CABOT MICROELECTRONICS CORP
Form 10-Q
August 06, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended

JUNE 30, 2010

or

o 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	36-4324765
(State of Incorporation)	(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 X 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 X 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	X	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 NOX

As of July 31, 2010, the Company had 23,306,970 shares of Common Stock, par value $0.001 per share, outstanding.

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CABOT MICROELECTRONICS CORPORATION

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PART I. FINANCIAL INFORMATION
ITEM 1.

CABOT MICROELECTRONICS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Unaudited and in thousands, except per share amounts)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Revenue	$101,655	$86,443	$297,883	$194,859
Cost of goods sold	51,759	46,143	148,114	113,143
Gross profit	49,896	40,300	149,769	81,716
Operating expenses:				
Research, development and technical	12,875	10,901	38,364	35,636
Selling and marketing	7,009	5,207	19,861	16,441
General and administrative	14,637	9,043	38,581	30,959
Purchased in-process research and development	-	(90)	-	1,410
Total operating expenses	34,521	25,061	96,806	84,446
Operating income (loss)	15,375	15,239	52,963	(2,730)
Other income (expense), net	172	(42)	(207)	1,311
Income (loss) before income taxes	15,547	15,197	52,756	(1,419)
Provision (benefit) for income taxes	5,450	6,183	18,588	(436)
Net income (loss)	$10,097	$9,014	$34,168	$(983)
Basic earnings (loss) per share	$0.44	$0.39	$1.47	$(0.04)
Weighted average basic shares outstanding	23,143	23,113	23,178	23,066
Diluted earnings (loss) per share	$0.43	$0.39	$1.46	$(0.04)
Weighted average diluted shares outstanding	23,478	23,154	23,383	23,066

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

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CABOT MICROELECTRONICS CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited and in thousands, except share amounts)

	June 30, 2010	September 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$250,069	$199,952
Accounts receivable, less allowance for doubtful accounts of $1,141 at June 30, 2010, and $1,277 at September 30, 2009	55,673	53,538
Inventories	50,179	44,940
Prepaid expenses and other current assets	16,593	14,428
Deferred income taxes	3,849	3,994
Total current assets	376,363	316,852
Property, plant and equipment, net	115,058	122,782
Goodwill	39,322	39,732
Other intangible assets, net	16,970	18,741
Deferred income taxes	10,377	7,953
Other long-term assets	9,296	9,084
Total assets	$567,386	$515,144
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$19,469	$15,182
Capital lease obligations	1,274	1,210
Accrued expenses and other current liabilities	36,221	23,144
Total current liabilities	56,964	39,536
Capital lease obligations	344	1,308
Other long-term liabilities	4,024	3,571
Total liabilities	61,332	44,415
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock:		
Authorized: 200,000,000 shares, $0.001 par value		
Issued: 26,358,784 shares at June 30, 2010, and 26,143,116 shares at September 30, 2009	26	26
Capital in excess of par value of common stock	224,665	213,031
Retained earnings	368,477	334,309
Accumulated other comprehensive income	13,977	13,690
Treasury stock at cost, 2,986,435 shares at June 30, 2010, and 2,698,234 shares at September 30, 2009	(101,091)	(90,327)
Total stockholders' equity	506,054	470,729

Total liabilities and stockholders' equity	$567,386	$515,144

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)

	Nine Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	$34,168	$(983)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	18,839	18,531
Share-based compensation expense	8,974	9,956
Deferred income tax benefit	(2,425)	(1,323)
Provision for doubtful accounts	(109)	1,012
Non-cash foreign exchange (gain) loss	344	(1,857)
Loss on disposal of property, plant and equipment	69	88
Impairment of property, plant and equipment	-	1,245
Purchased in-process research and development	-	1,410
Other	(87)	442
Changes in operating assets and liabilities:		
Accounts receivable	(1,782)	(5,911)
Inventories	(5,331)	6,865
Prepaid expenses and other assets	(2,458)	(1,718)
Accounts payable	3,936	(3,568)
Accrued expenses, income taxes payable and other liabilities	13,117	(8,002)
Net cash provided by operating activities	67,255	16,187
Cash flows from investing activities:		
Additions to property, plant and equipment	(8,179)	(6,990)
Acquisition of business, net of cash acquired	-	(60,520)
Proceeds from the sale of property, plant and equipment	2	-
Purchase of patents	(115)	-
Proceeds from the sale of investments	50	50
Net cash used in investing activities	(8,242)	(67,460)
Cash flows from financing activities:		
Repurchases of common stock	(10,764)	(336)
Net proceeds from issuance of stock	2,639	1,091
Principal payments under capital lease obligations	(900)	(840)
Net cash used in financing activities	(9,025)	(85)
Effect of exchange rate changes on cash	129	1,128
Increase (decrease) in cash and cash equivalents	50,117	(50,230)
Cash and cash equivalents at beginning of period	199,952	221,467
Cash and cash equivalents at end of period	$250,069	$171,237

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	$941	$233
Issuance of restricted stock	4,985	4,209

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

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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 is a polishing process used by IC device manufacturers to planarize or flatten many of the multiple layers of material that are deposited upon silicon wafers in the production of advanced ICs. Our products play a critical role in the production of advanced IC devices, thereby enabling our customers 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 continue to pursue 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, 2009.

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 June 30, 2010, cash flows for the nine months ended June 30, 2010, and June 30, 2009, and results of operations for the three and nine months ended June 30, 2010, and June 30, 2009. The results of operations for the three and nine months ended June 30, 2010 may not be indicative of the results to be expected for future periods, including the fiscal year ending September 30, 2010. 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, 2009. We currently operate predominantly in one industry segment - the development, manufacture and sale of CMP consumables. Certain reclassifications of prior fiscal year 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.

