CABOT MICROELECTRONICS CORP
Form 10-Q
August 07, 2017
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

June 30, 2017
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	36-4324765
(State of Incorporation)	(I.R.S. Employer Identification No.)

870 NORTH COMMONS DRIVE	60504
AURORA, ILLINOIS	(Zip Code)
(Address of principal executive offices)	

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.
YESXNO

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).
YESXNO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	X Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO X

As of July 31, 2017, the Company had 25,306,097 shares of Common Stock, par value $0.001 per share, outstanding.

CABOT MICROELECTRONICS CORPORATION

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PART I. FINANCIAL INFORMATION
ITEM 1.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Revenue	$127,957	$108,152	$370,395	$307,765
Cost of goods sold	65,414	56,127	186,316	158,649
Gross profit	62,543	52,025	184,079	149,116
Operating expenses:				
Research, development and technical	14,333	12,928	41,819	42,690
Selling and marketing	7,346	6,243	22,166	19,660
General and administrative	13,953	10,738	41,148	37,991
Total operating expenses	35,632	29,909	105,133	100,341
Operating income	26,911	22,116	78,946	48,775
Interest expense	1,117	1,178	3,402	3,536
Other income (expense), net	(115)	(246)	1,115	396
Income before income taxes	25,679	20,692	76,659	45,635
Provision for income taxes	5,740	1,990	16,209	6,493
Net income	$19,939	$18,702	$60,450	$39,142
Basic earnings per share	$0.79	$0.78	$2.42	$1.62
Weighted average basic shares outstanding	25,228	23,929	24,941	24,023
Diluted earnings per share	$0.77	$0.76	$2.37	$1.59
Weighted average diluted shares outstanding	25,721	24,325	25,450	24,403
Dividends per share	$0.20	$0.18	$0.58	$0.36

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

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CABOT MICROELECTRONICS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited and in thousands)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Net income	$19,939	$18,702	$60,450	$39,142
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(2,635)	3,795	(6,326)	10,152
Minimum pension liability adjustment	-	-	-	287
Net unrealized gain (loss) on cash flow hedges	1	(173)	819	(265)
Other comprehensive income (loss), net of tax	(2,634)	3,622	(5,507)	10,174
Comprehensive income	$17,305	$22,324	$54,943	$49,316

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, 2017	September 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$363,902	$287,479
Accounts receivable, less allowance for doubtful accounts of $1,799 at June 30, 2017, and $1,828 at September 30, 2016	66,338	62,830
Inventories	70,759	72,123
Prepaid expenses and other current assets	16,803	14,398
Total current assets	517,802	436,830
Property, plant and equipment, net	106,162	106,496
Goodwill	101,812	100,639
Other intangible assets, net	44,643	50,476
Deferred income taxes	19,528	20,747
Other long-term assets	11,327	12,042
Total assets	$801,274	$727,230
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$15,958	$16,834
Accrued expenses, income taxes payable and other current liabilities	49,295	41,395
Current portion of long-term debt	9,844	7,656
Total current liabilities	75,097	65,885
Long-term debt, net of current portion, less prepaid debt issuance cost of $504 at June 30, 2017 and $696 at September 30, 2016	137,309	146,961
Deferred income taxes	64	75
Other long-term liabilities	13,782	16,661
Total liabilities	226,252	229,582
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common Stock: Authorized: 200,000,000 shares, $0.001 par value; Issued: 35,144,183 shares at June 30, 2017, and 34,261,304 shares at September 30, 2016	35	34
Capital in excess of par value of common stock	573,895	530,840
Retained earnings	376,483	330,776
Accumulated other comprehensive income	4,049	9,556
Treasury stock at cost, 9,835,419 shares at June 30, 2017, and 9,744,642 shares at September 30, 2016	(379,440)	(373,558)
Total stockholders' equity	575,022	497,648
Total liabilities and stockholders' equity	$801,274	$727,230

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, 2017	2016
Cash flows from operating activities:		
Net income	$60,450	$39,142
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,530	19,090
Provision for doubtful accounts	25	10
Share-based compensation expense	9,716	11,029
Deferred income tax expense	2,081	516
Non-cash foreign exchange (gain)/loss	470	(539)
(Gain) loss on disposal of property, plant and equipment	(621)	107
Impairment of assets	860	79
Other	(323)	657
Changes in operating assets and liabilities:		
Accounts receivable	(5,638)	(1,110)
Inventories	(247)	655
Prepaid expenses and other assets	(3,405)	(144)
Accounts payable	(1,186)	(2,945)
Accrued expenses, income taxes payable and other liabilities	8,304	(8,790)
Net cash provided by operating activities	90,016	57,757
Cash flows from investing activities:		
Additions to property, plant and equipment	(15,901)	(13,836)
Proceeds from the sale of property, plant and equipment	637	17
Proceeds from the sale of investments	175	200
Acquisition of business, net of cash acquired	-	(126,976)
Net cash used in investing activities	(15,089)	(140,595)
Cash flows from financing activities:		
Repayment of long-term debt	(7,656)	(6,563)
Repurchases of common stock	(5,882)	(27,855)
Net proceeds from issuance of stock	27,561	5,646
Dividends paid	(13,977)	(4,326)
Tax benefits associated with share-based compensation expense	5,826	770
Net cash provided by (used in) financing activities	5,872	(32,328)
Effect of exchange rate changes on cash	(4,376)	4,063
Increase (decrease) in cash and cash equivalents	76,423	(111,103)
Cash and cash equivalents at beginning of period	287,479	354,190
Cash and cash equivalents at end of period	$363,902	$243,087
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	$2,018	$701

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 polishes surfaces at an atomic level, thereby helping to enable IC device manufacturers 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 develop, manufacture and sell CMP polishing pads, which are used in conjunction with slurries in the CMP process. We also develop and provide products for demanding surface modification applications in other industries through our Engineered Surface Finishes (ESF) business. 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, 2016.

The unaudited consolidated financial statements have been prepared by Cabot Microelectronics pursuant to the rules of the Securities and Exchange Commission (SEC) and accounting principles generally accepted in the United States of America (U.S. GAAP). In the opinion of management, these unaudited consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for the fair statement of Cabot Microelectronics' financial position as of June 30, 2017, cash flows for the nine months ended June 30, 2017, and June 30, 2016, and results of operations for the three and nine months ended June 30, 2017, and June 30, 2016. The consolidated balance sheet as of September 30, 2016 was derived from audited financial statements, but does not contain all of the footnote disclosures from the annual financial statements. The results of operations for the three and nine months ended June 30, 2017 may not be indicative of results to be expected for future periods, including the fiscal year ending September 30, 2017. 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, 2016.

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 June 30, 2017.

USE OF ESTIMATES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. The accounting estimates that require management's most challenging and subjective judgments include, but are not limited to, those estimates related to bad debt expense, inventory valuation, valuation and classification of auction rate securities, impairment of long-lived assets and investments, business combinations, goodwill, other intangible assets, interest rate swaps, share-based compensation, income taxes and contingencies. We base our estimates on historical experience, current conditions and on various other assumptions that we believe are reasonable under the circumstances. However, future events are subject to change and estimates and judgments routinely require adjustment. Actual results may differ from these estimates under different assumptions or conditions.

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ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. We maintain an allowance for doubtful accounts for estimated losses resulting from the potential inability of our customers to make required payments. Our allowance for doubtful accounts is based on historical collection experience, adjusted for any specific known conditions or circumstances such as customer bankruptcies and increased risk due to economic conditions. Amounts charged to bad debt expense are recorded in general and administrative expenses. A portion of our receivables and the related allowance for doubtful accounts is denominated in foreign currencies, so they are subject to foreign exchange fluctuations. Uncollectible account balances are charged against the allowance when we believe that it is probable that the receivable will not be recovered.

At June 30, 2017, our accounts receivable balance with Toshiba Corporation ("Toshiba") represented a U.S. dollar equivalent of $2,682, which equates to 4.0% of our total accounts receivable balance of $66,338, net of allowance for doubtful accounts, and of which no amounts are past due. We continue to monitor the financial condition of Toshiba and its ability to make the required payments due on our receivables. At present, we do not believe it is probable that the receivables from Toshiba are impaired, and accordingly, we have not recorded a related allowance for doubtful accounts.

2. BUSINESS COMBINATION

On October 22, 2015, the Company completed the acquisition of 100% of the outstanding stock of NexPlanar Corporation (NexPlanar), a privately held, U.S. based company specializing in the development, manufacture and sale of advanced CMP pad solutions for the semiconductor industry. We acquired NexPlanar to expand our polishing pad portfolio by adding a complementary pad technology and to leverage our global infrastructure to better serve customers on a global basis, including offering performance-advantaged slurry and pad consumable sets. We paid a total of $126,976, including total purchase consideration of $142,237, less cash acquired of $15,261. The purchase consideration includes $142,167 paid at the date of acquisition and $70 for a post-closing adjustment. In addition, we paid $154 in compensation expense related to certain unvested NexPlanar stock options settled in cash at the acquisition date.

The following table summarizes the fair values of assets acquired and liabilities assumed as of the date of acquisition:

Total purchase consideration	$142,237
Cash	$15,261
Accounts receivable	3,052
Inventories	2,768
Prepaid expenses and other current assets	1,712
Property, plant and equipment	6,901
Intangible assets	55,000
Deferred tax assets	20,509
Other long-term assets	1,458
Accounts payable	(1,057)
Accrued expenses and other current liabilities	(1,472)
Deferred tax liabilities	(20,313)
Total identifiable net assets	83,819
Goodwill	58,418
	$142,237

The acquisition was accounted for using the acquisition method of accounting. Tangible and identifiable intangible assets acquired and liabilities assumed are recorded at fair value as of the acquisition date. We finalized the purchase price allocation during the fourth quarter of fiscal 2016. We believe that the information we used provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed.

The fair values of identifiable assets and liabilities acquired were developed with the assistance of third party valuation firms. The fair value of acquired property, plant and equipment is valued at its "value-in-use" as there are no known plans to dispose of any assets. The fair value of acquired identifiable intangible assets was determined using the "income approach" on an individual asset basis. The key assumptions used in the calculation of the discounted cash flows include projected revenue, gross margin, operating expenses, and discount rate. The valuations and the underlying assumptions have been deemed reasonable by Company management. There are inherent uncertainties and management judgment required in these determinations.

