

CABOT MICROELECTRONICS CORP  
Form DEF 14A  
January 23, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES  
EXCHANGE ACT OF 1934

Filed by Registrant  [X]

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Check the appropriate box:

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Section 240.14a-12

CABOT MICROELECTRONICS CORPORATION

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(Exact name of Registrant as Specified in Its Charter)  
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[X] No fee required.

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(3) Filing Party:  
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(4) Date Filed:  
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(CABOT MICROELECTRONICS LOGO)

CABOT MICROELECTRONICS CORPORATION  
870 NORTH COMMONS DRIVE  
AURORA, ILLINOIS 60504

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
To be held March 9, 2004

To our Stockholders:

We are notifying you that the Annual Meeting of Stockholders of Cabot Microelectronics Corporation will be held on Tuesday, March 9, 2004 at 8:00 a.m. local time at Cabot Microelectronics Corporation, 870 North Commons Drive, Aurora, Illinois 60504 for the following purposes:

1. To elect two directors, each for a term of three years;
2. To ratify the election of William P. Noglows to the board of directors;
3. To ratify the selection of PricewaterhouseCoopers LLP as the company's independent auditors for fiscal year 2004;
4. To approve our Second Amended and Restated 2000 Equity Incentive Plan;  
and

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5. To transact other business properly coming before the meeting.

Each of these matters is described in further detail in the enclosed proxy statement. We have also enclosed a copy of our 2003 Annual Report. Only stockholders of record at the close of business on January 20, 2004 are entitled to vote at the meeting or any postponements or adjournments of the meeting. A complete list of these stockholders will be available at our principal executive offices prior to the meeting.

Please use this opportunity to take part in our affairs by voting your shares. Whether or not you plan to attend the meeting, please complete the enclosed proxy card and return it in the envelope provided as promptly as possible or vote electronically through the Internet or by telephone. Your proxy can be withdrawn by you at any time before it is voted.

By order of the Board of Directors,

/s/ William P. Noglows  
William P. Noglows  
Chairman of the Board

Aurora, Illinois  
January 26, 2004

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CABOT MICROELECTRONICS CORPORATION  
870 North Commons Drive  
Aurora, Illinois 60504

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PROXY STATEMENT  
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The Board of Directors of Cabot Microelectronics Corporation is asking for your proxy for use at the annual meeting of our stockholders to be held on Tuesday, March 9, 2004 at 8:00 a.m. local time at Cabot Microelectronics Corporation, 870 North Commons Drive, Aurora, Illinois 60504 and at any postponements or adjournments of the meeting. We are initially mailing this proxy statement and the enclosed proxy to our stockholders on or about January 26, 2004.

### ABOUT THE MEETING

What is the purpose of the annual meeting?

At our annual meeting, stockholders will act upon the matters outlined in the accompanying notice of meeting, including the election of two directors, the ratification of the election of William P. Noglows to the board of directors, the ratification of the selection of our independent auditors and the approval of our Second Amended and Restated 2000 Equity Incentive Plan. In addition, our management will report on our performance during the fiscal year ended September 30, 2003 and respond to questions from stockholders.

What are the company's voting recommendations?

Our board of directors recommends that you vote your shares "FOR" the election of each of the nominees named below under "ELECTION OF DIRECTORS", "FOR" the ratification of the election of William P. Noglows to the board of directors, "FOR" the ratification of the selection of our independent auditors

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and "FOR" the approval of our Second Amended and Restated 2000 Equity Incentive Plan.

Who is entitled to vote?

Only stockholders of record at the close of business on the record date, January 20, 2004, are entitled to receive notice of the annual meeting and to vote the shares of common stock that they held on that date at the meeting, or any postponements or adjournments of the meeting. Each outstanding share of common stock entitles its holder to cast one vote, without cumulation, on each matter to be voted on.

What constitutes a quorum?

