leading-edge fab, and the high volume of usable chips that need to be produced to make it profitable, even a small increase in yields can have a dramatic effect on our customers' total cost of ownership and ultimate profitability. This is the type of innovation that motivates semiconductor manufacturers to test and adopt our products, resulting in additional business for our company.

Like most companies that invest in research and development and are leaders in their fields, legal proceedings to protect our technology are part of the ordinary course of our business. The discovery phase of our litigation to enforce certain of our CMP slurry technology patents against infringement by DuPont AirProducts NanoMaterials has ramped and continues. As expected, we have incurred increased external legal fees, and you can see the effect of this increase in our operating expenses. While we can't predict with certainty the timing and outcome of this legal matter, we remain confident in our legal claims and defenses, and we intend to continue to pursue and defend them vigorously.

As we have discussed previously, some of the patents related to this litigation are associated with our tungsten CMP slurry products, which are mainly used in mature logic and advanced memory devices. Although advanced memory devices are slowly migrating from aluminum to copper wiring, the market for tungsten CMP slurry is alive and strong, and we expect the tungsten slurry market to continue to grow in both the short and long term. There are several design changes anticipated for next generation memory devices, such as replacing certain poly plugs with tungsten plugs, which we believe will be one of the factors driving growth for tungsten CMP slurry applications in the future. We plan to discuss our views on these technologies and the general market at our upcoming Investor Day on June 5th in New York.

Another exciting slurry application where we have been placing greater emphasis is the copper barrier business. As competition has increased for copper CMP slurries, the bulk copper and soft landing copper polishing steps have become more commoditized, and there seem to be fewer opportunities for differentiation. However, the barrier polish step requires significantly higher performance, which in our view falls right in our sweet spot. Our B6600 barrier solution that is on the market today is designed to provide customers with enhanced customization flexibility, superior electrical performance, and an attractive cost of ownership. We are pleased with the success that we have seen with this product, and continue to look for innovative ways to improve and expand our product offerings.

Across our company, we are executing on our Operations Excellence initiative to drive out variation in our products and processes, to increase quality, productivity and efficiency. One clear and immediate opportunity for productivity improvement is in our rapidly growing polishing pad business. As is common with new product production ramps, we have been experiencing lower than optimal manufacturing yields in this new business area. This yield issue has not impacted our ability to meet our customers demand for our products, with the high level of consistency and product support that is required in this industry and for which we are known. However, we did see an impact on our profitability again this quarter. Excluding our polishing pad operations, as a percent of revenue, gross profit this quarter would have been 3.6 percentage points higher.

At this time, we have intensive efforts ongoing in a number of areas to improve yields in our pad manufacturing operations, and several solutions have already been implemented. We are beginning to see some positive results, but keep in mind, this is not something that we expect to fully correct overnight. We anticipate our improvement process to continue over several quarters before our pad yields are sufficiently optimized.

Beyond yield optimization, we must achieve a certain level of sales volume before the gross profit percentage in our pads business reaches a level comparable to our core CMP slurry business. We are confident that we will achieve that volume level over time. In fact, pad sales this quarter increased by approximately 85 percent over last quarter, and our total number of pad customers has grown again. We now have 12 customers, which is up from 11 customers last quarter, and we continue to have over 20 other pad opportunities in various stages of testing, evaluation and qualification. Also, our pad finishing facility in Taiwan became ISO 9001 certified this quarter, which is a factor in our customers' purchasing decisions. This is an important milestone, and we are proud that we have reached it so early in the life of our Taiwan pad operations.

Next I will address our Connecting With Customers initiative. During the quarter we completed installation and fully qualified our new 300-millimeter polishing tool for our Asia Pacific Technology Center. We are delighted with the rapid utilization of this tool, which has been fully scheduled for customer demonstrations of our copper and barrier slurry products. We believe that this investment, as well as our other R&D resources in the Asia Pacific region, will allow closer collaboration with our customers, increase our responsiveness, and facilitate more efficient product development.

Underscoring our success in executing on our strategic initiatives, I am excited to report that we have earned several supplier awards during the quarter. Of special note was our achievement of Intel's Preferred Quality Supplier, or PQS, award for the second consecutive year. Out of approximately 13,000 suppliers, 35 companies were granted this award, and we were the only supplier selected for 2007 to receive the PQS award for supplying CMP consumables. We are very proud of this accomplishment and all the hard work and dedication that our team at Cabot Microelectronics put forward in our effort to build upon our relationship with this important customer.

Now I'll provide an update on our Engineered Surface Finishes, or ESF, business. Last quarter I discussed a new market area that QED Technologies had begun targeting, which is comprised of hundreds of smaller optics manufacturers throughout the world. Historically, QED's sales efforts have been mostly concentrated on the few, very large producers of high precision optics. I am pleased to report that we are making progress in this area, as evidenced by shipments made to a number of these smaller optics shops during the quarter, which represent NEW customers for our QED business.

We believe the continued execution of our strategic initiatives has allowed us to consistently generate strong cash flow. As a result, we made $10 million of share repurchases in our second fiscal quarter, under our $75 million share repurchase program. This brings our total share repurchases for the fiscal year to $24 million, and we have purchased $75 million of stock on a cumulative basis over the last four years. As I have said before, one benefit of our strong financial model is that we can re-invest in our business through research and development, acquisitions and capital expenditures, and at the same time return value to our shareholders by repurchasing our stock.