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The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition:

	Fair Value	Useful Life
Trade name	$8,000	7 years
Customer relationships	8,000	11 years
Developed technology - product family A	32,000	7 years
Developed technology - product family B	2,000	9 years
In-process technology	5,000	
Total intangible assets	$55,000	

The trade name represents the estimated fair value of the brand and name recognition associated with the marketing of NexPlanar's product offerings. Customer relationships represent the estimated fair value of the underlying relationships and agreements with NexPlanar customers. Developed technology represents the estimated fair value of NexPlanar's technology, processes and knowledge regarding its product offerings. In-process technology represents the fair value assigned to technology projects under development as of the acquisition date. The in-process technology assets are capitalized and accounted for as indefinite-lived intangible assets and will be subject to impairment testing until completion or abandonment of the projects. Upon successful completion of each project, we will make a determination of the appropriate useful life and the related amortization will be recorded as an expense over the estimated useful life based on the future expected cash flow stream. In the fourth quarter of fiscal 2016, we recorded impairment expense of $1,000 representing the entire fair value of one of the in-process technology assets as management determined that expected future cash flows were insufficient to support the value of the asset. The intangible assets subject to amortization have a weighted average useful life of 7.7 years and are being amortized on a straight-line basis.

The excess of purchase consideration over the fair value of net assets acquired was recorded as goodwill, and is not deductible for income tax purposes. The goodwill is primarily attributable to anticipated revenue growth from the combination of our and NexPlanar pad technologies, expected synergies from the combined operations, and the assembled workforce of NexPlanar. NexPlanar's results of operations have been included in our unaudited consolidated statements of income and comprehensive income from the date of acquisition.

The following supplemental pro forma information summarizes the combined results of operations for Cabot Microelectronics and NexPlanar as if the acquisition had occurred on October 1, 2014.

	Three Months Ended June 30, 2016	Nine Months Ended June 30, 2016
Revenue	$108,152	$309,172
Net income	18,412	39,915
Earnings per share - basic	0.76	1.65
Earnings per share - diluted	$0.75	$1.62

The historical financial information has been adjusted to give effect to the pro forma adjustments, which consist of amortization expense associated with intangible assets, and the elimination of interest expense on NexPlanar debt repaid prior to the acquisition. The pro forma amounts for the nine months ended June 30, 2016 exclude the impact of compensation expense related to unvested NexPlanar stock options settled in cash, and the step-up of inventory as these items are assumed to have occurred during the quarter ended December 31, 2014 had the acquisition been completed on October 1, 2014. The pro forma consolidated results are not necessarily indicative of what the consolidated results actually would have been had the acquisition been completed on October 1, 2014. The pro forma consolidated results do not purport to project future results of combined operations, nor do they reflect the expected realization of any revenue or cost synergies associated with the acquisition.

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3. FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

The following table presents financial instruments, other than long-term debt, that we measured at fair value on a recurring basis at June 30, 2017 and September 30, 2016. See Note 8 for a detailed discussion of our long-term debt. We have classified the following assets and liabilities 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.

June 30, 2017	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Cash and cash equivalents	$363,902	$-	$ -	$363,902
Other long-term investments	1,153	-	-	1,153
Derivative financial instruments	-	261	-	261
Total assets	$365,055	$261	$ -	$365,316
Liabilities:				
Derivative financial instruments	-	822	-	822
Total liabilities	$-	$822	$ -	$822

September 30, 2016	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Cash and cash equivalents	$287,479	$-	$ -	$287,479
Other long-term investments	1,028	-	-	1,028
Derivative financial instruments	-	28	-	28
Total assets	$288,507	$28	$ -	$288,535
Liabilities:				
Derivative financial instruments	-	1,469	-	1,469
Total liabilities	$-	$1,469	$ -	$1,469

Our cash and cash equivalents consist of various bank accounts used to support our operations and investments in institutional money-market funds that are traded in active markets. We invest exclusively in AAA- rated, prime institutional money market funds, comprised of high quality, short-term fixed income securities. Our other long-term investments represent the fair value of investments under the Cabot Microelectronics Supplemental Employee Retirement Plan (SERP), which is a nonqualified supplemental savings plan. The fair value of the investments is determined through quoted market prices within actively traded markets. Although the investments are allocated to individual participants and investment decisions are made solely by those participants, the SERP is a nonqualified plan. Consequently, the Company owns the assets and the related offsetting liability for disbursement until such time as participant makes a qualifying withdrawal. The long-term asset was adjusted to $1,153 in the third quarter of fiscal 2017 to reflect its fair value as of June 30, 2017.

Our derivative financial instruments include forward foreign exchange contracts and interest rate swaps. In the first quarter of fiscal 2015, we entered into floating-to-fixed interest rate swap agreements to hedge the variability in LIBOR-based interest payments on a portion of our outstanding variable rate debt. These interest rate swaps represent our primary use of derivative financial instruments. The fair value of our derivative instruments is estimated using standard valuation models using market-based observable inputs over the contractual term, including one-month LIBOR-based yield curves, among others. We consider the risk of nonperformance, including counterparty credit risk, in the calculation of the fair value of derivative financial instruments. See Note 9 of this Form 10-Q for more information on our use of derivative financial instruments.

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4. INVENTORIES

Inventories consisted of the following:

	June 30, 2017	September 30, 2016
Raw materials	$38,209	$ 45,109
Work in process	6,332	4,668
Finished goods	26,218	22,346
Total	$70,759	$ 72,123

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill was $101,812 as of June 30, 2017, and $100,639 as of September 30, 2016. The increase in goodwill was due to $1,028 in foreign exchange fluctuations of the New Taiwan dollar and an adjustment of $145 to a deferred tax liability.

The components of other intangible assets are as follows:

	June 30, 2017		September 30, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Other intangible assets subject to amortization:				
Product technology	$42,278	$ 16,396	$42,194	$ 12,718
Acquired patents and licenses	8,270	8,239	8,270	8,155
Trade secrets and know-how	2,550	2,550	2,550	2,550
Customer relationships, distribution rights and other	28,194	14,654	27,900	12,205
Total other intangible assets subject to amortization	81,292	41,839	80,914	35,628
In-process technology	4,000		4,000	
Other indefinite-lived intangibles*	1,190		1,190	
Total other intangible assets not subject to amortization	5,190		5,190	
Total other intangible assets	$86,482	$ 41,839	$86,104	$ 35,628

*Other indefinite-lived intangible assets not subject to amortization consist primarily of trade names.

Amortization expense on our intangible assets was $1,935 and $5,860 for the three and nine months ended June 30, 2017, respectively, and was $2,072 and $6,026 for the three and nine months ended and June 30, 2016, respectively. Estimated future amortization expense for the five succeeding fiscal years is as follows:

Fiscal Year	Estimated Amortization Expense

Remainder of 2017	$ 1,934
2018	7,117
2019	6,675
2020	6,670
2021	6,664

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Goodwill and indefinite-lived intangible assets are tested for impairment annually in the fourth quarter of the fiscal year 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. An entity has the option to assess the fair value of a reporting unit either using a qualitative analysis ("step zero") or a quantitative analysis ("step one"). Similarly, an entity has the option to use a step zero or a step one approach to determine the recoverability of indefinite-lived intangible assets. In fiscal 2016, we chose to use a step one analysis for both goodwill impairment and for indefinite-lived intangible asset impairment.

We completed our annual impairment test during our fourth quarter of fiscal 2016 and recorded $1,000 of impairment expense on one of the in-process technology assets acquired in the NexPlanar acquisition during the fourth quarter of 2016 based on management's expected future cash flows for this asset. There were no indicators of potential impairment during the quarter ended June 30, 2017, so it was not necessary to 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 for any of our reporting units.

6. OTHER LONG-TERM ASSETS

Other long-term assets consisted of the following:

	June 30, 2017	September 30, 2016
Auction rate securities (ARS)	$5,319	$ 5,494
Other long-term assets	2,505	2,620
Long-term contract asset	2,350	2,900
Other long-term investments	1,153	1,028
Total	$11,327	$ 12,042

Our ARS investments at June 30, 2017 consisted of two tax exempt municipal debt securities with a total par value of $5,319, both of which have maturities greater than ten years. The fair value of our ARS, determined using level 2 fair value inputs, was $4,877 as of June 30, 2017. We have classified our ARS as held-to-maturity based on our intention and ability to hold the securities until maturity. We believe the gross unrecognized loss of $442 is due to the illiquidity in the ARS market, rather than to credit loss. 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 will continue to monitor our ARS for impairment indicators, which may require us to record an impairment charge that is deemed other-than-temporary.

In the third quarter of fiscal 2015, we amended a supply contract with an existing supplier. The amended agreement includes a fee of $4,500, which provides us the option to purchase certain raw materials beyond calendar 2016. This fee was recorded as a long-term asset at its present value and is being amortized into cost of goods sold on a straight-line basis through December 31, 2019, the expiration date of the agreement. See Note 10 for more information regarding this contract.

Other long-term assets are comprised of the long-term portion of prepaid unamortized debt costs, related to our Revolving Credit Facility, as well as miscellaneous deposits and prepayments on contracts extending beyond the next 12 months. As discussed in Note 8, we reclassified $435 of prepaid debt costs related to our Term Loan out of other long-term assets as of September 30, 2016, in accordance with the adoption of a new accounting pronouncement. As discussed in Note 3, we recorded a long-term asset and a corresponding long-term liability of $1,153 representing the fair value of our SERP investments as of June 30, 2017.