If a majority of the shares outstanding on the record date are present at the annual meeting, either in person or by proxy, we will have a quorum at the meeting permitting the conduct of business at the meeting. As of the record date, we had approximately 24,777,886 shares of common stock outstanding and entitled to vote. Any shares represented by proxies that are marked to abstain from voting on a proposal will be counted as present for purposes of determining whether we have a quorum. If a broker, bank, custodian, nominee or other record holder of our common stock indicates on a proxy that it does not have discretionary authority to vote certain shares on a particular matter, the shares held by that record holder (referred to as "broker non-votes") will also be counted as present in determining whether we have a quorum.

How do I vote?

You may vote in person at the annual meeting or you may vote by proxy. You may vote by proxy by signing, dating and mailing the enclosed proxy card or if you are a record holder of our common stock (that is, if you hold your stock in your own name in the company's stock records maintained by our stock transfer

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agent, Equiserve Trust Company, N.A., P.O. Box 43010, Providence, Rhode Island 02940-3010), by telephone or through the Internet. If you vote by proxy, the individuals named on the proxy card as proxy holders will vote your shares in the manner you indicate. If you sign and return the proxy card without indicating your instructions, your shares will be voted "FOR":

- the election of the two nominees for director named below under "ELECTION OF DIRECTORS;"
- the ratification of the election of William P. Noglows to the board of directors;
- the ratification of the selection of our independent auditors; and
- the approval of our Second Amended and Restated 2000 Equity Incentive Plan.

Can I vote by telephone or through the Internet?

If you are a record holder of our common stock, you may vote by telephone or through the Internet by following the instructions included with your proxy card.

Can I revoke my proxy or change my vote after I return my proxy card or after I vote electronically or by telephone?

Yes. Even after you have submitted your proxy, you may revoke your proxy or

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change your vote at any time before the proxy is voted at the annual meeting by delivering to the Secretary of our company a written notice of revocation or a properly signed proxy bearing a later date, or by attending the annual meeting and voting in person. (Attendance at the meeting will not cause your previously granted proxy to be revoked unless you specifically so request.) To revoke a proxy previously submitted electronically through the Internet or by telephone, you may simply vote again at a later date, using the same procedures, in which case the later submitted vote will be recorded and the earlier vote revoked.

What vote is required to approve each matter that comes before the meeting?

Director nominees must receive the affirmative vote of a plurality of the votes cast at the meeting by stockholders entitled to vote thereon, meaning that the two nominees for director with the most votes will be elected. The ratification of the election of William P. Noglows to the board of directors, the ratification of the selection of our independent auditors and the approval of our Second Amended and Restated 2000 Equity Incentive Plan require the affirmative vote of a majority of the votes cast at the meeting in person or by proxy by stockholders entitled to vote thereon. Abstentions and broker non-votes will not be counted for purposes of determining whether an item has received the requisite number of votes for approval.

What happens if additional proposals are presented at the meeting?

Other than the matters described in this proxy statement, we do not expect any additional matters to be presented for a vote at the annual meeting. If you vote by proxy, your proxy grants the persons named as proxy holders the discretion to vote your shares on any additional matters properly presented for a vote at the meeting.

Who will bear the costs of soliciting votes for the meeting?

Certain directors, officers and employees, who will not receive any additional compensation for such activities, may solicit proxies by personal interview, mail, telephone or electronic communication. We will also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to our stockholders. In addition to the mailing of these proxy materials, the company has hired the firm of D. F. King & Co., Inc. to assist in the solicitation of proxies at an estimated cost of approximately \$7,500. The company shall bear all costs of solicitation.

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### STOCK OWNERSHIP

#### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of our common stock as of January 20, 2004 (except as indicated below) by:

- all persons known by us to own beneficially 5% or more of our outstanding common stock;
- each of our directors;
- each of the named executive officers in the Summary Compensation Table included in this Proxy Statement; and
- all of our directors and executive officers as a group.

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Unless otherwise indicated, each stockholder listed below has sole voting and investment power with respect to the shares of common stock beneficially owned by such stockholder.