2. BUSINESS COMBINATION

On February 27, 2009, we completed the acquisition of Epoch Material Co., Ltd. (Epoch), which previously was a consolidated subsidiary of Eternal Chemical Co., Ltd. (Eternal). Epoch is a Taiwan-based company specializing in the development, manufacture and sale of copper CMP slurries and CMP cleaning solutions to the semiconductor industry, and color filter slurries to the liquid crystal display (LCD) industry. We paid $59,391 to obtain 90% of Epoch’s stock, plus $728 of transaction costs, from our available cash balance. We expect to pay an additional $6,600 to Eternal in August 2010 to acquire the remaining 10% of Epoch’s stock and we have placed $6,600 in an escrow account in Taiwan to be held for this purpose until the payment date. The escrow account is recorded as current

restricted cash at June 30, 2010 and is included with prepaid expenses and other current assets on our Consolidated Balance Sheet. During this interim period, Eternal continues to hold the remaining 10% ownership interest in Epoch. However, Eternal has waived rights to any interest in the earnings of Epoch during the interim period, including any associated dividends. Consequently, we have recorded a $6,600 current liability in accrued expenses and other current liabilities on our Consolidated Balance Sheet at June 30, 2010, rather than recording a noncontrolling interest in Epoch.

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

All business combinations have been accounted for under the purchase method of accounting. Accordingly, the assets and liabilities of the acquired entities are recorded at their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the fair value of net assets and amounts assigned to identifiable intangible assets. Purchased in-process research and development (IPR&D), for which technological feasibility has not yet been established and no future alternative uses exist, is expensed immediately. In December 2007, the Financial Accounting Standards Board (FASB) issued new standards for the accounting for business combinations. The new standards retain the purchase method of accounting for acquisitions, but require a number of changes, including changes in the way assets and liabilities are recognized in purchase accounting. They also change the recognition of assets acquired and liabilities assumed arising from contingencies, require the capitalization of in-process research and development at fair value, and require acquisition-related costs to be charged to expense as incurred. The new standards were effective for us October 1, 2009 and will apply prospectively to business combinations completed on or after that date.

The purchase price for Epoch was allocated to tangible assets, liabilities assumed, identified intangible assets acquired, as well as IPR&D, based on our preliminary estimation of their fair values. The excess of the purchase price over the aggregate fair values was recorded as goodwill and is generally fully deductible for tax purposes. The following table summarizes the final purchase price allocation.

Current assets	$ 11,453
Long-term assets	13,965
In-process research and development	1,410
Identified intangible assets	11,510
Goodwill	29,877
Total assets acquired	68,215
Total liabilities assumed	1,496
Net assets acquired	$ 66,719

We have recorded 100% of Epoch’s results of operations since February 27, 2009 in our Consolidated Statement of Income.

The following unaudited pro forma consolidated results of operations have been prepared as if the acquisition of Epoch had occurred on October 1, 2008:

	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2009
Revenues	$ 86,443	$ 199,607
Net income (loss)	$ 8,858	$ (2,059)
Net income (loss) per share:		
Basic	$ 0.38	$ (0.09)
Diluted	$ 0.38	$ (0.09)

The unaudited pro forma consolidated results of operations do not purport to be indicative of the results that would have been achieved if the acquisition had actually occurred as of the date indicated, or of those results that may be achieved in the future. The unaudited pro forma consolidated results of operations include adjustments to net income to give effect to: expensing of IPR&D on October 1, 2008; amortization of intangible assets acquired; depreciation of property, plant and equipment acquired; and income taxes.

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

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

On October 1, 2008, we adopted various accounting standards issued by the 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 June 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.

	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	$ 250,069	$ -	$ -	$ 250,069
Auction rate securities (ARS)	-	-	8,066	8,066
Total	$ 250,069	$ -	$ 8,066	$ 258,135

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.

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

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 new standards to the valuation of our investment in ARS as of June 30, 2010. Our ARS investments at June 30, 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 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 AAA.

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 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.

Based on our fair value assessment, we determined that one ARS continues to be impaired as of June 30, 2010. This security has a fair value of $3,116 (par value $3,350). We assessed the impairment in accordance with 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 municipality, we expect the insurance provider would pay interest and principal following the original repayment schedule, we were able to successfully monetize at par value $50 of this security during our fiscal quarter ended March 31, 2010, 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 other ARS was not impaired as of June 30, 2010. See Note 6 for more information on these investments.

4. INVENTORIES

Inventories consisted of the following:

	June 30, 2010	September 30, 2009
Raw materials	$ 22,297	$ 20,082
Work in process	3,014	3,080
Finished goods	24,868	21,778
Total	$ 50,179	$ 44,940

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

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill was $39,322 as of June 30, 2010, and $39,732 as of September 30, 2009. The decrease in goodwill was due to $282 in foreign exchange fluctuation of the New Taiwan Dollar related to goodwill associated with the Epoch acquisition and a $128 adjustment to record the tax effect of book goodwill in excess of tax goodwill related to the Epoch acquisition.

Goodwill and indefinite lived intangible assets are tested for impairment annually in the fourth fiscal quarter 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 2009 and concluded that no impairment existed. There were no indicators of potential impairment during the quarter ended June 30, 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.