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7. ACCRUED EXPENSES, INCOME TAXES PAYABLE AND OTHER CURRENT LIABILITIES

Accrued expenses, income taxes payable and other current liabilities consisted of the following:

	June 30, 2017	September 30, 2016
Accrued compensation	$25,677	$ 17,856
Income taxes payable	5,606	7,878
Dividends payable	5,267	4,502
Raw materials received, not yet invoiced	3,731	2,648
Deferred revenue and customer advances	1,264	782
Warranty accrual	249	243
Taxes, other than income taxes	1,583	775
Current portion of long-term contract liability	1,500	1,500
Other accrued expenses	4,418	5,211
Total	$49,295	$ 41,395

8. DEBT

On February 13, 2012, we entered into a credit agreement (the "Credit Agreement") among the Company, as Borrower, Bank of America, N.A., as administrative agent, swing line lender and an L/C issuer, Bank of America, Merrill Lynch and J.P. Morgan Securities LLC, as joint lead arrangers and joint book managers, JPMorgan Chase Bank, N.A., as syndication agent, and Wells Fargo Bank, N.A. as documentation agent. The Credit Agreement provided us with a $175,000 term loan (the "Term Loan"), which we drew on February 27, 2012 to fund approximately half of the special cash dividend we paid to our stockholders on March 1, 2012, and a $100,000 revolving credit facility (the "Revolving Credit Facility"), which has never been drawn, with sub-limits for multicurrency borrowings, letters of credit and swing-line loans. The Term Loan and the Revolving Credit Facility are referred to as the "Credit Facilities." On June 27, 2014, we entered into an amendment (the "Amendment") to the Credit Agreement, which (i) increased term loan commitments by $17,500 from $157,500 to $175,000, the same level as the original amount under the Credit Agreement at its inception in 2012; (ii) increased the uncommitted accordion feature on the Revolving Credit Facility from $75,000 to $100,000; (iii) extended the expiration date of the Credit Facilities from February 13, 2017 to June 27, 2019; (iv) relaxed the consolidated leverage ratio financial covenant; and (v) revised certain pricing terms and other terms within the Credit Agreement. On June 27, 2014, we drew the $17,500 of increased term loan commitments, bringing the total outstanding commitments under the Term Loan to $175,000.

Borrowings under the amended Credit Facilities (other than in respect of swing-line loans) bear interest at a rate per annum equal to the "Applicable Rate" (as defined below) plus, at our option, either (1) a LIBOR rate determined by reference to the cost of funds for deposits in the relevant currency for the interest period relevant to such borrowing or (2) the "Base Rate", which is the highest of (x) the prime rate of Bank of America, N.A., (y) the federal funds rate plus 1/2 of 1.00% and (z) the one-month LIBOR rate plus 1.00%. The current Applicable Rate for borrowings under the Credit Facilities is 1.50%, as amended, with respect to LIBOR borrowings and 0.25% with respect to Base Rate borrowings, with such Applicable Rate subject to adjustment based on our consolidated leverage ratio. Swing-line loans bear interest at the Base Rate plus the Applicable Rate for Base Rate loans under the Revolving Credit Facility. In addition to paying interest on outstanding principal under the Credit Agreement, we pay a commitment fee to the lenders under the Revolving Credit Facility in respect of the unutilized commitments thereunder. As amended, the fee ranges from 0.20% to 0.30%, based on our consolidated leverage ratio. Interest expense and commitment fees are paid according to the relevant interest period and no less frequently than at the end of each calendar quarter. We also pay letter of credit fees as necessary. The Term Loan has periodic scheduled repayments; however, we may voluntarily prepay the Credit Facilities without premium or penalty, subject to customary "breakage" fees and reemployment costs in the case of LIBOR borrowings. All obligations under the Credit Agreement are guaranteed by certain of our existing and future direct and indirect domestic subsidiaries. The obligations under the Credit Agreement and guarantees of those obligations are secured, subject to certain exceptions, by first priority liens and security interests in the assets of the Company and certain of its domestic subsidiaries.

In the first quarter of fiscal 2017, we adopted the provisions of Accounting Standards Update No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs" (ASU 2015-03) and ASU 2015-15, "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements". The provisions of ASU 2015-03 require an entity to present the debt issuance costs related to a recognized debt liability in the balance sheet as a direct deduction to the carrying amount of that debt liability. ASU 2015-03 requires adoption on a retrospective basis, wherein the balance sheet of each individual period should be adjusted to reflect the period-specific effects of the guidance. ASU 2015-15 provides guidance on the treatment of debt issuance costs related to line-of-credit arrangements based on comments provided by the SEC staff. The SEC staff stated that it would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance cost ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. In accordance with this guidance, we have separated our debt issuance costs between those attributable to our Term Loan and those attributable to our Revolving Credit Facility. The debt issuance costs attributable to our Term Loan are presented as a reduction of the long-term debt balance on our Consolidated Balance Sheet, while the debt issuance costs attributable to our Revolving Credit Facility remain in prepaid expenses and other current assets, and other long-term assets. As of June 30, 2017, $504 of debt issuance costs related to our Term Loan are presented as a reduction of long-term debt. Debt issuance costs related to our Revolving Credit Facility are not material. As of September 30, 2016, we have reclassified $261 and $435 of debt issuance costs related to our Term Loan from prepaid expenses and other current assets, and other long-term assets, respectively, and presented them as a reduction of our long-term debt on our Consolidated Balance Sheet.

The Credit Agreement contains covenants that restrict the ability of the Company and its subsidiaries to take certain actions, including, among other things and subject to certain significant exceptions: creating liens, incurring indebtedness, making investments, engaging in mergers, selling property, paying dividends or amending organizational documents. The Credit Agreement requires us to comply with certain financial ratio maintenance covenants. These include a maximum consolidated leverage ratio of 2.75 to 1.00 and a minimum consolidated fixed charge coverage ratio of 1.25 to 1.00 for the period January 1, 2016 through the expiration of the Credit Agreement. As of June 30, 2017, our consolidated leverage ratio was 0.97 to 1.00 and our consolidated fixed charge coverage ratio was 3.47 to 1.00. The Credit Agreement also contains customary affirmative covenants and events of default. We believe we are in compliance with these covenants.

At June 30, 2017, the fair value of the Term Loan, using level 2 inputs, approximates its carrying value of $147,657 as the loan bears a floating market rate of interest. As of June 30, 2017, $9,844 of the debt outstanding is classified as short-term.

Principal repayments of the Term Loan are generally made on the last calendar day of each quarter if that day is considered to be a business day. As of June 30, 2017, scheduled principal repayments of the Term Loan were as follows:

Fiscal Year	Principal Repayments
2018	14,219
2019	133,438
Total	$ 147,657

9. DERIVATIVE FINANCIAL INSTRUMENTS

We are exposed to various market risks, including risks associated with interest rates and foreign currency exchange rates. We enter into certain derivative transactions to mitigate the volatility associated with these exposures. We have policies in place that define acceptable instrument types we may enter into and we have established controls to limit our market risk exposure. 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 on a gross basis.

Cash Flow Hedges – Interest Rate Swap Agreements

In the first quarter of fiscal 2015, we entered into floating-to-fixed interest rate swap agreements to hedge the variability in LIBOR-based interest payments on $86,406 of our outstanding variable rate debt. The notional amount of the swaps decreases each quarter by an amount in proportion to our scheduled quarterly principal repayment of debt. The notional value of the swaps was $73,828 as of June 30, 2017, and the swaps are scheduled to expire on June 27, 2019.

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We have designated these swap agreements as cash flow hedges pursuant to ASC 815, "Derivatives and Hedging". As cash flow hedges, unrealized gains are recognized as assets and unrealized losses are recognized as liabilities. Unrealized gains and losses are designated as effective or ineffective based on a comparison of the changes in fair value of the interest rate swaps and changes in fair value of the underlying exposures being hedged. The effective portion is recorded as a component of accumulated other comprehensive income or loss, while the ineffective portion is recorded as a component of interest expense. Changes in the method by which we pay interest from one-month LIBOR to another rate of interest could create ineffectiveness in the swaps, and result in amounts being reclassified from other comprehensive income into net income. Hedge effectiveness is tested quarterly to determine if hedge treatment continues to be appropriate.

Foreign Currency Contracts Not Designated as Hedges

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. As of June 30, 2017 and September 30, 2016, the notional amounts of the forward contracts we held to purchase U.S. dollars in exchange for other international currencies were $6,304 and $8,858, respectively, and the notional amounts of forward contracts we held to sell U.S. dollars in exchange for other international currencies were $20,145 and $15,635, respectively.

The fair value of our derivative instruments included in the Consolidated Balance Sheet, which was determined using level 2 inputs, was as follows:

		Asset Derivatives		Liability Derivatives	
Balance Sheet Location		Fair Value at June 30, 2017	Fair Value at September 30, 2016	Fair Value at June 30, 2017	Fair Value at September 30, 2016
Derivatives designated as hedging instruments					
Interest rate swap contracts	Other noncurrent assets	$ 152	$ -	$-	$ -
	Accrued expenses and other current liabilities	$-	$ -	$ 724	$ 612
	Other long-term liabilities	$-	$ -	$-	$ 655
Derivatives not designated as hedging instruments					
Foreign exchange contracts	Prepaid expenses and other current assets	$ 109	$ 28	$-	$ -
	Accrued expenses and other current liabilities	$-	$ -	$ 98	$ 202

The following table summarizes the effect of our derivative instruments on our Consolidated Statement of Income for the three and nine months ended June 30, 2017 and 2016:

		Gain (Loss) Recognized in Statement of Income			
		Three Months Ended		Nine Months Ended	
Statement of Income Location		June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Derivatives not designated as hedging instruments					
Foreign exchange contracts	Other income (loss), net	$ (235)	$ 440	$ (1,709)	$ 952

The interest rate swap agreements were deemed to be effective since inception, so there was no impact on our Consolidated Statement of Income. We recorded a $819 unrealized gain in accumulated comprehensive income during the nine months ended June 30, 2017 for these interest rate swaps. During the next 12 months, we expect approximately $98 may be reclassified from accumulated other comprehensive income into interest expense related to our interest rate swaps based on projected rates using the LIBOR forward curve as of June 30, 2017.

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10. COMMITMENTS AND 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.

Refer to Note 18 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, 2016, for additional information regarding commitments and contingencies.

PRODUCT WARRANTIES

We maintain a warranty reserve that reflects management's best estimate of the cost to replace product that does not meet our specifications and customers' 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 activity during the first nine months of fiscal 2017 was as follows:

Balance as of September 30, 2016	$243
Reserve for product warranty during the reporting period	389
Settlement of warranty	(383)
Balance as of June 30, 2017	$249

POSTRETIREMENT OBLIGATIONS IN FOREIGN JURISDICTIONS

We have defined benefit plans covering employees in certain foreign jurisdictions as required by local law, which are unfunded. Benefit costs, consisting primarily of service costs, are recorded as fringe benefit expense under cost of goods sold and operating expenses in our Consolidated Statements of Income. The projected benefit obligations and accumulated benefit obligations under all such unfunded plans are updated annually during the fourth quarter of the fiscal year. Benefit payments under all such unfunded plans to be paid over the next 10 years are expected to be approximately $3,888. For more information regarding these plans, refer to Note 18 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, 2016.