### STOCK OWNERSHIP TABLE

NAME AND ADDRESS -----	NUMBER OF SHARES BENEFICIALLY OWNED (1) -----	APPROXIMATE PERCENT OF CLASS -----
<b>CERTAIN BENEFICIAL OWNERS:</b>		
Citigroup, Inc..... 388 Greenwich Street New York, New York 10013	3,418,469 (2)	13.8%
Wasatch Advisors, Inc..... 150 Social Hall Avenue Salt Lake City, Utah 84111	2,734,212 (3)	11.0%
FMR Corp..... 82 Devonshire Street Boston, Massachusetts 02109	2,670,877 (4)	10.8%
T. Rowe Price Associates, Inc..... 100 E. Pratt Street Baltimore, Maryland 21202	2,007,371 (5)	8.1%
<b>DIRECTORS AND EXECUTIVE OFFICERS:</b>		
Matthew Neville.....	171,228 (6) (8)	*
William P. Noglows.....	16,153 (7) (8)	*
Juan Enriquez-Cabot.....	46,561 (8) (9)	*
John P. Frazee, Jr.....	34,037 (8)	*
H. Laurance Fuller.....	14,776 (8)	*
J. Joseph King.....	12,737 (8)	*
Ronald L. Skates.....	34,366 (8)	*
Steven V. Wilkinson.....	34,580 (8)	*
Daniel J. Pike.....	73,143 (8)	*
H. Carol Bernstein.....	59,072 (8)	*
Stephen R. Smith.....	30,000 (8)	*
J. Michael Jenkins.....	48,541 (8)	*
All directors and executive officers as a group (17 persons).....	711,129 (10)	2.9%

\* = less than 1%

(1) "Beneficial ownership" generally means any person who, directly or indirectly, has or shares voting or investment power with respect to a security or has the right to acquire such power within 60 days. Shares

of common stock subject to options, warrants or rights that are currently exercisable or exercisable within 60 days of January 20, 2004 are deemed outstanding for computing the ownership percentage of the person holding such options, warrants or rights, but are not deemed outstanding for

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computing the ownership percentage of any other person. The amounts and percentages are based upon 24,777,886 shares of our common stock outstanding as of January 20, 2004.

- (2) Of the shares reported as beneficially owned, Citigroup, Inc. exercises (a) sole power to vote 1,395,345 shares, (b) shared power to vote 0 shares, (c) sole investment power over 0 shares and (d) shared investment power over 3,418,469 shares. This information is based on information reported in Schedule 13F Holdings Report filed by Citigroup, Inc. on November 14, 2003. Based solely on information reported in Amendment No. 2 to Schedule 13G filed by Citigroup, Inc. on February 7, 2003, the shares reported as beneficially owned by Citigroup, Inc. are also partially beneficially owned by Citigroup, Inc.'s wholly-owned subsidiaries Salomon Smith Barney, Inc., Salomon Brothers Holding Company Inc., Smith Barney Fund Management LLC and Salomon Smith Barney Holdings Inc.
- (3) Of the shares reported as beneficially owned, Wasatch Advisors, Inc. exercises (a) sole power to vote 2,734,212 shares, (b) shared power to vote 0 shares, (c) sole investment power over 2,734,212 shares and (d) shared investment power over 0 shares. The number of shares indicated is based on information reported in Schedule 13F Holdings Report filed by Wasatch Advisors, Inc. on November 17, 2003.
- (4) Of the shares reported as beneficially owned, Fidelity Management & Research Company ("Fidelity"), a wholly-owned subsidiary of FMR Corp., is the beneficial owner of 2,431,577 shares as a result of acting as investment adviser to various funds. Edward C. Johnson 3d (Chairman of FMR Corp.) and FMR Corp. ("FMR") each has the power to dispose of the shares beneficially owned by Fidelity, but neither has the power to vote or direct the voting of those shares. The power to vote or direct the voting of the shares resides with the Board of Trustees of the funds. Of the shares reported as beneficially owned, Fidelity Management Trust Company ("Fidelity Management"), a wholly-owned subsidiary of FMR, is the beneficial owner of 129,500 shares as a result of its serving as investment manager of the institutional accounts. Edward C. Johnson 3d and FMR, through its control of Fidelity Management, each has the dispositive power and the power to vote or to direct the voting of the shares owned by the institutional accounts. Of the shares reported as beneficially owned, FMR beneficially owns 81,800 shares through Strategic Advisers, Inc. ("Strategic Advisers"), a wholly-owned subsidiary of FMR that provides investment advisory services to individuals. Edward C. Johnson 3d has sole voting and dispositive power over 28,000 and shared voting and dispositive power over 0 shares. This information is based solely on information reported in a Schedule 13G filed by FMR Corp., Edward C. Johnson 3d and Abigail P. Johnson on December 10, 2003.
- (5) Of the shares reported as beneficially owned, T. Rowe Price Associates, Inc. exercises (a) sole power to vote 350,446 shares, (b) shared power to vote 0 shares, (c) sole investment power over 2,007,371 shares and (d) shared investment power over 0 shares. The number of shares indicated is based on information reported in Schedule 13F Holdings Report filed by T. Rowe Price Associates, Inc. on November 14, 2003.
- (6) Effective November 2, 2003, Mr. Neville resigned as Chairman of the Board of Directors, President and Chief Executive Officer. At the time of his resignation, Mr. Neville held 26,228 shares.
- (7) Effective November 3, 2003, Mr. Noglows was elected to our Board of Directors and became the Chairman, President and Chief Executive Officer.



