

CABOT MICROELECTRONICS CORP  
Form 10-Q  
February 08, 2010

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

FORM 10-Q

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

For the quarterly period ended

DECEMBER 31, 2009

or

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  
(State of Incorporation)

36-4324765  
(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  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  NO

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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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company
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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 January 31, 2010, the Company had 23,574,641 shares of Common Stock, par value \$0.001 per share, outstanding.

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CABOT MICROELECTRONICS CORPORATION

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IndexPART I. FINANCIAL INFORMATION  
ITEM 1.CABOT MICROELECTRONICS CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited and in thousands, except per share amounts)

	Three Months Ended December 31,	
	2009	2008
Revenue	\$97,672	\$63,017
Cost of goods sold	47,264	34,311
Gross profit	50,408	28,706
Operating expenses:		
Research, development and technical	12,581	12,114
Selling and marketing	6,322	5,973
General and administrative	11,245	11,326
Total operating expenses	30,148	29,413
Operating income (loss)	20,260	(707 )
Other income, net	61	876
Income before income taxes	20,321	169
Provision for income taxes	7,197	53
Net income	\$13,124	\$116
Basic earnings per share	\$0.57	\$0.01
Weighted average basic shares outstanding	23,167	23,020
Diluted earnings per share	\$0.56	\$0.01
Weighted average diluted shares outstanding	23,294	23,026

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)

	December 31, 2009	September 30, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$224,810	\$199,952
Accounts receivable, less allowance for doubtful accounts of \$1,261 at December 31, 2009, and \$1,277 at September 30, 2009	49,904	53,538
Inventories	43,970	44,940
Prepaid expenses and other current assets	14,301	14,428
Deferred income taxes	3,658	3,994
Total current assets	336,643	316,852
Property, plant and equipment, net	116,493	122,782
Goodwill	39,742	39,732
Other intangible assets, net	18,262	18,741
Deferred income taxes	9,399	7,953
Other long-term assets	9,050	9,084
Total assets	\$529,589	\$515,144
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$12,505	\$15,182
Capital lease obligations	1,231	1,210
Accrued expenses, income taxes payable and other current liabilities	26,079	23,144
Total current liabilities	39,815	39,536
Capital lease obligations	992	1,308
Other long-term liabilities	3,597	3,571
Total liabilities	44,404	44,415
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock:		
Authorized: 200,000,000 shares, \$0.001 par value		
Issued: 26,274,001 shares at December 31, 2009, and 26,143,116 shares at September 30, 2009	26	26
Capital in excess of par value of common stock	216,441	213,031
Retained earnings	347,433	334,309
Accumulated other comprehensive income	12,363	13,690
Treasury stock at cost, 2,722,449 shares at December 31, 2009, and 2,698,234 shares at September 30, 2009	(91,078 )	(90,327 )
Total stockholders' equity	485,185	470,729

Total liabilities and stockholders' equity	\$529,589	\$515,144
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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)

	Three Months Ended December 31,	
	2009	2008
Cash flows from operating activities:		
Net income	\$13,124	\$116
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,373	6,166
Share-based compensation expense	3,311	4,234
Deferred income tax benefit	(368 )	(1,292 )
Non-cash foreign exchange (gain) loss	652	(4,847 )
Loss on disposal of property, plant and equipment	52	81
Impairment of property, plant and equipment	-	81
Other	54	515
Changes in operating assets and liabilities:		
Accounts receivable	2,818	10,547
Inventories	464	(7,920 )
Prepaid expenses and other assets	90	1,150
Accounts payable	(2,644 )	(2,956 )
Accrued expenses, income taxes payable and other liabilities	3,266	(8,488 )
Net cash provided by (used in) operating activities	27,192	(2,613 )
Cash flows from investing activities:		
Additions to property, plant and equipment	(833 )	(2,341 )
Purchase of patents	(115 )	-
Net cash used in investing activities	(948 )	(2,341 )
Cash flows from financing activities:		
Repurchases of common stock	(751 )	(334 )
Net proceeds from issuance of stock	90	169
Principal payments under capital lease obligations	(295 )	(276 )
Net cash used in financing activities	(956 )	(441 )
Effect of exchange rate changes on cash	(430 )	2,076
Increase (decrease) in cash and cash equivalents	24,858	(3,319 )
Cash and cash equivalents at beginning of period	199,952	221,467
Cash and cash equivalents at end of period	\$224,810	\$218,148
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	\$564	\$574
Issuance of restricted stock	4,478	3,727

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 December 31, 2009, cash flows for the three months ended December 31, 2009, and December 31, 2008, and results of operations for the three months ended December 31, 2009, and December 31, 2008. The results of operations for the three months ended December 31, 2009 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 as of December 31, 2009. We performed an evaluation of subsequent events through February 8, 2010, the date the financial statements were issued. There were no subsequent events that required adjustment to or disclosure in our financial statements.

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 December 31, 2009 and is included with prepaid expenses and other current assets on our Consolidated Balance Sheet. During this interim period, Eternal will continue 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 December 31, 2009, 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  
December  
31,  
2008

Revenues	\$ 66,997
Net loss	\$ (1,444 )
Net loss per share:	
Basic	\$ (0.06 )
Diluted	\$ (0.06 )

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