PURCHASE OBLIGATIONS

Purchase obligations include our take-or-pay arrangements with suppliers, and purchase orders and other obligations entered into in the normal course of business regarding the purchase of goods and services. We have a fumed silica supply agreement with Cabot Corporation, which is not a related party and has not been one since 2002, the current term of which runs through December 31, 2019. It provides us the option to purchase fumed silica for the remaining term of the agreement beyond calendar year 2016, for which we will pay a fee of $1,500 in each of calendar years 2017, 2018 and 2019, of which the 2017 payment has already been made. The present value of the remaining fees was $2,920 as of June 30, 2017. The 2018 payment of $1,500 is included in accrued expenses and the remaining $1,420 is included in other long-term liabilities on our Consolidated Balance Sheet. As of June 30, 2017, purchase obligations include $9,631 of contractual commitments related to our Cabot Corporation supply agreement for fumed silica.

CONTINGENCIES

Our subsidiary in South Korea was under an audit in the normal course of business by the Korean customs authority for the period from fiscal years 2011 through 2016. We recorded an assessment in cost of goods sold during the third quarter of fiscal 2017, which was not material to our financial statements. Subsequent to June 30, 2017, but prior to the issuance of our financial statements, we paid the assessment and received notice that this matter was closed.

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11. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The components of accumulated other comprehensive income (AOCI), including the reclassification adjustments for items that are reclassified from AOCI to net income, are shown below:

	Foreign Currency Translation	Cash Flow Hedges	Pension and Other Postretirement Liabilities	Total
Balance at September 30, 2016	$ 11,985	$ (817)	$ (1,612)	$ 9,556
Foreign currency translation adjustment, net of tax of $(1,814)	(6,326)	-	-	(6,326)
Unrealized gain (loss) on cash flow hedges:				
Change in fair value, net of tax of $610	-	1,088	-	1,088
Reclassification adjustment into earnings, net of tax of $(150)	-	(269)	-	(269)
Balance at June 30, 2017	$ 5,659	$ 2	$ (1,612)	$ 4,049

	Foreign Currency Translation	Cash Flow Hedges	Pension and Other Postretirement Liabilities	Total
Balance at September 30, 2015	$ (4,011)	$ (901)	$ (1,178)	$ (6,090)
Foreign currency translation adjustment, net of tax of $1,613	10,152	-	-	10,152
Unrealized gain (loss) on cash flow hedges:				
Change in fair value, net of tax of $(90)	-	(164)	-	(164)
Reclassification adjustment into earnings, net of tax of $(56)	-	(101)	-	(101)
Change in pension and other postretirement liabilities, net of tax of $287	-	-	287	287
Balance at June 30, 2016	$ 6,141	$ (1,166)	$ (891)	$ 4,084

The before tax amounts reclassified from OCI to net income during the nine months ended June 30, 2017 and 2016, related to our cash flow hedges, were recorded as interest expense on our Consolidated Statement of Income. For the nine month ended June 30, 2017, we recorded $6,326 in currency translation losses, net of tax, that are included in other comprehensive income, primarily due to exchange rate fluctuations in the Japanese yen and Korean won versus the U.S. dollar. These losses primarily relate to changes in the U.S. dollar value of assets and liabilities denominated in local currencies when these asset and liability amounts are translated at month-end exchange rates.

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12. SHARE-BASED COMPENSATION PLANS

We issue share-based awards under the following programs: our Cabot Microelectronics Corporation 2012 Omnibus Incentive Plan, as amended effective March 7, 2017 (OIP); our Cabot Microelectronics Corporation 2007 Employee Stock Purchase Plan, as Amended and Restated January 1, 2010 (ESPP); and, pursuant to the OIP, our Directors' Deferred Compensation Plan, as amended September 23, 2008 (DDCP), and our 2001 Executive Officer Deposit Share Program (DSP). In March 2017, our stockholders reapproved the material terms of performance-based awards under the OIP for purposes of complying with Section 162(m) of the Internal Revenue Code of 1986, as amended. Prior to March 2012, when our stockholders first approved the OIP, we issued share-based payments under our Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan, as amended and restated September 23, 2008 (EIP); our ESPP, and, pursuant to the EIP, the DDCP and DSP. For additional information regarding these programs, refer to Note 13 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, 2016. Other than the ESPP, all share-based payments granted beginning March 6, 2012 are made from the OIP, and since then, the EIP no longer has been available for any awards.

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 purchase plan 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 option-pricing model to estimate the grant date fair value of our stock options and employee stock purchase plan 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, expected dividend yield 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 historical stock 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 expected dividend yield represents our annualized dividend in dollars divided by the stock price on the date of grant. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant.

Share-based compensation expense for the three and nine months ended June 30, 2017, and 2016, was as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Cost of goods sold	$577	$521	$1,670	$1,590
Research, development and technical	444	392	1,322	1,226
Selling and marketing	346	412	1,032	1,227
General and administrative	1,884	1,051	5,692	7,140
Total share-based compensation expense	3,251	2,376	9,716	11,183
Tax benefit	(1,052)	(385)	(3,219)	(3,373)
Total share-based compensation expense, net of tax	$2,199	$1,991	$6,497	$7,810

Our non-employee directors received annual equity awards in March 2017, pursuant to the OIP. The award agreements 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 OIP, if at such time the non-employee director has completed an equivalent of at least two full terms as a director of the Company, as defined in the

Company's bylaws. Two of the Company's non-employee directors had completed at least two full terms of service as of the date of the March 2017 award. Consequently, the requisite service period for the award has already been satisfied and we recorded the fair value of $377 of the awards to these two directors to share-based compensation expense in the fiscal quarter ended March 31, 2017, rather than recording that expense over the one-year vesting period stated in the award agreement, as is done for the other non-employee directors who received an annual equity award in March 2017.

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In conjunction with our acquisition of NexPlanar in October 2015, share-based compensation expense for the three months ended December 31, 2015, included $605 related to certain unvested NexPlanar incentive stock options (ISOs) settled in cash at the acquisition date, of which $451 was reversed in the third quarter of fiscal 2016. We also substituted certain NexPlanar ISOs with Cabot Microelectronics Corporation ISOs, preserving the intrinsic value, including the original vesting periods, of the original awards. We accelerated the vesting on the substitute awards made to certain individuals based on the terms of their employment agreements with NexPlanar, and recorded $492 of share-based compensation expense related to this acceleration. The total $1,097 of acquisition-related compensation is included in the table above as general and administrative expense for the nine months ended June 30, 2016.

For additional information regarding the estimation of fair value, refer to Note 13 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, 2016.

13. OTHER INCOME (EXPENSE), NET

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Interest income	$659	$267	$1,596	$654
Other income (expense)	(774)	(513)	(481)	(258)
Total other income (expense), net	$(115)	$(246)	$1,115	$396

Other income (expense) primarily represents gains and losses recorded on transactions denominated in foreign currencies. The increase in other income was primarily due to the impact of foreign currency fluctuations on monetary assets and liabilities denominated in currencies other than the functional currency, net of the gains and losses incurred on forward foreign exchange contracts discussed in Note 9.

14. INCOME TAXES

Our effective income tax rate was 22.4% and 21.1% for the three and nine months ended June 30, 2017, respectively, compared to a 9.6% and 14.2% effective income tax rate for the three and nine months ended June 30, 2016. The increase in the effective tax rate during the first nine months of fiscal 2017 was primarily due to changes in the jurisdictional mix of income, and the absence of the retroactive reinstatement of the research and experimentation tax credit in December 2015, and the benefit of $0.9 million in domestic production deductions recorded in fiscal 2016.

The Company is currently operating under a tax holiday in South Korea in conjunction with our investment in research, development and manufacturing facilities there. This arrangement allows for a tax at 50% of the local statutory rate in effect for fiscal years 2016 and 2017, following a 0% tax rate in fiscal years 2013, 2014 and 2015. This tax holiday reduced our income tax provision by approximately $3,094 and $2,717 in the first nine months of fiscal 2017 and 2016, respectively. This tax holiday increased our diluted earnings per share by approximately $0.12 and $0.11 during the nine month ended June 30, 2017 and 2016, respectively.

15. EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the period, excluding the effects of unvested restricted stock awards that have a right to receive non-forfeitable dividends, which are considered participating securities as prescribed by the two-class method under ASC 260. Diluted EPS is calculated in a similar manner, but the weighted-average number of common shares outstanding during the period is increased to include the weighted-average dilutive effect of "in-the-money" stock options and unvested restricted stock shares using the treasury stock method.

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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, 2017	2016	Nine Months Ended June 30, 2017	2016
Numerator:				
Net Income	$19,939	$18,702	$60,450	39,142
Less: income attributable to participating securities	(52)	(110)	(191)	(260)
Earnings available to common shares	$19,887	$18,592	$60,259	38,882
Denominator:				
Weighted average common shares (Denominator for basic calculation)	25,228,468	23,928,512	24,941,190	24,022,809
Weighted average effect of dilutive securities:				
Share-based compensation	492,247	396,654	508,317	380,071
Diluted weighted average common shares (Denominator for diluted calculation)	25,720,715	24,325,166	25,449,507	24,402,880
Earnings per share:				
Basic	$0.79	$0.78	$2.42	1.62
Diluted	$0.77	$0.76	$2.37	1.59

For the three months ended June 30, 2017 and 2016, approximately 0.1 million and 1.2 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, 2017 and 2016, approximately 0.4 million and 1.2 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.

16. FINANCIAL INFORMATION BY INDUSTRY SEGMENT AND PRODUCT LINE

We operate predominantly in one reportable segment, as defined under ASC 280 – the development, manufacture, and sale of CMP consumables.