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- (8) Includes shares of our common stock that such person has the right to acquire pursuant to stock options exercisable within 60 days of January 20, 2004, as follows:

NAME ----	SHARES ISSUABLE UPON EXERCISE -----
Mr. Neville.....	145,000
Mr. Noglows.....	--
Mr. Enriquez-Cabot.....	30,000
Mr. Frazee.....	30,000
Mr. Fuller.....	11,250
Mr. King.....	11,250
Mr. Skates.....	30,000
Mr. Wilkinson.....	30,000
Mr. Pike.....	65,000
Ms. Bernstein.....	58,375
Mr. Smith.....	30,000
Mr. Jenkins.....	44,375

Also includes phantom shares of our common stock that such non-employee director has the right to acquire pursuant to the Directors' Deferred Compensation Plan as of January 20, 2004, as follows:

NAME ----	PHANTOM SHARES -----
Mr. Enriquez-Cabot.....	1,792
Mr. Frazee.....	2,037
Mr. Fuller.....	1,526
Mr. King.....	1,487
Mr. Skates.....	1,806
Mr. Wilkinson.....	2,080

- (9) Includes 1,222 shares of our common stock directly owned by Mr. Enriquez-Cabot's spouse and 588 shares beneficially owned by a child of Mr. Enriquez-Cabot. Does not include an aggregate of 60,582 shares of our common stock held in trusts for the benefit of Mr. Enriquez-Cabot and his children, as to which Mr. Enriquez Cabot has no voting or investment power.
- (10) Includes 608,520 shares of our common stock that our directors and executive officers have the right to acquire pursuant to stock options exercisable within 60 days of January 20, 2004, and 10,728 phantom shares of our common stock that our non-employee directors have the right to acquire pursuant to the Directors' Deferred Compensation Plan as of January 20, 2004.

### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, executive officers and holders of more than 10% of our common stock to file with the Securities and Exchange Commission reports regarding their ownership and changes in ownership of our common stock. Based solely on our review of the reports furnished to us, we believe that all of our directors and

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executive officers filed all Form 4s made between June 30, 2002 and June 29, 2003 on time or no later than one business day later than required in accordance with SEC Release No. 34-47809, and otherwise have complied with all Section 16(a) filing requirements for fiscal year 2003.

### ELECTION OF DIRECTORS

Our board of directors is currently comprised of seven directors. The board of directors is divided into three classes: Class I, whose terms will expire at the upcoming annual meeting of stockholders; Class II, whose terms will expire at the annual meeting of stockholders to be held in 2005; and Class III, whose terms will expire at the annual meeting of stockholders to be held in 2006. Messrs. Enriquez-Cabot and Fuller are currently in Class I, Messrs. King, Skates and Wilkinson are currently in Class II, and Messrs. Frazee and Noglows are currently in Class III.

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As of November 2, 2003, Mr. Neville, who had been a Class III director and who was Chairman of the Board, resigned as a director. Effective as of November 3, 2003, our board of directors elected Mr. Noglows to succeed Mr. Neville as a Class III director and as Chairman of the Board.