In closing, our second fiscal quarter was a solid quarter for the company. Our core CMP slurry business remains strong, we are making solid progress with our growth businesses and we intend to continue capitalizing on our strategic initiatives in order to drive future growth and profitability.

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

Thanks, Bill, and good morning everyone.

Our revenue for the second quarter of fiscal 2008 was $94.5 million, which represented our fourth sequential quarter of record revenue. Total revenue this quarter was up by 22.7 percent from $77.0 million in the year ago quarter, and up 1.2 percent from $93.4 million in the prior quarter. The revenue increases versus both periods primarily reflect strong demand for our products, as well as solid industry conditions. Sales of slurries for tungsten and dielectric applications increased from the year ago quarter, as did revenue from our engineered surface finishes and polishing pads businesses. Revenue from our other business areas declined year over year.

Drilling down into the quarterly revenue number:

Tungsten slurries contributed 40.8 percent of total quarterly revenue, with revenue up 32.2 percent from the same quarter a year ago and down 0.4 percent sequentially. During a quarter that on a historical basis has been seasonally soft, revenues for tungsten slurries remained nearly even with last quarter due to strong demand from memory customers, especially in Korea where our sales nearly doubled from last year.

Sales of Copper slurries represented 14.0 percent of our total revenue, and decreased 5.8 percent from the same quarter last year and 6.6 percent sequentially. The sequential decrease was partially due to seasonality, as well as some loss in copper slurry business from one particular customer.

Dielectric slurries provided 31.7 percent of revenue this quarter, with sales up 21.1 percent from the same quarter a year ago and down 1.6 percent sequentially. Included in this business is our rapidly growing advanced dielectrics product line, which was up 115 percent from the same quarter last year and 26 percent sequentially.

Data Storage products represented 4.1 percent of our quarterly revenue; this revenue was down 23.2 percent from the same quarter last year and down 21.1 percent sequentially.

Sales of our polishing pads represented 3.5 percent of our total revenue for the quarter, and increased 84.5 percent sequentially. Given the momentum we have experienced in the pads business, we expect to see continued growth in our third fiscal quarter.

Finally, revenue from our ESF business, which includes QED, generated 6.0 percent of our total sales, and our ESF revenue was up 40.3 percent from the same quarter last year and 64.4 percent sequentially. Growth this quarter was driven by a number of product shipments to new customers.

Our average selling price for slurry products increased 2.8 percent from the year ago quarter and 1.5 percent from the previous quarter. Increases from both periods were mainly driven by a higher-priced product mix and foreign exchange rate effects.

As a percentage of revenue, gross profit was 44.7 percent this quarter, which was up from 43.9 percent in the same quarter last year and down from 47.9 percent last quarter. Compared to the same quarter a year ago, gross profit percentage benefited from higher manufacturing capacity utilization on our higher level of sales. Partially offsetting the year over year increase, and contributing to the sequential decrease, were higher fixed costs and lower manufacturing yields, primarily related to our polishing pad business, which Bill discussed earlier. Excluding the impact from our polishing pad business, gross profit as a percent of revenue would have been 3.6 percentage points higher for the quarter.

Year to date gross profit as a percentage of revenue is 46.3 percent, and we continue to expect that gross profit will be within our guidance range of 46 to 48 percent of revenue for the full fiscal year.

Now I'll turn to operating expenses, which include research, development and technical, selling and marketing, and general and administrative costs. Operating expenses of $32.2 million this quarter were up from both the $28.9 million reported in the year ago quarter and $28.5 million last quarter. These increases were primarily driven by higher compensation related expenses that typically occur in our second fiscal quarter, as well as higher legal fees, which Bill mentioned earlier.

Excluding legal fees related to our intellectual property enforcement, our operating expenses would have been within our quarterly guidance range of $27 to $30 million. The duration of the higher level of this spending is difficult to predict, but we expect it to continue over the next couple of quarters. Given this, we anticipate that operating expenses will exceed our prior guidance range of $27 to $30 million per quarter through the end of fiscal 2008.

Reflecting our strong revenue achievement, and higher costs associated with the pad business ramp and intellectual property enforcement litigation, net income for the quarter was $7.9 million, up 76.8 percent from $4.5 million in the same quarter a year ago, and down 34.9 percent from $12.2 million in the previous quarter.

Diluted earnings per share were 34 cents this quarter, up from 19 cents in the year ago quarter and down from 51 cents last quarter.

Turning now to cash and balance sheet related items, capital additions for the quarter were $5.0 million, which includes costs associated with the purchase of a 300 mm polishing tool for our Asia Pacific Technology Center, as well as the expansion of our pad manufacturing capacity. Depreciation and amortization expense was $6.7 million in the second quarter, and share-based compensation expense was $3.9 million. In addition, $10 million of share repurchases were made during the quarter.

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

Examining our revenues in each of the three months of the second fiscal quarter, sales activity remained relatively constant throughout the quarter and generally consistent with our sales levels from May through December of calendar 2007.

As we observe orders for our CMP products received to date in April that we expect to ship by the end of the month, we see April results trending generally in-line with our second quarter of fiscal 2008. 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, and we hope to see you at our upcoming Investor Day on June 5th.