Revenue generated by product line for the three and nine months ended June 30, 2017, and 2016, was as follows:

	Three Months Ended June 30, 2017	2016	Nine Months Ended June 30, 2017	2016
Revenue:				
Tungsten slurries	$54,731	$46,559	$161,867	$134,856

Dielectric slurries	30,266	25,348	87,391	72,045
Polishing pads	17,599	16,048	50,947	46,586
Other Metals slurries	16,090	14,065	46,540	36,517
Engineered Surface Finishes	7,806	4,382	18,866	12,077
Data storage slurries	1,465	1,750	4,784	5,684
Total revenue	$127,957	$108,152	$370,395	$307,765

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17. NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606), an updated standard on revenue recognition. ASU 2014-09 provides enhancements to how revenue is reported and improves comparability in the financial statements of companies reporting using IFRS and US GAAP. The core principle of the new standard is for companies to recognize revenue for goods or services in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard is intended to enhance disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, such as service revenue and contract modifications, and improve guidance for multiple-element arrangements. In August 2015, the FASB issued ASU No. 2015-14, "Deferral of Effective Date" (Topic 606). This standard officially defers the effective date of ASU 2014-09 by one year. ASU 2014-09 will be effective for us beginning October 1, 2018, and may be applied on a full retrospective or modified retrospective approach. In March 2016, the FASB issued ASU No. 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" (Topic 606). ASU 2016-08 provides clarification for the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, ASU No. 2016-11, and ASU 2016-12, all of which provide additional clarification of the original revenue standard. We are currently evaluating the impact of implementation of these standards on our financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Amendments to the Consolidation Analysis" (Topic 810). ASU 2015-02 amends the criteria for determining which entities are considered variable interest entities (VIEs), amends the criteria for determining if a service provider possesses a variable interest in a VIE and ends the deferral granted to investment companies for application of the VIE consolidation model. We adopted ASU 2015-02 effective October 1, 2016, and this pronouncement had no material effect on our financial statements as we had no interest in any entities that may be considered a VIE.

In July 2015, the FASB issued ASU No, 2015-11, "Simplifying the Measurement of Inventory" (Topic 330). The provisions of ASU 2015-11 require an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 will be effective for us beginning October 1, 2017, but early adoption is permitted. We do not believe the adoption of this standard will have a material effect on our financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" (Subtopic 825-10). The provision of ASU 2016-01 requires equity investments, other than those accounted for under the equity method of accounting or those that result in consolidation, to be measured at fair value with changes in fair value recognized in net income. ASU 2016-01 simplifies the impairment assessment of equity securities by permitting a qualitative assessment each reporting period, and makes changes to presentation and disclosure of certain classes of financial assets and liabilities. ASU 2016-01 will be effective for us beginning October 1, 2018, but early adoption is permitted. We are currently evaluating the impact of implementation of this standard on our financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842). The provisions of ASU 2016-02 require a dual approach for lessee accounting under which a lessee would recognize a right-of-use asset and a corresponding lease liability. Leases will be classified as either finance or operating leases. For finance leases, a lessee will recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee will recognize a straight-line total lease expense. The guidance also requires qualitative and specific quantitative disclosures to supplement the amounts recorded in the financial statements, to afford better understanding of an entity's leasing activities, including any significant judgments and estimates. ASU 2016-02 will be effective for us beginning October 1, 2019, but early adoption is permitted. We are currently evaluating the impact of implementation of this standard on our financial statements.

In March 2016, the FASB issued ASU No. 2016-05, "Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships" (Topic 815). The provisions of ASU 2016-05 provide clarification that a change in a counterparty of a derivative instrument that has been designated as a hedging instrument does not require dedesignation of that hedging relationship, provided that all other hedge accounting criteria is met. ASU 2016-05 will be effective for us beginning October 1, 2017, but early adoption is permitted. We do not believe the adoption of this standard will have a material effect on our financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share Based Payment Accounting" (Topic 718). The provisions of this standard involve several aspects of the accounting for share-based payments transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 will be effective for us beginning October 1, 2017, but early adoption is permitted. We are currently evaluating the impact of implementation of this standard on our financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments" (Topic 326). The provisions of this standard require financial assets measured at amortized cost to be presented at the net amount expected to be collected. An allowance account would be established to present the net carrying value at the amount expect to be collected. ASU 2016-13 also provides that credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. ASU 2016-13 will be effective for us beginning October 1, 2020, but early adoption is permitted as of October 1, 2019. We are currently evaluating the impact of implementation of this standard on our financial statements.

In October 2016, the FASB issued ASU No. 2016-16 "Intra-Entity Transfers of Assets Other Than Inventory" (Topic 740). The provisions of this standard provide guidance on recognition of taxes related to intra-entity transfer of assets other than inventory when the transfer occurs. ASU 2016-16 will be effective for us beginning October 1, 2018, but early adoption is permitted. We are currently evaluating the impact of implementation of this standard on our financial statements.

In October 2016, the FASB issued ASU No. 2016-17 "Interest Held through Related Parties That Are under Common Control" (Topic 810). The provisions of this standard provide further guidance related to ASU 2015-02, and also provide guidance on consolidation in relation to VIEs and related parties. ASU 2016-17 will be effective for us beginning October 1, 2017, but early adoption is permitted. We do not believe the adoption of this standard will have a material effect on our financial statements as we currently have no interest in any entities that may be considered VIE.

In January 2017, the FASB issued ASU No. 2017-01 "Clarifying the Definition of a Business" (Topic 805). The provisions of this standard provide guidance to determine whether the acquisition or sale of a set of assets or activities constitutes a business. The standard requires that an integrated set of assets and activities include an input and a substantive process that together contribute to the ability to create output. ASU 2017-01 will be effective for us beginning October 1, 2017, and early adoption is permitted under specified conditions. We are currently evaluating the impact of implementation of this standard on our financial statements.

In January 2017, the FASB issued ASU No. 2017-04 "Simplifying the Test for Goodwill Impairment" (Topic 350). The provisions of this standard eliminate Step 2 from the goodwill impairment test, which required an entity to determine the fair value of its assets and liabilities at the impairment testing date of its goodwill and compare it to its carrying amount to determine a possible impairment loss. Goodwill impairment testing will now be done by comparing the fair value of a reporting unit and its carrying amount. ASU 2017-04 will be effective for us beginning October 1, 2020, but early adoption is permitted as of October 1, 2017. We are currently evaluating the impact of implementation of this standard on our financial statements.

In March 2017, the FASB issued ASU No. 2017-07 "Improving the Presentation of Net Period Pension Cost and net Period Postretirement Benefit Cost" (Topic 715). The provisions of ASU 2017-07 provided specific guidance on the presentation of the components of net benefit cost. ASU 2017-07 will be effective for us beginning October 1, 2018. We are currently evaluating the impact of implementation of this standard on our financial statements.

In May 2017, the FASB issued ASU No. 2017-09 "Scope of Modification Accounting" (Topic 718). The provisions of ASU 2017-09 provide specific guidance about which changes to the term or conditions of a share-based payment require an entity to apply modification accounting. ASU 2017-09 will be effective for us beginning October 1, 2018. We are currently evaluating the impact of implementation of this standard on our financial statements.

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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; growth or contraction of, and trends in, the industry and markets in which the Company participates; the Company's management; various economic or political factors and international or national events; regulatory or legislative activity; 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 Company's supply chain; the financial conditions of the Company's customers; natural disasters; the acquisition of or investment in, or collaboration with other entities, including NexPlanar Corporation ("NexPlanar"); uses and investment of the Company's cash balance, including dividends and share repurchases, which may be suspended, terminated or modified at any time for any reason, based on a variety of factors; financing facilities and related debt, payment of principal and interest, and compliance with covenants and other terms; the Company's capital structure; the Company's current or future tax rate; the operation 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" (MD&A), should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended September 30, 2016, including the consolidated financial statements and related notes thereto.

THIRD QUARTER OF FISCAL 2017 OVERVIEW

In our third quarter of fiscal 2017, we experienced continued strong demand for our products, particularly for memory applications, as well as strong overall demand in China, in spite of some isolated softer demand conditions for certain smartphone applications. Further, reports from some semiconductor industry analysts and other industry participants generally indicate expectations for continued solid conditions through our fourth fiscal quarter. Over the longer term, we continue to believe that semiconductor demand will increase, including rapid growth for data creation, analytics and storage applications. More specifically, we expect growth with: the continued transition in memory from 2D to 3D technology; in high end chips for high performance computing, virtual reality, augmented reality, and smart phones; through greater connectivity with the internet of things; and with expanding electronics in automotive applications. However, there are many factors that make it difficult for us to predict future revenue trends for our business, including those discussed in Part II, Item 1A entitled "Risk Factors" in this Form 10-Q.

Revenue for our third quarter of fiscal 2017 was $128.0 million, which represented an increase of 18.3% from the third quarter of fiscal 2016, and was a quarterly record for the Company. We achieved record quarterly revenue in our polishing pads product area for the seventh consecutive quarter, as it grew 25.1% from the same period last year. Revenue from our tungsten and dielectrics slurries increased 17.5% and 19.4%, respectively, from the same quarter last year. Revenue for the first nine months of fiscal 2017 was $370.4 million, which represented an increase of 20.3%

from the comparable period of fiscal 2016.

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Gross profit for our third quarter of fiscal 2017 expressed as a percentage of revenue was 48.9%, compared to 48.1% for our third quarter of fiscal 2016, including a 90 and a 110-basis point, respectively, adverse impact of NexPlanar amortization expense. Factors affecting our gross profit compared to last year included higher sales volume and a higher-valued product mix, partially offset by higher fixed manufacturing costs, including costs associated with our Short Term Incentive Program (STIP). Gross profit for the first nine months of fiscal 2017 was 49.7% of revenue, compared to 48.5% during the same period last year, including a 100 and a 120-basis point, respectively, adverse impact of NexPlanar amortization expense. We currently expect our gross profit percentage for full fiscal year 2017 to be between 49% and 50%; our prior full year guidance range was 49% to 51%. However, we may continue to experience fluctuations in our gross profit due to a number of factors, including fluctuations in our product mix and the extent to which we utilize our manufacturing capacity, which may cause our quarterly gross profit to be above or below this annual guidance range.

Operating expenses were $35.6 million in our third quarter of fiscal 2017 compared to $29.9 million in the third quarter of fiscal 2016, both periods of which included $0.5 million in NexPlanar amortization expense. The increase in operating expenses from the comparable quarter of fiscal 2016 was primarily due to higher costs associated with our STIP. Operating expenses were $105.1 million in the first nine months of fiscal 2017 compared to $100.3 million during the same period of fiscal 2016, including $1.4 million and $1.3 million, respectively, of NexPlanar amortization expense. We currently expect operating expenses for full fiscal year 2017 to be between $140.0 million and $142.0 million; our prior full year guidance range was $137.0 million to $142.0 million.