At each annual meeting of stockholders, the successors to directors whose terms will then expire will be elected to serve from the time of election and qualification until the third annual meeting following election. Our certificate of incorporation provides that the authorized number of directors may be changed only by resolution of the board of directors. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the total number of directors. Our certificate of incorporation also provides that our board of directors may fill any vacancy created by the resignation of a director or the increase of the size of the board of directors.

The board of directors has nominated and urges you to vote "FOR" the election of the two nominees named below for terms of office ending in 2007. Proxies will be so voted unless stockholders specify otherwise in their proxies.

In the event a nominee is not available to serve for any reason when the election occurs, it is intended that the proxies will be voted for the election of the other nominee and may be voted for any substitute nominee. Our board of directors has no reason to believe that either nominee will not be a candidate or, if elected, will be unable or unwilling to serve as a director. In no event will the proxies be voted for a greater number of persons than the number of nominees named.

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE ELECTION TO THE BOARD OF EACH OF THE NOMINEES NAMED BELOW.

Nominees for election at this meeting for terms expiring in 2007:

Juan Enriquez-Cabot, 44, was elected a director of our company in April 2000. Since 2003, Mr. Enriquez-Cabot has served as the Chairman and Chief Executive Officer of Biotechnology, a life sciences research and investment firm. Mr. Enriquez-Cabot also served as the Director of the Life Science Project at the Harvard Business School from 2001-2003. From 1997 until 2001, Mr. Enriquez-Cabot was a researcher at Harvard University's David Rockefeller Center. From 1996 to 1997, he was a senior researcher at the Harvard Business School and a fellow at Harvard University's Center for International Affairs. He received both his bachelor and MBA degrees from Harvard University.

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H. Laurance Fuller, 65, was elected a director of our company in June 2002. He is a director of Abbott Laboratories and of Motorola, Inc. Mr. Fuller retired from the position of Co-Chairman of BP Amoco, p.l.c., a global petroleum and petrochemicals company, in 2000 after serving as Chairman and Chief Executive Officer of Amoco Corporation since 1991 and President since 1983. Mr. Fuller received his B.S. in chemical engineering from Cornell University.

Directors whose terms continue until 2005:

J. Joseph King, 59, was elected a director of our company in September 2002. Since 2001, he has served as Vice Chairman and Chief Executive Officer of Molex, Inc. Prior to 2001, Mr. King served as President and Chief Operating Officer of Molex and held various other executive positions at Molex. Mr. King received his master of engineering science degree from the National University of Ireland in Cork and his master of industrial engineering degree from the National University of Ireland in Galway.

Ronald L. Skates, 62, was elected a director of our company in April 2000. He has been a private investor since 1999. From 1989 to 1999, Mr. Skates served as President and Chief Executive Officer and as a director of Data General Corporation, a computer systems company. Mr. Skates is also a director of State Street Corporation, Courier Corporation and Raytheon Corporation. He received both his bachelor and MBA degrees from Harvard University.

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Steven V. Wilkinson, 62, was elected a director of our company in April 2000. He has been retired since 1998. Prior to retirement, he worked for Arthur Andersen LLP, where he became a partner in 1974. Mr. Wilkinson is also a director of Entergy Corporation. Mr. Wilkinson received his BA in economics from DePauw University and his MBA from the University of Chicago.

Directors whose terms continue until 2006:

John P. Frazee, Jr., 59, was elected a director of our company in April 2000. He has been a private investor since 2001. From 1999 until 2001, he served as Chairman and Chief Executive Officer of Vast Solutions, Inc., a provider of wireless data products and services. From 1999 to 2000, he served as Chairman and Chief Executive Officer of Paging Network, Inc. From 1997 to 1999, he served as Chairman, President and Chief Executive Officer of Paging Network. From 1993 until 1997, Mr. Frazee managed investments as a private investor. During 1993, he was President and Chief Operating Officer of Sprint Corporation. Prior to that, he was Chairman and Chief Executive Officer of Centel Corporation. In addition to serving on our board, Mr. Frazee also serves on the board of EMS Technologies, Inc. Mr. Frazee received his bachelor's degree in political science from Randolph-Macon College.