The components of other intangible assets are as follows:

	June 30, 2010		September 30, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Other intangible assets subject to amortization:				
Product technology	$ 8,111	$ 2,672	$ 8,135	$ 1,978
Acquired patents and licenses	8,115	6,057	8,000	5,825
Trade secrets and know-how	2,550	2,550	2,550	2,550
Distribution rights, customer lists and other	11,202	2,919	11,287	2,068
Total other intangible assets subject to amortization	29,978	14,198	29,972	12,421
Total other intangible assets not subject to amortization*	1,190		1,190	
Total other intangible assets	$ 31,168	$ 14,198	$ 31,162	$ 12,421

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

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

Amortization expense on our other intangible assets was $602 and $1,795 for the three and nine months ended June 30, 2010, respectively. Amortization expense on our other intangible assets was $597 and $1,936 for the three and nine months ended June 30, 2009, respectively. Estimated future amortization expense for the five succeeding fiscal years is as follows:

Fiscal Year	Estimated Amortization Expense
Remainder of 2010	$ 595
2011	2,374
2012	2,374
2013	2,374
2014	2,334

6. OTHER LONG-TERM ASSETS

Other long-term assets consisted of the following:

	June 30, 2010	September 30, 2009
Long-term investments	$ 8,066	$ 8,116
Other long-term assets	1,230	968
Total	$ 9,296	$ 9,084

As discussed in Note 3 of this Form 10-Q, the two ARS that we owned as of June 30, 2010 are classified as long-term investments. The securities are credit enhanced with bond insurance to a AAA 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, 2009. We assessed the impairment and determined that the impairment was temporary as it was related to the illiquid ARS market rather than to 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, our successful monetization of $50 of this ARS during the quarter ended March 31, 2010, 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.

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

7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following:

	June 30, 2010	September 30, 2009
Accrued compensation	$ 21,491	$ 8,462
Goods and services received, not yet invoiced	3,559	2,806
Warranty accrual	353	360
Taxes, other than income taxes	1,135	1,175
Acquisition related	6,600	6,600
Other	3,083	3,741
Total	$ 36,221	$ 23,144

The increase in accrued compensation was primarily due to accruals for the annual incentive bonus program for fiscal 2010.

8. DERIVATIVE FINANCIAL INSTRUMENTS

On January 1, 2009, we adopted new accounting standards regarding disclosures about derivative instruments and hedging activities. These standards require enhanced disclosures about (a) how and why derivative instruments are used, (b) how derivative instruments and related hedged items are accounted for, and (c) how derivative instruments and related hedged items affect our financial position, financial performance and cash flows.

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 June 30, 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.

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

The fair value of our derivative instrument included in the Consolidated Balance Sheet was as follows:

		Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value at June 30, 2010	Fair Value at September 30, 2009	Fair Value at June 30, 2010	Fair Value at September 30, 2009
Derivatives not designated as hedging instruments					
Foreign exchange contracts	Prepaid expenses and other current assets	$ -	$ -	$ -	$ -
	Accrued expenses and other current liabilities	$ -	$ -	$ 357	$ 242

The following table summarizes the effect of our derivative instrument on our Consolidated Statement of Income for the three and nine months ended June 30:

		Gain (Loss) Recognized in Statement of Income (Loss)			
		Three Months Ended		Nine Months Ended	
	Statement of Income (Loss) Location	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Derivatives not designated as hedging instruments					
Foreign exchange contracts	Other income (expense), net	$ (511)	$ (501)	$ (41)	$ (1,574)

9. 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 seeks declaratory relief and alleges 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 does 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. On July 29, 2010, we filed a motion for judgment as a matter of law and/or a new trial that certain of DA Nano's products at issue infringe the asserted claims of certain of our patents, and DA Nano filed a motion for judgment as a matter of law and/or a new trial that the asserted claims of certain of our patents are invalid. In addition to our motion for judgment as a matter of law and/or a new trial, we are considering an appeal of the jury verdict on certain of the infringement claims. 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.

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

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 nine months of fiscal 2010 as follows:

Balance as of September 30, 2009	$360
Reserve for product warranty during the reporting period	845
Settlement of warranty	(852)
Balance as of June 30, 2010	$353

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, 2009, for additional information regarding commitments and contingencies.

10. 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 Employee Stock Purchase Plan (ESPP), which was amended to become the Cabot Microelectronics Corporation 2007 Employee Stock Purchase Plan, as Amended and Restated January 1, 2010, 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, 2009. 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.

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

Share-based compensation expense for the three and nine months ended June 30, 2010, and 2009, was as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Cost of goods sold	$ 243	$ 217	$ 726	$ 770
Research, development and technical	212	228	674	850
Selling and marketing	244	258	780	952
General and administrative	1,880	2,123	6,794	7,384
Total share-based compensation expense	2,579	2,826	8,974	9,956
Tax benefit	918	1,010	3,195	3,557
Total share-based compensation expense, net of tax	$ 1,661	$ 1,816	$ 5,779	$ 6,399

Our non-employee directors received their annual equity award in March 2010. In conjunction with this award, the Board of Directors and respective committees of the Board approved non-material revisions to the terms of the relevant award agreements to provide for immediate vesting of the award 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 Cabot Microelectronics Corporation 2000 Equity Incentive Plan, if at such time the non-employee director has completed the equivalent of at least two full terms as a director of the Company, as defined in the Company's bylaws. Three of the Company's non-employee directors had completed at least two full terms of service as of the date of the March 2010 award. Consequently, the requisite service period for the award has already been satisfied and we recorded the fair value of $442 of the awards to these three directors to share-based compensation expense in the fiscal quarter ended March 31, 2010 rather than recording that expense over the four-year vesting period stated in the award agreement.

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, 2009.

