Cabot Microelectronics Corporation
2008 Third Fiscal Quarter Earnings Report
JULY 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 third quarter of fiscal year 2008, which ended on June 30. A copy of our press release is available in the investor relations section of our website, cabotcmp.com, or by calling our investor relations office at 630-499-2600. Today's conference call is being recorded and will be archived for four weeks on our website. The script of this morning's formal comments will also be available there. In addition, for those of you who may have missed our Investor Day in June, the presentation and archived webcast are available in the investor relations section of our website as well.

Please remember that our discussions today may include "forward-looking statements" that involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from these forward-looking statements. These risk factors are discussed in our SEC filings, including our report filed on Form 10-Q for the second quarter of fiscal 2008, ended March 31, and Form 10-K for the fiscal year ended September 30, 2007. We assume no obligation to update any of this forward-looking information.

I will now turn the call over to Bill Noglows.

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

This morning we announced strong financial results for our third quarter of fiscal 2008. We reported a record $97.0 million in revenue, which was driven by continued firm demand for our core CMP slurry products for the semiconductor industry including slurries for Tungsten, Dielectric and Copper applications. Quarterly revenue also benefited from 38 percent growth in our polishing pad business.

Additionally, we were pleased with our gross profit performance this quarter of 46.8 percent, which represents a significant improvement over last quarter. Recall that last quarter we reported lower than optimal yields in our pad business, which dampened our overall gross profit percentage. We are satisfied with the pace and success of the enhancements we have made to our pad manufacturing processes through our Six Sigma efforts, and we expect to make additional improvements in our pad business over the next several quarters in our drive to increase productivity, reduce variability and increase yields.

We continue to invest in the enforcement of our intellectual property, including our litigation against DuPont Air Products Nanomaterials, a slurry competitor that we believe is infringing on our Tungsten technology. Enforcing our IP represents a significant expenditure, however we are confident in our position, and it is our responsibility to protect our significant investment in R and D. These costs are reflected in our operating expenses, which were generally in line with our second fiscal quarter.

At the beginning of the calendar year, a number of industry analysts forecasted a tough first half of 2008, followed by a modest recovery in the second half. We are now mid-way through the calendar year, and many industry analysts have reduced their semiconductor industry revenue forecasts for the second and third time. Many of these downward revisions appear to be driven by the continued decline of average selling prices for semiconductor devices, particularly in memory, which were previously forecast to bottom out this calendar year. Fortunately, we are a units based business, so our business is not directly impacted by changes in the selling prices of our customers' products. What is important for us is the number of wafer starts, and to date wafer starts have continued to grow, even in this uncertain global economic environment.

I would also like to remind you that we are typically not impacted by capital cycles in the short term. I mention this because the current industry outlook is for significantly lower capital investment by semiconductor manufacturers this year. This lower capital spending is highly relevant to semicap companies, but far less relevant to our business, which is based on wafer starts. I would also like to mention that we believe that our customers have been placing significant emphasis on capital productivity, which has resulted in increasing unit growth at lower capital requirements, and we expect this trend to continue.

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.

As many of you know, we held our 2008 Investor Day in New York last month. It was an exciting day and we were pleased with the attendance and participation. During my comments this morning, I would like to re-emphasize a few of the key messages discussed at our Investor Day.

As we seek to become the world's leader in shaping, enabling and enhancing the performance of surfaces, we are pursuing a two-pronged growth strategy to achieve our goals. We are focusing on strengthening and growing our CMP consumables business, as well as leveraging our CMP technology into new applications and industries through our Engineered Surface Finishes business, or ESF. We believe we are well positioned for success in both areas.

As we strengthen and grow our CMP consumables business, we continue to execute on our three key initiatives of Technology Leadership, Operations Excellence, and Connecting with Customers. I would now like to update you on our progress in these three areas.

Starting with Technology Leadership, we believe that our new product pipeline continues to strengthen and grow, containing high value products that provide our customers with enabling solutions in all CMP application areas. One way that we measure new product success is through a metric we call "New Product Vitality". New Product Vitality is essentially the proportion of our revenue that is derived from new product sales. We think this is an important internal metric because we are not just measuring the number of new products we introduce to the market, but instead we are measuring the commercial success of these new products through the revenue they have generated. We are pleased to report that over the past three years, our New Product Vitality metric has more than doubled, and we expect it to continue increasing over time.