Diluted earnings per share for the third quarter of fiscal 2017 were $0.77, compared to $0.76 in the same quarter last year. The year-over-year increase was primarily due to higher revenue and a higher gross profit margin, partially offset by higher operating expenses and a higher effective tax rate. Diluted earnings per share were $2.37 for the first nine months of fiscal 2017, compared to $1.59 during the same period last year. The increase was primarily due to higher revenue and a higher gross profit margin, partially offset by a higher effective tax rate and higher operating expenses.

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, 2016. There have been no material changes in our critical accounting estimates during the first nine months of fiscal 2017. See Note 17 of the Notes to the Consolidated Financial Statements of this Form 10-Q for a discussion of new accounting pronouncements.

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RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2017, VERSUS THREE MONTHS ENDED JUNE 30, 2016

REVENUE

Revenue was $128.0 million for the three months ended June 30, 2017, which represented an 18.3%, or $19.8 million, increase from the three months ended June 30, 2016. The increase in revenue was driven by a $16.6 million increase due to higher sales volume, a $4.3 million increase due to product mix, and a $0.5 million increase due to exchange rate fluctuations, partially offset by a $1.5 million decrease due to price changes. The increase in sales volume was consistent with continued overall strong demand conditions in the global semiconductor industry. Revenue from polishing pads, dielectrics slurries, and tungsten slurries increased 25.1%, 19.4%, and 17.5%, respectively, from the comparable period of fiscal 2016.

COST OF GOODS SOLD

Total cost of goods sold was $65.4 million for the three months ended June 30, 2017, which represented an increase of 16.5%, or $9.3 million, from the three months ended June 30, 2016. The increase in cost of goods sold was primarily due to a $5.1 million increase in fixed manufacturing costs, including costs related to our STIP, a $4.6 million increase due to higher sales volume, and a $0.4 million increase due to higher logistics costs, partially offset by a $0.7 million decrease in other variable manufacturing costs, including material costs. Fixed manufacturing costs included $1.2 million of NexPlanar amortization expense compared to $1.1 million in the same period of fiscal 2016.

GROSS PROFIT

Our gross profit as a percentage of revenue was 48.9% for the three months ended June 30, 2017, compared to 48.1% for the three months ended June 30, 2016. The increase in gross profit as a percentage of revenue was primarily due to higher sales volume and a higher-valued product mix, partially offset by higher fixed manufacturing costs, including costs associated with our STIP.

RESEARCH, DEVELOPMENT AND TECHNICAL

Total research, development and technical expenses were $14.3 million for the three months ended June 30, 2017, which represented an increase of 10.9%, or $1.4 million, from the three months ended June 30, 2016. The increase was primarily due to $0.8 million in higher clean room material costs, and $0.7 million in higher staffing-related costs, including costs associated with our STIP.

Our research, development and technical efforts are focused on the following main areas:

- Research related to fundamental CMP technology;
- Development of new and enhanced CMP consumable products, including collaboration on joint development projects with technology-leading customers and suppliers;
- Process development to support rapid and effective commercialization of new products;
- Technical support of CMP products in our customers' research, development and manufacturing facilities; and,
- Development of polishing and metrology applications outside of the semiconductor industry.

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SELLING AND MARKETING

Selling and marketing expenses were $7.3 million for the three months ended June 30, 2017, which represented an increase of 17.7%, or $1.1 million, from the three months ended June 30, 2016. The increase was primarily due to $0.5 million in higher staffing-related costs, including STIP costs, and $0.3 million in higher travel-related costs.

GENERAL AND ADMINISTRATIVE

General and administrative expenses were $14.0 million for the three months ended June 30, 2017, which represented an increase of 29.9%, or $3.2 million, from the three months ended June 30, 2016. The increase was primarily due to $3.3 million in higher staffing-related costs, including STIP costs, partially offset by $0.5 million in lower professional fees.

INTEREST EXPENSE

Interest expense was $1.1 million for the three months ended June 30, 2017, and was comparable to $1.2 million for the three months ended June 30, 2016. The interest rate on 50% of our outstanding debt continues to be fixed through interest rate swaps, while we maintain a variable interest rate on the rest of our outstanding debt.

OTHER INCOME (EXPENSE), NET

Other expense was $0.1 million for the three months ended June 30, 2017, and was comparable to $0.2 million during the three months ended June 30, 2016.

PROVISION FOR INCOME TAXES

Our effective income tax rate was 22.4% for the three months ended June 30, 2017 compared to a 9.6% effective income tax rate for the three months ended June 30, 2016. The increase in the effective tax rate during the third quarter of fiscal 2017 was primarily due to changes in the jurisdictional mix of income, and the absence of a tax benefit related to domestic production deductions recorded in the third quarter of fiscal 2016. We currently expect our effective tax rate for full year fiscal 2017 to be within the range of 21% to 22%. Previously, we had estimated 19% to 22% for the full fiscal year.

NET INCOME

Net income was $19.9 million for the three months ended June 30, 2017, which represented an increase of 6.6%, or $1.2 million, from the three months ended June 30, 2016. The increase was primarily due to higher revenue and a higher gross profit margin, partially offset by higher operating expenses and a higher effective tax rate.

NINE MONTHS ENDED JUNE 30, 2017, VERSUS NINE MONTHS ENDED JUNE 30, 2016

REVENUE

Revenue was $370.4 million for the nine months ended June 30, 2017, which represented a 20.3%, or $62.6 million, increase from the nine months ended June 30, 2016. The increase in revenue was driven by a $45.6 million increase due to higher sales volume, an $18.5 million increase due to product mix, and a $2.7 million increase due to exchange rate fluctuations, partially offset by a $4.2 million decrease due to price changes. Revenue from polishing pads, dielectrics slurries, and tungsten slurries increased 39.5%, 21.3%, and 20.0%, respectively, from the comparable period of fiscal 2016.

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COST OF GOODS SOLD

Total cost of goods sold was $186.3 million for the nine months ended June 30, 2017, which represented an increase of 17.4%, or $27.7 million, from the nine months ended June 30, 2016. The increase in cost of goods sold was primarily due to a $12.6 million increase due to higher sales volume, an $11.9 million increase in fixed manufacturing costs, including costs related to our STIP, a $2.8 million increase due to foreign exchange fluctuations, a $1.3 million increase due to product mix, and a $1.1 million increase due to higher logistics costs, partially offset by a $1.8 million decrease in other variable manufacturing costs. Fixed manufacturing costs included $3.6 million of NexPlanar amortization expense compared to $3.2 million in same period of fiscal 2016.

GROSS PROFIT

Our gross profit as a percentage of revenue was 49.7% for the nine months ended June 30, 2017, as compared to 48.5% for the nine months ended June 30, 2016. The increase in gross profit as a percentage of revenue was primarily due to higher sales volume and a higher-valued product mix, partially offset by higher fixed manufacturing costs, including costs associated with our STIP.

RESEARCH, DEVELOPMENT AND TECHNICAL

Total research, development and technical expenses were $41.8 million for the nine months ended June 30, 2017, which represented a decrease of 2.0%, or $0.9 million, from the nine months ended June 30, 2016. The decrease was primarily due to $0.9 million in lower clean room material costs, $0.3 million in lower costs for materials and supplies used in research and development, and $0.3 million in lower depreciation expense, partially offset by $0.9 million in higher staffing-related costs, including STIP costs.

SELLING AND MARKETING

Selling and marketing expenses were $22.2 million for the nine months ended June 30, 2017, which represented an increase of 12.7%, or $2.5 million, from the nine months ended June 30, 2016. The increase was primarily due to $2.2 million in higher staffing-related costs, including STIP costs.

GENERAL AND ADMINISTRATIVE

General and administrative expenses were $41.1 million for the nine months ended June 30, 2017, which represented an increase of 8.3%, or $3.2 million, from the nine months ended June 30, 2016. The increase was primarily due to $3.0 million in higher staffing-related costs, including STIP costs.

INTEREST EXPENSE

Interest expense was $3.4 million for the nine months ended June 30, 2017, and was comparable to $3.5 million for the nine months ended June 30, 2016.

OTHER INCOME (EXPENSE), NET

Other income was $1.1 million for the nine months ended June 30, 2017, and increased $0.7 million from the nine months ended June 30, 2016. The increase was primarily due to higher interest income earned on our cash and investment balances.

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PROVISION FOR INCOME TAXES

Our effective income tax rate was 21.1% for the nine months ended June 30, 2017 compared to 14.2% for the nine months ended June 30, 2016. The increase in the effective tax rate during the first nine months of fiscal 2017 was primarily due to changes in the jurisdictional mix of income, and the absence of the retroactive reinstatement of the research and experimentation tax credit and domestic production deductions recorded in fiscal 2016.

NET INCOME

Net income was $60.5 million for the nine months ended June 30, 2017, which represented an increase of 54.4%, or $21.3 million, from the nine months ended June 30, 2016. The increase was primarily due to higher revenue and a higher gross profit margin, partially offset by a higher effective tax rate and higher operating expenses.

LIQUIDITY AND CAPITAL RESOURCES

We generated $90.0 million in cash flows from operating activities in the first nine months of fiscal 2017, compared to $57.8 million in cash from operating activities in the first nine months of fiscal 2016. Our cash provided by operating activities in the first nine months of fiscal 2017 represented $92.2 million in net income plus non-cash items and a $2.2 million decrease in cash flow due to a net increase in working capital. The increase in cash flows from operating activities compared to the first nine months of fiscal 2016 was primarily due to a significant increase in net income and changes in the timing and amount of accrued expense payments, including payments related to our annual cash incentive bonus program, partially offset by higher accounts receivable balances at June 30, 2017, due to an increase in revenue, compared to the same period in fiscal 2016. We are accruing incentive compensation under our STIP at a much higher rate in fiscal 2017 than we recorded in fiscal 2016 based on our expected performance against corporate goals. In addition, the cash incentive related to our performance against goals in fiscal 2016, which was paid in the first quarter of fiscal 2017, was $8.4 million lower than the cash incentive payment related to our performance against goals in fiscal 2015, which was paid in the first quarter of fiscal 2016.

In the first nine months of fiscal 2017, cash flows used in investing activities were $15.1 million, representing $15.3 million in purchases of property, plant and equipment, net of $0.6 million in proceeds from sales of property, plant and equipment, and we received $0.2 million from other investing cash activity. In the first nine months of fiscal 2016, cash flows used in investing activities were $140.6 million, representing $127.0 million for the NexPlanar acquisition, net of $15.2 million in cash acquired, $13.8 million for purchases of property, plant and equipment, and $0.2 million received from other investing activities. We now expect our total capital expenditures in fiscal 2017 will be within the range of $21.0 million to $23.0 million. We previously had projected capital expenditures would be within the range of $20.0 million to $25.0 million.