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

11. OTHER INCOME (EXPENSE), NET

Other income (expense), net, consisted of the following:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Interest income	$ 68	$ 106	$ 150	$ 996
Interest expense	(53)	(79)	(184)	(259)
Other income (expense)	157	(69)	(173)	574
Total other income (expense), net	$ 172	$ (42)	$ (207)	$ 1,311

The decrease in interest income during the three and nine months ended June 30, 2010 was primarily due to lower interest rates earned on our balances of cash and investments compared to the same periods in fiscal 2009. The change in other income (expense) during the three and nine months ended June 30, 2010 was primarily due to changes in the exchange rates of the U.S. dollar relative to the Japanese Yen.

12. COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income were as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Net income (loss)	$ 10,097	$ 9,014	$ 34,168	$ (983)
Other comprehensive income:				
Foreign currency translation adjustment	1,497	2,598	268	6,512
Minimum pension liability adjustment	6	13	19	40
Total comprehensive income (loss)	$ 11,600	$ 11,625	$ 34,455	$ 5,569

The foreign currency translation adjustments during the three and nine months ended June 30, 2010 and 2009 resulted primarily from the changes in the exchange rates of the U.S. dollar relative to the Japanese Yen and to the New

Taiwan Dollar.

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

13. INCOME TAXES

Our effective income tax rate was 35.1% and 35.2% for the three and nine months ended June 30, 2010, respectively, compared to an effective income tax rate of 40.7% for the three months ended June 30, 2009 and effective income tax benefit rate of 30.7% for the nine months ended June 30, 2009. The change in the effective tax rate during fiscal 2010 is primarily due to the significant increase in taxable income as the Company was in a net income position as of June 30, 2010 compared to a net loss position as of June 30, 2009. The effective tax rate also changed due to a decrease in tax-exempt interest income and the expiration of the research and experimentation credit effective December 31, 2009. During the fiscal quarter ended June 30, 2010, we had a net decrease in our liability for uncertain tax positions of $37 primarily as a result of the expiration of the federal statute of limitations relating to our fiscal 2006 tax return.

14. EARNINGS (LOSS) 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:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Numerator:				
Earnings (loss) available to common shares	$ 10,097	$ 9,014	$ 34,168	$ (983)
Denominator:				
Weighted average common shares (Denominator for basic calculation)	23,142,793	23,113,062	23,178,257	23,066,229
Weighted average effect of dilutive securities:				
Share-based compensation	335,269	40,931	204,579	-
Diluted weighted average common shares (Denominator for diluted calculation)	23,478,062	23,153,993	23,382,836	23,066,229

Earnings (loss) per share:				
Basic	$ 0.44	$ 0.39	$ 1.47	$ (0.04)
Diluted	$ 0.43	$ 0.39	$ 1.46	$ (0.04)

For the three months ended June 30, 2010 and 2009, approximately 2.6 million and 3.9 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.

For the nine months ended June 30, 2010 and 2009, approximately 2.6 million and 3.9 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.

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

15. NEW ACCOUNTING PRONOUNCEMENTS

On October 1, 2009, we adopted new accounting standards for the accounting and reporting of minority equity interests in subsidiaries. Minority interests are characterized as noncontrolling interests and are reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change of control are accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest is included in consolidated net income on the face of the statement of income and, upon loss of control, the interest sold, as well as any interest retained, is recorded at fair value with any gain or loss recognized in earnings. The new standards apply prospectively, except for the presentation and disclosure requirements, which apply retrospectively. The adoption of these standards had no effect on our results of operations, financial position or cash flows as we currently have no minority interests in any of our subsidiaries.

In June 2009, the FASB issued new standards prescribing the information that a reporting entity must provide in its financial reports about the transfer of financial assets. The new standards amend previous guidance by removing the concept of a qualifying special-purpose entity and removing the exception from applying the provisions of accounting for variable interest entities that are qualifying special-purpose entities. The new standards are effective for transfers of financial assets occurring on or after January 1, 2010. The adoption of these new standards did not have a material impact on our results of operations, financial position or cash flows.

In June 2009, the FASB issued new 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 new standards are effective for annual reporting periods beginning after November 15, 2009 and for interim reporting periods within the first annual reporting period. We do not believe the adoption of these new standards will have a material impact on our results of operations, financial position or cash flows. We do not currently have any interest or arrangements that are considered variable interest entities.

In October 2009, the FASB issued ASU No. 2009-13, "Revenue Recognition (Topic 605) – Multiple-Deliverable Revenue Arrangements" (ASU 2009-13), a consensus of the FASB Emerging Issues Task Force. The guidance in ASU 2009-13 modifies the fair value requirements regarding the recognition of revenue under multiple element 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. ASU 2009-13 is effective prospectively for revenue arrangements entered into or modified in fiscal years beginning on or after June 15, 2010. We do not believe the adoption of ASU 2009-13 will have a material effect on our results of operations, financial position or cash flows.

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CABOT MICROELECTRONICS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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In October 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-14, "Software (Topic 985) – Certain Revenue Arrangements That Include Software Elements" (ASU 2009-14), a consensus of the FASB Emerging Issues Task Force. The guidance in ASU 2009-14 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. ASU 2009-14 is effective prospectively for revenue arrangements entered into or modified in fiscal years beginning on or after June 15, 2010. We do not believe the adoption of ASU 2009-14 will 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 our results of operations, financial position or cash flows.

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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, 2009, including the consolidated financial statements and related notes thereto.