Traditionally, when we consider the new CMP products that we have developed with and for our customers, we have typically thought in terms of our core CMP slurry products for Tungsten, Dielectric, and Copper applications. The difference between the company that we are today versus the company we were a few years ago is that we have identified and commercialized products for several highly complementary and more specialized CMP applications, in areas in which we were not a significant participant historically. Within our core CMP slurry business for the semiconductor industry, we have commercialized CMP slurries for barrier and advanced dielectric applications, and we have expanded into the polishing pads market. These three application areas represent significant growth opportunities within our core CMP consumables business. We believe we can develop and support these areas with relatively low incremental costs, given our substantial CMP infrastructure. To illustrate this growth, these three application areas have contributed revenue in excess of $20 million year to date, compared to approximately $6 million during the same period in fiscal 2007.

We are also expecting demand for our more traditional CMP applications to continue to grow. One of the most common mis-perceptions that we hear is that the market for tungsten CMP slurries will decrease as copper wiring is adopted into memory. As we discussed at length during our Investor Day, we think the market for Tungsten CMP slurries is stronger than ever. Even as copper is incorporated into memory devices, the number of tungsten CMP passes per chip is growing. We think this is due to the increasing complexity and miniaturization of memory chips that has heightened planarity requirements in a number of areas, resulting in new applications for Tungsten polishing.

Next I would like to discuss how achievements through our Operations Excellence initiative have contributed to our strong performance this quarter. As you may recall, in our second fiscal quarter we experienced lower than optimal yields in our growing polishing pads business, which resulted in a significant drag on our overall gross profit percentage. During the third fiscal quarter we made progress in improving our pad manufacturing yields, and we still have more improvements planned for the coming quarters. As we said last quarter, optimizing our pad manufacturing process is something that we expect will take several quarters to accomplish. Further, our pad operations are not yet running at steady state conditions, and we could see quarterly fluctuations in yields as we continue to optimize the process.

Also related to our Operations Excellence initiative, during the third quarter we completed the closure of our smallest manufacturing facility, which was located in Barry, Wales. We first discussed this planned closure in our fourth quarter of fiscal 2007, and have spent the last nine months transitioning the plant's production to other, larger manufacturing facilities.

Closing a plant is always a difficult choice, but we believe this action will improve our operational efficiency and competitiveness in this cost sensitive environment.

We also continue to make progress on our third key initiative - Connecting with Customers. During the quarter, we continued to pursue additional wins in our pad business. Not only are we generating business with new customers, but we are also gaining additional pad business with existing pad customers. We believe our pads demonstrate a clear value proposition by providing lower pad to pad variation, longer pad life, and higher customer yields. Last quarter our number of pad customers grew from 12 to 13, and the number of total customer applications for which we are selling pads grew from 16 to 19. In addition, we have over 30 other pad opportunities in various stages of testing, evaluation and qualification.

Our pads are being qualified at both new node transitions and as replacements in existing processes. As an example, one customer that qualified and brought our pads into production at the 65 nm node for copper CMP, has back integrated our pad into their older 90 and 130 nm processes. In other examples, our pad, when combined with our next generation slurry products, is being evaluated at advanced node transitions and customers are very interested in and dedicated to capturing the value we offer in enhanced performance and low cost of ownership.

Further, some of our slurry competitors are now buying our pads for use in their slurry development. We think this activity represents another validation of the adoption and credibility that our new pad products are gaining in the CMP arena.

We believe the pads business represents a significant opportunity in a large, closely adjacent market. We have the capacity in place to serve a significant portion of this market, and we are currently expanding capacity in the finishing area of our production process.

Now I'd like to turn to the second prong of our two-pronged growth strategy - Engineered Surface Finishes, or ESF. As I have discussed before, QED Technologies, which specializes in unique, patented polishing and metrology systems for high precision optics, is a technology driven business. Demonstrating this commitment to technology, I am pleased to report that for the second consecutive year, QED has been awarded a prestigious R&D 100 award for 2008. This year the award was granted for QED's Subaperture Stitching Interferometer for Aspheres, which is a precision metrology system, uniquely capable of measuring complex optical surfaces, including those that are non-spherical.

In addition to making inroads with ESF in optics, we are pursuing opportunities to leverage our technology in a variety of other market segments such as electronic substrates, metals, and ceramics. We are excited about the opportunities we are targeting and look forward to the continued growth of our ESF business.