In the first nine months of fiscal 2017, cash flows provided by financing activities were $5.9 million. We received $27.6 million from the issuance of common stock related to the exercise of stock options granted under our Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan (EIP) and our 2012 Omnibus Incentive Plan, as amended effective March 7, 2017 (OIP), and for the sale of shares to employees under our 2007 Employee Stock Purchase Plan, as amended and restated September 23, 2013 (ESPP), and we received $5.8 million in tax benefits related to exercises of stock options and vesting of restricted stock and restricted stock units granted under the EIP and OIP. We used $3.8 million to repurchase common stock under our share repurchase program and $2.1 million to repurchase common stock pursuant to the terms of our OIP for shares withheld from award recipients to cover payroll taxes on the vesting of restricted stock and restricted stock units granted under these plans. We also paid

$14.0 million in dividends and dividend equivalents on our common stock, and $7.6 million to repay long-term debt. In the first nine months of fiscal 2016, cash flows used in financing activities were $32.3 million. We used $25.0 million to repurchase common stock under our share repurchase program and $2.9 million to repurchase common stock pursuant to the terms of our EIP and our OIP for shares withheld from award recipients to cover payroll taxes on the vesting of restricted stock and restricted stock units granted under these plans. We also used $6.6 million to repay long-term debt, and we paid $4.3 million in dividends on our common stock. We received $5.6 million from the issuance of common stock related to the exercise of stock options granted under our EIP and OIP and for the sale of shares to employees under our ESPP, and we received $0.8 million in tax benefits related to exercises of stock options and vesting of restricted stock and restricted stock units granted under the EIP and OIP.

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In January 2016, our Board of Directors authorized an increase in the amount available under our share repurchase program from the previously remaining $75.0 million to $150.0 million. Under this program, we repurchased 55,878 shares for $3.8 million during the first nine months of fiscal 2017 and we repurchased 617,839 shares for $25.0 million during the first nine months of fiscal 2016. As of June 30, 2017, approximately $130.3 million remained outstanding under our share repurchase program. Share repurchases are made from time to time, depending on market conditions. The timing, manner, price and amounts of repurchases are determined at the Company's discretion, and the share repurchase program may be suspended, terminated or modified at any time for any reason. The repurchase program does not obligate the Company to acquire any specific number of shares. To date, we have funded share purchases under our share repurchase program from our available cash balance, and anticipate we will continue to do so. During fiscal 2016 and in fiscal 2017, we entered into "10b5-1" stock purchase plan agreements with independent brokers to repurchase shares of our common stock in accordance with guidelines pursuant to Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. A plan under Rule 10b5-1 allows a company to repurchase its shares at times when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. Repurchases are subject to SEC regulations as well as certain conditions specified in the plan.

On January 7, 2016, we announced that our Board of Directors authorized the initiation of a regular dividend program under which the Company intends to pay quarterly cash dividends on our common stock. Pursuant to this announcement, our Board of Directors declared quarterly cash dividends of $0.18 per share, during the second, third, and fourth quarters of fiscal 2016, and during the first quarter of fiscal 2017. In the second and third quarters of fiscal 2017, our Board of Directors declared quarterly cash dividends of $0.20 per share, the latest of which we paid on or about July 28, 2017 to shareholders of record as of June 23, 2017. The declaration and payment of future dividends is subject to the discretion and determination of the Company's Board of Directors and management, based on a variety of factors, and the program may be suspended, terminated or modified at any time for any reason.

We entered into a Credit Agreement in February 2012 and amended this Credit Agreement in June 2014. The amended Credit Agreement provided us with a $175.0 million Term Loan and a $100.0 million Revolving Credit Facility, with sub-limits for multicurrency borrowings, letters of credit, swing-line loans, as well as a $100.0 million uncommitted accordion feature that allows us to request the existing lenders or, if necessary, third-party financial institutions, to provide additional capacity in the Revolving Credit Facility. The Term Loan and Revolving Credit Facility are referred to as the "Credit Facilities", and have a maturity date of June 27, 2019. The Term Loan has periodic scheduled principal repayments; however, we may prepay the loan without penalty. The Term Loan has $147.7 million outstanding as of June 30, 2017, while the Revolving Credit Facility remains undrawn. The Credit Agreement contains covenants that restrict the ability of the Company and its subsidiaries to take certain actions, including, among other things and subject to certain significant exceptions and according to certain terms: creating liens, incurring indebtedness, making investments, engaging in mergers, selling property, paying dividends or amending organizational documents. The Credit Agreement requires us to comply with certain financial ratio maintenance covenants. These include a maximum consolidated leverage ratio of 2.75 to 1.00 and a minimum consolidated fixed charge coverage ratio of 1.25 to 1.00 through the expiration of the Credit Agreement. As of June 30, 2017, our consolidated leverage ratio was 0.97 to 1.00 and our consolidated fixed charge coverage ratio was 3.47 to 1.00. The Credit Agreement also contains customary affirmative covenants and events of default. We believe we are in compliance with these covenants. See Note 8 of the Notes to the Consolidated Financial Statements of this Form 10-Q for additional information regarding the Credit Agreement.

As of June 30, 2017, we had $363.9 million of cash and cash equivalents, $203.1 million of which was held in foreign subsidiaries in Japan, the Netherlands, Singapore, South Korea and Taiwan where we have elected to permanently reinvest the earnings rather than repatriate the earnings to the U.S. See Part II, Item 1A entitled "Risk Factors" in this Form 10-Q for additional discussion of our foreign operations.

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We believe that our current balance of cash, cash generated by our operations, and available borrowing capacity under our Credit Facilities will be sufficient to fund our operations, expected capital expenditures, merger and acquisition activities, dividend payments, and share repurchases for at least the next twelve months. However, in pursuit of corporate development initiatives, we may need to raise additional funds in the future through equity or debt financing, strategic relationships or other arrangements. Depending on future conditions in the capital and credit markets, we could encounter difficulty securing additional financing in the type or amount necessary to pursue these objectives.

OFF-BALANCE SHEET ARRANGEMENTS

At June 30, 2017, and September 30, 2016, 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, 2017, and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

CONTRACTUAL OBLIGATIONS (In millions)	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
Long-term debt	$147.6	$9.8	$137.8	$ -	$-
Interest expense and fees on long-term debt	7.3	3.7	3.6	-	-
Purchase obligations	35.5	28.7	6.8	-	-
Operating leases	14.1	2.9	4.1	2.7	4.4
Severance agreements	0.6	0.6	-	-	-
Other long-term liabilities	13.6	-	1.5	-	12.1
Total contractual obligations	$218.7	$45.7	$153.8	$ 2.7	$16.5

Engineered abrasive particles 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, the costs of which are reflected in the purchase obligations in the table above. We have a multi-year supply agreement with Cabot Corporation, which is not a related party and has not been one since 2002, for the purchase of fumed silica, the current term of which runs through December 31, 2019. It provides us the option to purchase fumed silica for the remaining term of the agreement beyond calendar year 2016, for which we will pay a fee of $1.5 million in each of calendar years 2017, 2018 and 2019, of which the 2017 payment has already been made. The purchase obligations in the table above reflect management's expectation that we will meet our forecasted purchase quantities in calendar 2017. Purchase obligations include an aggregate amount of $9.6 million of contractual commitments related to our Cabot Corporation supply agreement for fumed silica. The $1.5 million payment for 2018 is included in accrued liabilities on our Consolidated Balance Sheet as of June 30, 2017, and the 2019 payment is included in other long-term liabilities in the table above.

Interest payments on long-term debt reflect interest rates in effect at June 30, 2017. The interest payments reflect variable LIBOR-based rates currently in effect on $73.8 million of our outstanding debt, and fixed interest rates on $73.8 million of outstanding debt for which we have implemented interest rate swaps. Commitment fees are based on our estimated consolidated leverage ratio in future periods. See Note 8 of the Notes to the Consolidated Financial Statements of this Form 10-Q for additional information regarding our long-term debt.

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, 2016, for additional information regarding our contractual obligations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

EFFECT OF FOREIGN 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 Korean won, Japanese yen, and the New Taiwan dollar. Approximately 21% 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, which mitigates the exposure on the Consolidated Statement of Income. We periodically enter into forward contracts in an effort to manage foreign currency exchange exposure on our Consolidated Balance Sheet. However, we are unlikely to be able to hedge these exposures completely. We do not enter into forward contracts or other derivative instruments for speculative or trading purposes.

Fluctuations of the won, yen, and New Taiwan dollar have not had a material impact on our Consolidated Income Statement for the nine months ended June 30, 2017 and 2016; however, fluctuations of the won and yen have had a significant impact on other comprehensive income on our Consolidated Balance Sheet. During the first nine months of fiscal 2017, we recorded $6.3 million in foreign currency translation losses, net of tax, that are included in other comprehensive income. During the first nine months and full fiscal year 2016, we recorded $10.2 million and $16.0 million, respectively, in foreign currency translation gains, net of tax, that are included in other comprehensive income. These gains and losses primarily relate to changes in the U.S. dollar value of assets and liabilities denominated in local currencies when these asset and liability amounts are translated at month-end exchange rates.

MARKET RISK AND SENSITIVITY ANALYSIS RELATED TO FOREIGN CURRENCY EXCHANGE RATE RISK

We have performed a sensitivity analysis assuming a hypothetical 10% additional adverse movement in foreign currency exchange rates. As of June 30, 2017, 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 exchange rate movements and our actual exposures.

INTEREST RATE RISK

At June 30, 2017, we had $147.7 million in long-term debt outstanding on our Term Loan. In fiscal 2015, we entered into interest rate swap agreements to hedge the variability in LIBOR-based interest rate payments on half of our outstanding debt. The notional amount of the swaps decreases each quarter by an amount in proportion to our scheduled quarterly principal repayment to maintain a fixed rate of interest on half of our outstanding debt. As of June 30, 2017, the fair value of this cash flow hedge was de minimis. At June 30, 2017, we had $73.8 million of outstanding debt at a variable rate of interest. Assuming a hypothetical 100 basis point increase in our current variable interest rate, our interest expense would increase by approximately $0.2 million per quarter.