THIRD QUARTER OF FISCAL 2010 OVERVIEW

The improvement in economic and industry conditions that we began to see in our business during the second half of fiscal 2009, following the severe global recession, continued through the first three quarters of fiscal 2010. Demand for our products grew modestly during the third fiscal quarter from the second fiscal quarter as we entered a period of the calendar year where we typically benefit from seasonally strong demand. We continue to see positive signs of growth in the semiconductor industry: our customers have reported strong near term forecasts; there is evidence that indicates corporate technology spending is increasing; we are continuing into a seasonally strong period of the year; semiconductor device inventories appear to be generally within a low to normal range; and significant capacity expansion activity has been announced by a number of semiconductor device manufacturers. 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 third quarter of fiscal 2010 was $101.7 million, which represented an increase of 17.6%, or $15.2 million, from the third quarter of fiscal 2009 and an increase of 3.1%, or $3.1 million, from the previous fiscal quarter. The increase in revenue from the third quarter of fiscal 2009 reflects increased sales volume due to improved economic and semiconductor industry conditions. The increase in revenue from our prior fiscal quarter reflects continued strong demand for our products and typical seasonal strength.

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Gross profit for our third quarter of fiscal 2010 expressed as a percentage of revenue was 49.1% and was 50.3% on a year-to-date basis. Our gross profit percentage increased from 46.6% reported in the third quarter of fiscal 2009 and decreased from 50.2% in our prior fiscal quarter. The increase in gross profit percentage from the third quarter of fiscal 2009 was primarily due to the significant increase in sales volume due to continued improvement in economic and industry conditions, and the related benefits of increased utilization of our manufacturing capacity, partially offset by higher fixed manufacturing costs. The decrease in gross profit percentage from the prior fiscal quarter was primarily due to a lower-valued product mix. Our gross profit percentage reflects the solid utilization of our manufacturing capacity, the successful execution of our productivity initiatives, and the growth in pad sales and the related improvement in pad manufacturing yields. We continue to expect our gross profit percentage for fiscal 2010 to be around the upper end of our full year guidance range of 46% to 50%. However, we may 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 range.

In July 2010, a jury trial was completed in connection with our ongoing patent enforcement litigation against DuPont Air Products NanoMaterials LLC (DA Nano). We were pleased that the validity of our patents at issue was upheld; however, we were disappointed that the jury did not find DA Nano's products at issue infringed the asserted claims of our patents. We filed a motion for judgment as a matter of law and/or a new trial on the question of infringement, and we are also considering an appeal. We incurred approximately $3.7 million of expenses related to this trial during the third quarter of fiscal 2010, which caused our operating expenses to increase. Now that the trial phase has been completed, we expect our litigation costs related to this matter to decrease significantly in the near future. See Note 9 of the Notes to the Consolidated Financial Statements and Part II, Item 1 entitled "Legal Proceedings" for a more detailed discussion of the litigation.

Operating expenses were $34.5 million in our third quarter of fiscal 2010, compared to $25.1 million in the third quarter of fiscal 2009 and $32.1 million in the previous fiscal quarter. The increase in operating expenses from the comparable quarter of fiscal 2009 was primarily due to increased staffing-related costs, including costs associated with our annual incentive bonus program, and the reinstatement of certain employee benefits that were suspended during the economic downturn in fiscal 2009, and increased professional fees, including the litigation costs discussed above. The increase in operating expenses from the prior fiscal quarter was primarily due to increased litigation costs. We currently expect to exceed the upper end of our previous guidance range of $120 million to $125 million for full year fiscal 2010 operating expenses.

Diluted earnings per share for our third fiscal quarter was $0.43, an increase from diluted earnings per share of $0.39 reported in the third quarter of fiscal 2009 and a decrease from the diluted earnings per share of $0.47 reported in the previous fiscal quarter as a result of the factors discussed above. The litigation costs discussed above reduced our earnings per share by $0.10 in the quarter ended June 30, 2010.

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, 2009. We believe there have been no material changes in our critical accounting estimates during the first nine months of fiscal 2010. See Notes 3, 8 and 15 of the Notes to the Consolidated Financial Statements for a discussion of new accounting pronouncements.

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RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2010, VERSUS THREE MONTHS ENDED JUNE 30, 2009

REVENUE

Revenue was $101.7 million for the three months ended June 30, 2010, which represented a 17.6%, or $15.2 million, increase from the three months ended June 30, 2009. The increase in revenue was driven by a $12.7 million increase in sales volume, a $4.1 million increase due to a higher-priced product mix and a $0.7 million increase due to the effect of foreign exchange rate changes, partially offset by a decrease in revenue of $2.3 million due to a lower weighted average selling price for our CMP slurries. We believe the demand for our products will continue to be strong during our fourth quarter of fiscal 2010 as this quarter is typically seasonally strong.

COST OF GOODS SOLD

Total cost of goods sold was $51.8 million for the three months ended June 30, 2010, which represented an increase of 12.2%, or $5.6 million, from the three months ended June 30, 2009. The increase in cost of goods sold was primarily due to $6.0 million from increased sales volume due to the higher demand for our products associated with the economic and industry recovery, and a $3.4 million increase due to higher fixed manufacturing costs. These cost increases were partially offset by a $1.6 million benefit of a lower-cost product mix, a $1.4 million decrease due to higher utilization of our manufacturing capacity on the increased sales volume, and a $1.1 million decrease due to certain other manufacturing variances.

Fumed metal oxides, such as fumed silica and fumed 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, 2009.

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 49.1% for the three months ended June 30, 2010, as compared to 46.6% for the three months ended June 30, 2009. The increase in gross profit as a percentage of revenue was primarily due to the increase in sales volume and the related increased utilization of our manufacturing capacity, as well as a higher-valued product mix, partially offset by increased fixed manufacturing costs.

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RESEARCH, DEVELOPMENT AND TECHNICAL

Total research, development and technical expenses were $12.9 million for the three months ended June 30, 2010, which represented an increase of 18.1%, or $2.0 million, from the three months ended June 30, 2009. The increase was mainly due to $1.1 million in higher staffing-related costs, including costs associated with our annual incentive bonus program, $0.2 million in higher recruitment costs, $0.2 million in increased travel-related costs, and $0.2 million in higher costs for laboratory supplies.