William P. Noglows, 45, has served as our Chairman, President and Chief Executive Officer since November 3, 2003. From 1984 through 2003, Mr. Noglows served in various management positions at Cabot Corporation, culminating in serving as an executive vice president and general manager. While at Cabot Corporation, he was one of the primary founders of our company and was responsible for identifying and encouraging the development of the CMP application, which is the core technology of our company. Mr. Noglows had previously served as a director of our company from December, 1999 until April 2002. Mr. Noglows received his degree in Chemical Engineering from the Georgia Institute of Technology.

RATIFICATION OF THE ELECTION OF WILLIAM P. NOGLOWS  
TO OUR BOARD OF DIRECTORS

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As of November 2, 2003, Mr. Neville, who had been a Class III director and who was Chairman of the Board, resigned as a director. Effective as of November 3, 2003, as permitted by our by-laws and charter, our board of directors elected Mr. Noglows to succeed Mr. Neville as a Class III director and as Chairman of the Board.

Stockholder ratification of the election of Mr. Noglows to our board of directors or other elections or appointments to our board of directors is not required by our by-laws or otherwise. Our board is submitting the election of Mr. Noglows to our board of directors to our stockholders for ratification as a matter of good corporate practice as Mr. Noglows has become our Chief Executive Officer and Chairman of the Board of Directors. We do not intend to and in the future we will not necessarily ratify elections or appointments made pursuant to our bylaws to our board of directors. If our stockholders fail to ratify the election, our board of directors intends to reconsider the matter. Even if the election is ratified, our board of directors, in its discretion and pursuant to our bylaws and charter, may appoint a different chairman at any time if it determines that such a change would be in the best interests of our company and our stockholders.

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE RATIFICATION OF THE ELECTION OF MR. NOGLOWS TO OUR BOARD OF DIRECTORS.

### RATIFICATION OF THE SELECTION OF INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP audited our financial statements for fiscal year 2003, and has been selected by the audit committee of our board of directors to audit our financial statements for fiscal year 2004. A representative of PricewaterhouseCoopers LLP is expected to attend the annual meeting, where he or she will have the opportunity to make a statement, if desired, and will be available to respond to appropriate questions.

Stockholder ratification of the selection of PricewaterhouseCoopers LLP as our independent auditors is not required by our by-laws or otherwise. However, our board is submitting the selection of PricewaterhouseCoopers

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LLP to our stockholders for ratification as a matter of good corporate practice. If our stockholders fail to ratify the selection, our audit committee will review its future selection of auditors. Even if the selection is ratified, the audit committee in its discretion may direct the appointment of different independent auditors at any time during the year if it determines that such a change would be in the best interests of our company and our stockholders.

For information regarding audit and other fees billed by PricewaterhouseCoopers LLP for services rendered in fiscal year 2003, see "FEES OF INDEPENDENT AUDITORS AND AUDIT COMMITTEE REPORT -- Fees Billed by Independent Auditors," below.

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE RATIFICATION OF THE SELECTION OF OUR INDEPENDENT AUDITORS.

### BOARD STRUCTURE AND COMPENSATION

#### BOARD OF DIRECTORS AND BOARD COMMITTEES

Our board of directors has a standing audit committee, a standing compensation committee and a standing nominating and corporate governance committee to assist the board of directors in the discharge of its responsibilities. Our board of directors has adopted the Cabot Microelectronics Corporation Corporate Governance Guidelines, which are available on our website

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at [www.cabotcmp.com](http://www.cabotcmp.com) along with other corporate governance materials, such as board of directors committee charters and our Code of Business Conduct. During fiscal year 2003, the board of directors held five meetings and did not take action by written consent. Each of our directors attended our annual meeting of stockholders in fiscal years 2002 and 2003 and at least 75% of all the meetings of the board and those committees on which he served during fiscal year 2003. Since fiscal year end, the board of directors has met three times and has taken action by written consent twice. Third parties may communicate with our board of directors through the Chairman of the Board, c/o the Secretary of our company at our offices at 870 North Commons Drive, Aurora, Illinois 60504.