In summary, we believe the continued execution of our growth strategy has resulted in another quarter of record revenue and strong financial performance, despite the uncertain economic environment. We continue to expect strength in our core CMP slurry business, and we are excited about the growth opportunities that we are pursuing in slurries for Barrier and Advanced Dielectrics applications, Pads and ESF. Finally, we intend to continue to capitalize on our two-pronged strategy to drive additional growth and profitability in the future.

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

Thanks, Bill, and good morning everyone.

Our revenue for the third quarter of fiscal 2008 was a record $97.0 million, which was up by 9 percent from $89.0 million in the year ago quarter, and up 2.7 percent from $94.5 million in the prior quarter. The revenue increases versus both periods primarily reflect solid demand for our core CMP slurry products – Tungsten, Dielectrics and Copper, as well as strong growth in our polishing pads business. These increases were partially offset as revenue from our ESF business and slurry for data storage applications decreased from both the year ago quarter and last quarter.

Drilling down into the quarterly revenue number:

Tungsten slurries contributed 40.3 percent of total quarterly revenue, with revenue up 13.6 percent from the same quarter a year ago and up 1.5 percent sequentially. As discussed at our 2008 Investor Day last month, we expect the market for tungsten slurries to continue to grow in both the short and long term, even as memory device manufacturers begin incorporating more copper wiring into chip designs at the leading edge.

Sales of Copper slurries represented 14.9 percent of our total revenue, and decreased 1.1 percent from the same quarter last year and increased 8.9 percent sequentially. The sequential increase was primarily due to stronger demand from our foundry and advanced logic customers.

Dielectric slurries provided 31.9 percent of revenue this quarter, with sales up 9.8 percent from the same quarter a year ago and up 3.6 percent sequentially. Included in this business is our rapidly growing advanced dielectrics product line, revenue from which was up more than 170 percent from the same quarter last year and up 5.2 percent sequentially.

Data Storage products represented 3.0 percent of our quarterly revenue; this revenue was down 34.7 percent from the same quarter last year and down 23.6 percent sequentially. During the quarter one of our customers shut down its plant for a week, which adversely impacted our revenues for data storage products.

Sales of polishing pads represented 4.7 percent of our total revenue for the quarter, and increased 38.1 percent sequentially. Given the continued momentum we have experienced in the pads business, we expect to see additional growth in our fourth fiscal quarter.

Finally, revenue from our ESF business, which includes QED, generated 5.2 percent of our total sales, and our ESF revenue was down 29.7 percent from a record level of revenue the same quarter last year and down 10.5 percent sequentially. Remember that our QED business is mainly capital equipment oriented, so quarter to quarter revenue volatility is common.

As a percentage of revenue, gross profit was 46.8 percent this quarter, which was down from 47.7 percent in the same quarter last year and up from 44.7 percent last quarter. Compared to the same quarter a year ago, our gross profit percentage decreased due to higher fixed costs, mainly associated with our pad operations, lower slurry and pad manufacturing yields, and the effect of foreign exchange rate changes. These items were partially offset by a higher valued product mix. Compared to last quarter, gross profit percentage benefited primarily from a higher valued product mix and higher pad manufacturing yields, which were partially offset by lower utilization of our manufacturing capacity.

Year to date gross profit as a percentage of revenue was 46.5 percent, which is consistent with 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 $32.5 million this quarter were consistent with our most recent guidance. Operating expense this quarter was higher than the $27.9 million reported in the year ago quarter, primarily due to increased staffing related costs and higher professional fees, including legal fees related to intellectual property enforcement.

Operating expenses were $0.4 million higher than in the prior quarter, mostly due to increased staffing related costs and travel expenses, partially offset by lower professional fees.

Net income of $10.0 million for the quarter was essentially even with the same quarter a year ago and increased 25.7 percent from $7.9 million last quarter. The comparison to the year ago quarter reflects higher revenue this quarter and the absence of a $2.1 million pre-tax investment write-off recorded last year, which were approximately offset by increased operating expenses.

Diluted earnings per share were 43 cents this quarter, up from both the 42 cents in the year ago quarter and 34 cents last quarter.

Turning now to cash and balance sheet related items, capital additions for the quarter were $3.8 million. Depreciation and amortization expense was $6.6 million, and share-based compensation expense was $3.9 million. In addition, we repurchased $10 million of our stock 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 third fiscal quarter, sales activity remained relatively constant throughout the quarter and generally consistent with our sales levels from May 2007 through March 2008.

As we observe orders for our CMP consumables products received to date in July that we expect to ship by the end of the month, we see July results trending generally in-line with our third 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.
We look forward to the next opportunity to speak with you.