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 of new polishing and metrology applications outside of the semiconductor industry.

SELLING AND MARKETING

Selling and marketing expenses were $7.0 million for the three months ended June 30, 2010, which represented an increase of 34.6%, or $1.8 million, from the three months ended June 30, 2009. The increase was primarily due to $1.0 million in higher staffing-related costs, including costs associated with our annual incentive bonus program, $0.3 million in higher travel-related expenses, and $0.2 million in higher professional fees.

GENERAL AND ADMINISTRATIVE

General and administrative expenses were $14.6 million for the three months ended June 30, 2010, which represented an increase of 61.9%, or $5.6 million, from the three months ended June 30, 2009. The increase was mainly due to $3.4 million in higher professional fees, including costs to enforce our intellectual property, and $2.0 million in higher staffing-related costs, including costs related to our annual incentive bonus program, and the reinstatement of certain employee benefits that were suspended during the economic downturn in fiscal 2009. We expect our professional fees to decrease significantly in the fourth quarter of fiscal 2010 due to the completion of the trial phase discussed in more detail in Note 9 of the Notes to the Consolidated Financial Statements and in Part II, Item 1, entitled "Legal Proceedings".

PURCHASED IN-PROCESS RESEARCH AND DEVELOPMENT

Purchased in-process research and development (IPR&D) expense was a credit of $0.1 million during the three months ended June 30, 2009, resulting from an adjustment to the estimated fair value of the IPR&D upon completion of the purchase accounting related to our acquisition of Epoch.

OTHER INCOME (EXPENSE), NET

Other income was $0.2 million for the three months ended June 30, 2010 compared to other expense of $0.1 million during the three months ended June 30, 2009. The increase in other income was primarily due to foreign exchange impacts on revenues and expenses, primarily related to changes in the exchange rate of the Japanese Yen, net of the gains and losses incurred on forward foreign exchange contracts discussed in Note 8 of the Notes to the Consolidated Financial Statements.

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PROVISION (BENEFIT) FOR INCOME TAXES

Our effective income tax rate was 35.1% for the three months ended June 30, 2010 compared to 40.7% for the three months ended June 30, 2009. The decrease in the effective tax rate from the prior year quarter was primarily due to additional tax expense recognition in the third quarter of fiscal 2009 as the Company moved from a full fiscal year net loss, or tax benefit position, at the end of the second quarter of fiscal 2009 to a full fiscal year net income, or tax expense position, at the end of the third quarter of fiscal 2009. This decrease in the effective tax rate was partially offset by an increase in the effective tax rate due to a decrease in tax-exempt interest income and the expiration of the research and experimentation tax credit effective December 31, 2009.

NET INCOME (LOSS)

Net income was $10.1 million for the three months ended June 30, 2010, which represented an increase of 12.0%, or $1.1 million, from the three months ended June 30, 2009 as a result of the factors discussed above.

NINE MONTHS ENDED JUNE 30, 2010, VERSUS NINE MONTHS ENDED JUNE 30, 2009

REVENUE

Revenue was $297.9 million for the nine months ended June 30, 2010, which represented a 52.9%, or $103.0 million, increase from the nine months ended June 30, 2009. The increase in revenue was driven by a $104.2 million increase in sales volume, including the benefit of the Epoch acquisition, a $3.5 million increase due to the effect of foreign exchange rate changes, and $2.3 million due to a higher-priced product mix, partially offset by a decrease in revenue of $7.0 million due to a lower weighted average selling price for our CMP slurries.

COST OF GOODS SOLD

Total cost of goods sold was $148.1 million for the nine months ended June 30, 2010, which represented an increase of 30.9%, or $35.0 million, from the nine months ended June 30, 2009. The increase in cost of goods sold was primarily due to $52.9 million from increased sales volume due to the increased demand for our products associated with the economic and industry recovery, and a $6.4 million increase due to higher fixed manufacturing costs. These cost increases were partially offset by a $15.0 million decrease due to higher utilization of our manufacturing capacity on the increased sales volume, and an $8.5 million benefit of a lower-cost product mix.

GROSS PROFIT

Our gross profit as a percentage of revenue was 50.3% for the nine months ended June 30, 2010, as compared to 41.9% for the nine months ended June 30, 2009. The increase in gross profit as a percentage of revenue was primarily due to the significant increase in sales volume and the related increased utilization of our manufacturing capacity, as well as a higher-valued product mix, partially offset by a slight decrease in the weighted average selling price of our CMP slurries and increased fixed manufacturing costs.

RESEARCH, DEVELOPMENT AND TECHNICAL

Total research, development and technical expenses were $38.4 million for the nine months ended June 30, 2010, which represented an increase of 7.7%, or $2.7 million, from the nine months ended June 30, 2009. The increase was mainly due to $3.1 million in higher staffing-related costs, primarily related to our annual incentive bonus program, $0.3 million in higher travel-related costs, and $0.3 million in higher recruiting costs, partially offset by the absence of a $1.2 million pre-tax impairment recorded on certain research and development equipment during the first nine months of fiscal 2009.

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SELLING AND MARKETING

Selling and marketing expenses were $19.9 million for the nine months ended June 30, 2010, which represented an increase of 20.8%, or $3.4 million, from the nine months ended June 30, 2009. The increase was primarily due to $2.0 million in higher staffing-related costs, including costs associated with our annual incentive bonus program, $0.7 million in higher travel-related expenses, and $0.5 million in higher depreciation expense.