**INDEPENDENT DIRECTORS.** The board of directors has determined that six of our seven directors, Messrs. Enriquez-Cabot, Frazee, Fuller, King, Skates and Wilkinson, are "independent" directors as defined in Rule 4200 of the National Association of Securities Dealers' marketplace rules and as defined in applicable rules by the SEC. Our independent directors hold regularly scheduled meetings in executive session, at which only independent directors are present. The Chairman of the nominating and corporate governance committee serves as chairman of the meetings of the independent directors in executive session, and performs other responsibilities such as working with the Chairman of the board of directors to plan and set the agenda for meetings of the board of directors. Third parties may communicate with our independent directors through the Chairman of the nominating and corporate governance committee, c/o the Secretary of our company at our offices at 870 North Commons Drive, Aurora, Illinois 60504. During fiscal year 2003, our independent directors have met in such executive sessions six times. Since fiscal year end, our independent directors have met in such executive sessions nine times.

**AUDIT COMMITTEE.** The functions of the audit committee include selecting, appointing, compensating, retaining and overseeing our auditors, deciding upon and approving in advance the scope of audit and non-audit assignments and related fees, reviewing accounting principles we use in financial reporting, internal auditing procedures, and reviewing the adequacy of our internal control procedures. The members of the audit committee are Messrs. Enriquez-Cabot, Frazee, King and Wilkinson (Chairman), each of whom:

- is an "independent" director as defined in Rule 4200(a)(15) of the National Association of Securities Dealers' marketplace rules;
- meets the criteria for independence as required by applicable rules adopted by the Securities and Exchange Commission (SEC);
- has not participated in the preparation of our financial statements or the financial statements of any of our current subsidiaries at any time during the past three years; and
- is able to read and understand fundamental financial statements.

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Our board of directors has determined that the audit committee has at least one member who qualifies as an Audit Committee Financial Expert, as defined by relevant SEC rules, and has designated Mr. Wilkinson, the Chairman of the committee, as such Audit Committee Financial Expert. As previously stated, Mr. Wilkinson is an independent director. The audit committee operates under a written charter, a current copy of which is attached to this proxy statement as Appendix A and is available on our website at [www.cabotcmp.com](http://www.cabotcmp.com). The audit committee has established procedures for the receipt, retention, and treatment of complaints received regarding accounting, internal accounting controls or auditing matters, which are also available on our website [www.cabotcmp.com](http://www.cabotcmp.com). The audit committee met four times during fiscal year 2003 and has met once since fiscal year end with respect to the audit of our fiscal year 2003 financial

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statements and related matters. In fulfillment of the audit committee's responsibilities for fiscal year 2003, Mr. Wilkinson, the audit committee Chairman, reviewed our Annual Report on Form 10-K for the fiscal year ended September 30, 2003 (as did the other members of the committee and board of directors), and our Quarterly Reports on Form 10-Q before we filed them, and reviewed quarterly earnings announcements before we released them.

**COMPENSATION COMMITTEE.** The functions of the compensation committee include reviewing and approving the compensation and benefits for our employees, evaluating and deciding upon the compensation of our chief executive officer, evaluating and deciding upon the compensation of our other executive officers, which is done following consultation with our chief executive officer, administering our employee benefit plans, authorizing and ratifying stock option grants and other incentive arrangements, and authorizing employment and related agreements. Our chief executive officer is neither present for voting or deliberation on, nor votes upon decisions relating to his compensation. In addition, our chief executive officer does not vote upon decisions related to the compensation of our other executive officers. During fiscal year 2003, the compensation committee was comprised of Messrs. Frazee, Fuller, King, Skates (Chairman) and Wilkinson, each of whom is an "independent" director as defined in Rule 4200(a)(15) of the National Association of Securities Dealers' marketplace rules and as defined in applicable rules adopted by the SEC. The compensation committee operates under a written charter that addresses compensation matters, a current copy of which is available on our website at [www.cabotcmp.com](http://www.cabotcmp.com). The compensation committee met threetimes and took action by written consent twice during fiscal year 2003. The compensation committee has met once and has taken action by written consent four times since the fiscal year end with respect to 2003 annual bonuses, salary increases, stock option grants and other matters.