MARKET RISK RELATED TO INVESTMENTS IN AUCTION RATE SECURITIES

At June 30, 2017, we owned two auction rate securities (ARS) with a total estimated fair value of $4.9 million and par value of $5.3 million, 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 Note 6 of the Notes to the Consolidated Financial Statements of this 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 (CEO) and Chief Financial Officer (CFO), 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 June 30, 2017. Based on that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to ensure that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

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.

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.

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, 2016. However, we may update our risk factors, including adding or deleting them, 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 primarily dependent upon semiconductor demand. Historically, semiconductor demand has fluctuated due to economic and industry cycles and seasonal shifts in demand, which can affect our business, causing demand for our products to fluctuate. For example, the strengthening of demand conditions in the semiconductor industry we experienced during the second half of fiscal 2016 continued through the third quarter of fiscal 2017, following relatively soft demand conditions during the second half of fiscal 2015 and the first half of fiscal 2016. Furthermore, competitive dynamics within the semiconductor industry may impact our business. Our limited visibility to future customer orders makes it difficult for us to predict industry trends. If the global economy or the semiconductor industry weakens, whether in general or as a result of specific factors, such as macroeconomic factors, or unpredictable events such as natural disasters, we could experience material adverse impacts on our results of operations and financial condition.

Adverse global economic and industry conditions could have other negative effects on our Company. For instance, we could experience negative impacts on cash flows due to the inability of our customers to pay their obligations to us, or our production process could be harmed if our suppliers cannot fulfill their obligations to us. We also might have to reduce the carrying value of goodwill and other intangible assets, which could harm our financial position and results of operations.

Some additional factors that affect demand for our products include: demand trends for different types of electronic devices; products that our customers may produce, such as logic versus memory IC devices, or digital versus analog IC devices; the various technology nodes at which those products are manufactured; customers' efficiencies in the use of CMP consumables; customers' device architectures and specific manufacturing processes; the short order to delivery time for our products; quarter-to-quarter changes in customer order patterns; market share and competitive gains and losses; and pricing changes by us and our competitors.

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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. We also continue to develop our business in CMP pads, and we acquired NexPlanar Corporation (NexPlanar), a supplier of advanced CMP pad solutions, in the first quarter of fiscal 2016. 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 technological changes and advances in the design, manufacture, performance and application of IC devices. Our customers continually pursue lower cost of ownership and higher quality and performance of materials consumed in their manufacturing processes, including CMP slurries and pads, as a means to reduce costs, increase the yield in their manufacturing facilities, and achieve desired performance of the IC devices they produce. We expect these technological changes, and this drive toward lower costs, higher quality and performance and higher yields, will continue in the future. Potential technology developments in the semiconductor industry, as well as our customers' efforts to reduce consumption of CMP consumables, including through use of smaller quantities, could render our products less important to the IC device manufacturing process.

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 CMP consumables customer base is concentrated among a limited number of large customers. The semiconductor industry has been consolidating as the larger semiconductor manufacturers have generally grown faster than the smaller ones, through business gains, mergers and acquisitions, and strategic alliances. Industry analysts predict that this trend will continue, which means the semiconductor industry will be comprised of fewer and larger participants in the future if their prediction is correct. 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 the quantity or price of CMP consumables sold to these principal customers could seriously harm our business, financial condition and results of operations.

During the nine months ended June 30, 2017 and 2016, our five largest customers accounted for approximately 56% and 54% of our revenue, respectively. During the nine months ended June 30, 2017, Samsung, Taiwan Semiconductor Manufacturing Company (TSMC), and Micron Technology Inc. (following its acquisition of Inotera Memories Inc.) were our largest customers, accounting for approximately 16%, 13% and 11%, respectively, of our revenue. During the nine months ended June 30, 2016, Samsung and TSMC were our largest customers accounting for approximately 16% and 15%, respectively, of our revenue. During full fiscal year 2016, our five largest customers accounted for approximately 54% of our revenue, with TSMC and Samsung each accounting for approximately 15% of our revenue.

OUR BUSINESS COULD BE SERIOUSLY HARMED IF OUR COMPETITORS DEVELOP COMPETITIVE CMP CONSUMABLES PRODUCTS, OFFER BETTER PRICING, SERVICE OR OTHER TERMS, OR OBTAIN CERTAIN INTELLECTUAL PROPERTY RIGHTS

Competition from other CMP consumables manufacturers or any new entrants could seriously harm our business and results of operations, and this competition could continue to increase. Competition has and will likely continue to impact the prices we are able to charge for our CMP consumables products, as well as our overall business. In addition, our competitors could have or obtain intellectual property rights that could restrict our ability to market our existing products and/or to innovate and develop new products, could attempt to introduce products similar to ours following the expiration of our patents, as referenced with respect to certain intellectual property important to some of our legacy business, or could attempt to introduce products that do not fall within the scope of our intellectual property rights.

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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 the supply of the key raw materials we use in our CMP slurries and pads, including raw materials that do not meet the stringent quality and consistency requirements of our customers, any problem or interruption that may occur during production or delivery of our products, such as weather-related problems, natural disasters, or geopolitical or labor-related issues, or any difficulty in producing sufficient quantities of our products to meet growing demand from our customers. Our supply chain may also be negatively impacted by unanticipated price increases due to supply restrictions beyond the control of our Company or our raw materials suppliers.

We believe it would be difficult to promptly secure alternative sources of key raw materials 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 us and our customers. In addition, new contract terms, contractual amendments to 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 occupy technical resources of our customers that might otherwise be used to evaluate our new products, thus delaying potential revenue growth, or motivate our customers to consider purchasing products from our competitors, possibly interrupting or reducing our sales of CMP consumables to these customers.

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% of our revenue was generated by sales to customers outside of the United States for both the nine months ended June 30, 2017 and full fiscal year ended September 30, 2016. We may encounter risks in doing business in certain foreign countries, including, but not limited to, adverse changes in economic and political conditions, both in foreign locations and in the United States with respect to non-U.S. operations of U.S. businesses like ours, geopolitical tensions, fluctuation in exchange rates, compliance with a variety of foreign laws and regulations and related audits and investigations, as well as difficulty in enforcing business and customer contracts and agreements, including protection of intellectual property rights. We also may encounter risks that we may not be able to repatriate earnings from our foreign operations, derive anticipated tax benefits of our foreign operations or recover the investments made in our foreign operations, whether due to regulatory or policy changes in the U.S. or in the countries outside of the U.S. in which we do business, or other factors.

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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 formulas and processes 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. In addition, we protect our product differentiation through various other means, such as proprietary supply arrangements for certain raw materials, and use of certain manufacturing technologies. 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, could seriously harm our business. In addition, certain types of intellectual property, such as patents, expire after a certain period of time, and products protected by our patents then lose such protection, so we refresh our intellectual property portfolio on an ongoing basis through continued innovation, and failure to do so could adversely affect our business. Also, the costs of obtaining or protecting our intellectual property could negatively affect our operating results.

WE MAY PURSUE ACQUISITIONS OF, INVESTMENTS IN, AND MERGERS OR 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 technologies, assets and companies, either through acquisitions, mergers, investments or alliances, in order to supplement our internal growth and development efforts. Acquisitions, mergers, and investments, including our acquisition of NexPlanar, which we completed on October 22, 2015, involve numerous risks, including the following: difficulties and risks 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 and risks 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 merger with, or asset or other acquisition of, or investments in, other entities. Transactions such as these 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 or assets are inherently risky because these businesses or assets may never develop, and we may incur losses related to these investments. For example, in fiscal 2016, we recorded $1.0 million of impairment expense related to certain in-process technology, related to the NexPlanar acquisition. In addition, we may be required to impair the carrying value of these acquisitions or investments to reflect other than temporary declines in their value, which could harm our business and results of operations.

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BECAUSE WE HAVE LIMITED EXPERIENCE IN BUSINESS AREAS OUTSIDE OF CMP CONSUMABLES, EXPANSION OF OUR BUSINESS INTO OTHER PRODUCTS AND APPLICATIONS MAY NOT BE SUCCESSFUL

An element of our strategy has been to leverage our current customer relationships, technological expertise and other capabilities to expand our business beyond CMP consumables into other areas, such as other electronic materials. Additionally, in 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 that could restrict our ability to market our existing products and/or to innovate and develop new products.

OUR INABILITY TO ATTRACT AND RETAIN KEY PERSONNEL COULD CAUSE OUR BUSINESS TO SUFFER

We utilize and rely upon a global workforce. 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 worldwide with other industry participants for qualified personnel, particularly those with significant experience in the semiconductor industry. The loss of services of key employees, or our ability to obtain or maintain visas or other travel or residency documents on their behalf with respect to our business needs, could harm our business and results of operations. Periodically, we engage in succession planning for our key employees, and our Board of Directors reviews succession planning for our executive officers, including our chief executive officer, on an annual basis.

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, geopolitical, political 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, and changes in market evaluations, by securities analysts, investors, market participants or others, of or related to, us or participants in the semiconductor and related industries; changes in business, trade 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; changes in our capital deployment strategy, or entering into a business combination; and trading volume of our common stock.

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.

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.

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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, 2017	5,700	$ 73.92	5,700	$ 131,269
May. 1 through May. 31, 2017	6,600	$ 77.16	6,600	$ 130,760
Jun. 1 through Jun. 30, 2017	6,600	$ 75.84	6,600	$ 130,259
Total	18,900	$ 75.72	18,900	$ 130,259

In January 2016, our Board of Directors authorized an increase in the amount available under our share repurchase program from the previously remaining $75.0 million to $150.0 million. Under this program, we repurchased 18,900 shares for $1.4 million during the third quarter of fiscal 2017. As of June 30, 2017, $130.3 million remained outstanding under our share repurchase program. The manner in which the Company repurchases its shares is discussed in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, under the heading "Liquidity and Capital Resources", of this Form 10-Q. To date, we have funded share purchases under our share repurchase program from our available cash balance, and anticipate we will continue to do so.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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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.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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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.

	CABOT MICROELECTRONICS CORPORATION [Registrant]
Date: August 7, 2017	By: /s/ WILLIAM S. JOHNSON William S. Johnson Executive Vice President and Chief Financial Officer [Principal Financial Officer]
Date: August 7, 2017	By: /s/ THOMAS S. ROMAN Thomas S. Roman Corporate Controller [Principal Accounting Officer]