GENERAL AND ADMINISTRATIVE

General and administrative expenses were $38.6 million for the nine months ended June 30, 2010, which represented an increase of 24.6%, or $7.6 million, from the nine months ended June 30, 2009. The increase was mainly due to $5.1 million in higher staffing-related costs, primarily related to our annual incentive bonus program, $3.0 million in higher professional fees, including costs to enforce our intellectual property, and $0.3 million in higher travel-related expenses, partially offset by $1.1 million due to the absence of bad debt expense that was recorded during the economic downturn in fiscal 2009.

PURCHASED IN-PROCESS RESEARCH AND DEVELOPMENT

Purchased in-process research and development (IPR&D) expense was $1.4 million during the nine months ended June 30, 2009, resulting from our acquisition of Epoch.

OTHER INCOME (EXPENSE), NET

Other expense was $0.2 million for the nine months ended June 30, 2010 compared to other income of $1.3 million during the nine months ended June 30, 2009. The decrease in other income was primarily due to a reduction of interest income resulting from lower interest rates earned on our balances of cash and investments, and to foreign exchange impacts on revenues and expenses, primarily related to changes in the exchange rate of the Japanese Yen, net of the gains and losses incurred on forward foreign exchange contracts discussed in Note 8 of the Notes to the Consolidated Financial Statements.

PROVISION (BENEFIT) FOR INCOME TAXES

Our effective income tax rate was 35.2% for the nine months ended June 30, 2010 compared to a 30.7% effective income tax benefit rate for the nine months ended June 30, 2009. The change in the effective tax rate during the first nine months of fiscal 2010 is primarily due to the significant increase in taxable income as the Company was in a net income position as of June 30, 2010 compared to a net loss position as of June 30, 2009. The effective tax rate also changed due to a decrease in tax-exempt interest income and the expiration of the research and experimentation tax credit effective December 31, 2009.

NET INCOME (LOSS)

Net income was $34.2 million for the nine months ended June 30, 2010 compared to a net loss of $1.0 million during the nine months ended June 30, 2009. The significant increase in net income was a result of the factors discussed above.

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LIQUIDITY AND CAPITAL RESOURCES

We generated $67.3 million in cash from operating activities in the first nine months of fiscal 2010, compared to $16.2 million in cash from operating activities in the first nine months of fiscal 2009. Our cash provided by operating activities in the first nine months of fiscal 2010 originated from $34.2 million in net income, $25.6 million in non-cash items and a $7.5 million increase in cash flow due to a net decrease in working capital. The increase in cash from operations compared to the first nine months of fiscal 2009 was primarily due to increased net income in the period, the timing of accounts payable and accrued liability payments, and changes in accounts receivable and inventory balances due to the significant increase in sales in fiscal 2010.

In the first nine months of fiscal 2010, cash flows used in investing activities were $8.2 million, representing purchases of property, plant and equipment. In the first nine months of fiscal 2009, cash flows used in investing activities were $67.5 million, representing $60.5 million used for our acquisition of Epoch, net of $6.2 million in cash acquired, and $7.0 million in purchases of property, plant and equipment. We estimate that our total capital expenditures in fiscal 2010 will be approximately $13 million.

In the first nine months of fiscal 2010, cash flows used in financing activities were $9.0 million, representing $10.0 million in repurchases of common stock under our share repurchase plan, $0.8 million in repurchases of common stock pursuant to the terms of our Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan (EIP) for shares withheld from employees and purchased by the Company to cover payroll taxes on the vesting of restricted stock granted under the EIP and $0.9 million in principal payments under capital lease obligations, partially offset by $2.6 million received from the issuance of common stock under our EIP and our 2007 Employee Stock Purchase Plan. In the first nine months of fiscal 2009, cash flows used in financing activities were $0.1 million, representing $0.9 million in principal payments under capital lease obligations and $0.3 million in repurchases of common stock pursuant to the terms of our EIP for shares withheld from employees and purchased by the Company to cover payroll taxes on the vesting of restricted stock granted under the EIP, partially offset by $1.1 million received from the issuance of common stock under our EIP and our 2007 Employee Stock Purchase Plan.

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, at management's discretion. During the quarter and nine months ended June 30, 2010, we repurchased 263,550 shares for a total of $10.0 million under this program. No shares were repurchased under this program during the first nine months of fiscal 2009. As of June 30, 2010, we have $40.0 million remaining in this share repurchase program. We fund share purchases under this program from our available cash balance.

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 in October 2008, the agreement extends to November 2011, with an option to renew for two additional one-year terms. The amendment did not include any other material changes to the terms of the credit agreement. 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. Uncertainty in the capital and credit markets could hinder our ability to secure additional financing in the type or amount necessary to pursue these objectives.

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OFF-BALANCE SHEET ARRANGEMENTS

At June 30, 2010, and September 30, 2009, 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 June 30, 2010, and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

C O N T R A C T U A L OBLIGATIONS (In millions)	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
Purchase obligations	$ 38.2	$ 34.9	$ 2.3	$ 0.3	$ 0.7
Acquisition related	6.6	6.6	-	-	-
Capital lease obligations	1.6	1.3	0.3	-	-
Operating leases	10.9	3.2	3.7	2.1	1.9
Other long-term liabilities	4.0	-	-	-	4.0
Total contractual obligations	$ 61.3	$ 46.0	$ 6.3	$ 2.4	$ 6.6

We operate under a fumed silica supply agreement with Cabot Corporation 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 non-material 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 $18.3 million of contractual commitments for fumed silica and fumed alumina under these contracts.

As discussed in Note 2 of the Notes to the Consolidated Financial Statements, we completed the first closing of the acquisition of Epoch during the second quarter of fiscal 2009. Under the share purchase agreement, we paid $59.4 million to obtain 90% of Epoch's stock. We expect to pay an additional $6.6 million to Eternal on the second closing date in August 2010 to purchase the remaining 10% ownership interest, and we have placed the $6.6 million in an escrow account for this purpose to be held until then. The escrow account is recorded as short-term restricted cash at June 30, 2010 and is included with prepaid expenses and other current assets on our Consolidated Balance Sheet. During this interim period, Eternal continues to hold the remaining 10% ownership interest in Epoch; however, Eternal has waived rights to any interest in Epoch earnings during the interim period, including any associated dividends. Consequently, we have recorded a $6.6 million current liability on our Consolidated Balance Sheet at June 30, 2010 in accrued expenses and other current liabilities rather than recording a noncontrolling interest in Epoch.

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, 2009, for additional information regarding our contractual obligations.

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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 nine months ended June 30, 2010, we recorded $0.3 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 general fluctuations of the U.S. dollar relative to the Japanese Yen. Approximately 19% 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 June 30, 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 June 30, 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 3 and 6 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.

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ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, 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 the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of June 30, 2010.

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.

We acquired Epoch Material Co., Ltd. (Epoch) in a business combination on February 27, 2009, midway through our fiscal year 2009. Subsequent to the acquisition, we applied certain corporate-level controls to elements of Epoch's internal control over financial reporting. Management has excluded from its assessment of internal control over financial reporting those elements that were not subject to our internal controls. For additional information, refer to Item 9A, "Controls and Procedures", in our Annual Report on Form 10-K for the fiscal year ended September 30, 2009. We will report on our assessment of our combined operations, including Epoch, at the end of fiscal 2010, pursuant to the Sarbanes-Oxley Act of 2002 and the applicable SEC rules and regulations concerning business combinations.

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.

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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 seeks declaratory relief and alleges 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 does 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. On July 29, 2010, we filed a motion for judgment as a matter of law and/or a new trial that certain of DA Nano's products at issue infringe the asserted claims of certain of our patents, and DA Nano filed a motion for judgment as a matter of law and/or a new trial that the asserted claims of certain of our patents are invalid. In addition to our motion for judgment as a matter of law and/or a new trial, we are considering an appeal of the jury verdict on certain of the infringement claims. 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.

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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, 2009. 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 decreases or increases in product demand, excess or low customer inventories, and rapid swings in prices of semiconductor devices. In the first half of fiscal 2009, our business was significantly impacted by the global economic recession. We first began to see significant adverse effects of this in our fourth quarter of fiscal 2008 as the reduction in end user demand for IC devices caused semiconductor manufacturers to reduce their production, which reduced the demand for our CMP consumables products. 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 continued during the first nine months of fiscal 2010. While we currently expect solid demand for our products through the remainder of calendar year 2010, it is difficult to predict demand trends due to our limited visibility to future customer orders. If the global economic recovery falters and conditions begin to deteriorate again, 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 such as:

- The ability of our customers to pay their obligations to us may be adversely affected causing a negative impact on our cash flows and our results of operations as evidenced by the bankruptcy filings of a small number of our customers in fiscal 2009.
- The carrying value of our goodwill and other intangible assets may decline in value, which could harm our financial position and results of operations.
- Our suppliers may not be able to fulfill their obligations to us, which could harm our production process and our business.

Some additional factors that affect demand for our products include customers' production of logic versus memory devices, customers' specific 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 possibly reuse or recycle these products, could render our products less important to the IC device manufacturing process.

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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 nine months ended June 30, 2010 and 2009, our five largest customers accounted for approximately 47% and 41% of our revenue; respectively. Taiwan Semiconductor Manufacturing Company (TSMC) was our largest customer during each of these periods, accounting for approximately 18% and 16% of our revenue for the nine months ended June 30, 2010 and 2009, respectively. During full year fiscal 2009, our five largest customers accounted for approximately 42% of our revenue; with TSMC accounting for approximately 17% of our revenue.

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.

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.

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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% and 84% of our revenue was generated by sales to customers outside of the United States for the nine months ended June 30, 2010, and the fiscal year ended September 30, 2009, respectively. 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 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, the first closing of which we completed in the fiscal quarter ended March 31, 2009, 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.

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 acquisition 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.

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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 formulations 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, in which the validity of all of our patents at issue in the matter was recently upheld as further described 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.

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 June 30, 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.

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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

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)
Apr. 1 through Apr. 30, 2010	108,325	$39.05	108,250	$45,775
May 1 through May 31, 2010	155,300	$37.16	155,300	$40,005
Jun. 1 through Jun. 30, 2010	61	$35.38	-	$40,005
Total	263,686	$37.93	263,550	$40,005

In January 2008, we announced that the Board of Directors had authorized a share repurchase program for up to $75.0 million of our outstanding common stock. The 263,550 shares repurchased during our third quarter of fiscal 2010 were repurchased under this program. Shares are repurchased from time to time, depending on market conditions, in open market transactions, at management's discretion. We fund share repurchases from our existing cash balance. The program, which became effective on the authorization date, may be suspended or terminated at any time, at the Company's discretion.

Separate from this share repurchase program, the total shares purchased during the third quarter of fiscal 2010 included those purchased pursuant to the terms of our Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan as shares withheld from award recipients and purchased by the Company to cover payroll taxes on the vesting of shares of restricted stock granted under the Equity Incentive Plan.

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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:

Exhibit Number	Description
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.

C A B O T M I C R O E L E C T R O N I C S CORPORATION

Date: August 6, 2010

/s/ WILLIAM S. JOHNSON
William S. Johnson
Vice President and Chief Financial Officer
[Principal Financial Officer]

Date: August 6, 2010

/s/ THOMAS S. ROMAN
Thomas S. Roman
Corporate Controller
[Principal Accounting Officer]