**NOMINATING AND CORPORATE GOVERNANCE COMMITTEE.** The functions of the nominating and corporate governance committee include reviewing and recommending a slate of nominees for the election of directors, recommending changes in the number, classification and term of directors, reviewing nominations by stockholders with regard to the nomination process, reviewing and recommending compensation and other matters for our directors, and attending to general corporate governance matters. The members of the nominating and corporate governance committee are Messrs. Enriquez-Cabot, Frazee (Chairman), Fuller and Skates, each of whom is an "independent" director as defined in Rule 4200(a)(15) of the National Association of Securities Dealers' marketplace rules and as defined in applicable rules adopted by the SEC. The nominating and corporate governance committee operates under a formal charter that addresses the nominations process and such related matters as may be required under the federal securities laws and Nasdaq listing requirements, a current copy of which is available on our website at [www.cabotcmp.com](http://www.cabotcmp.com). The nominating and corporate governance committee met four times during fiscal year 2003, has taken action by written consent once and has met twice since fiscal year end. The nominating and corporate governance committee acted unanimously to recommend the nomination of the Class I director nominees to the board of directors, subject to stockholder approval, as discussed in "ELECTION OF DIRECTORS," above.

### CRITERIA FOR NOMINATING DIRECTORS

The nominating and corporate governance committee considers candidates to fill new directorships created by expansion and vacancies that may occur and makes recommendations to the board of directors with respect to such candidates. The nominating and corporate governance committee considers suggestions from many sources regarding possible candidates for director and will consider nominees recommended by stockholders. Any such stockholder nominations, together with appropriate biographical information, should

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be submitted to the Chairman of the nominating and corporate governance committee, c/o the Secretary of our company at our offices at 870 North Commons Drive, Aurora, Illinois 60504. To be included in the proxy statement, such nomination must be received by the Secretary of our company not later than the 120th day prior to the first anniversary of the date of the preceding year's proxy statement for such nomination.

In fiscal year 2003, the company did not pay a fee to any third party to identify or evaluate potential director nominees; however, our directors play a critical role in guiding our strategic direction and overseeing the management of the company and accordingly, in the future we may pay a fee to a third party to identify or evaluate potential director nominees if the need arises.

Board candidates are selected based upon various criteria including their character, business experience and acumen. Some of the factors that are considered in evaluating candidates for the board of directors include experience in areas such as technology, manufacturing, marketing, finance, strategy, international business, and academia, as well as geographic and cultural diversity. Board members are expected to prepare for, attend, and participate in all board of directors and applicable committee meetings, and our annual meetings of stockholders. The nominating and corporate governance committee considers a director's past attendance record, participation and contribution to the board of directors in considering whether to recommend the reelection of such director.

### COMPENSATION OF DIRECTORS

A director who is also our employee receives no additional compensation for his services as a director. Each of our directors who is not an employee of ours currently receives the following:

- upon his original appointment or election as a director, options to purchase 15,000 shares of our common stock which vest over a three year period;
- on an annual basis, options to purchase 7,500 shares of our common stock which vest over a four year period;
- a \$20,000 annual fee;
- a \$1,000 fee for attendance at each meeting of our board of directors or a committee of the board; and
- reimbursement of travel and other out-of-pocket costs incurred in attending meetings.

Additionally, the audit committee chairman receives an additional \$10,000 annual fee for serving as the audit committee chairman.

Under our Directors' Cash Compensation Umbrella Program, which only applies to non-employee directors, each non-employee director may choose to receive his compensation either in cash, in fully vested restricted stock under our Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan (as of the date the fees are earned, the fees would be converted into the equivalent number of fully vested restricted shares, which would be beneficially owned and reported on Form 4 filings), or as deferred compensation under our Directors' Deferred Compensation Plan. At present, each of our non-employee directors has elected to defer his compensation to future periods under the Directors' Deferred Compensation Plan, which became effective in March 2001. Under the plan, as amended in June 2003, deferred amounts are payable only in the form of

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our common shares. A participating director is required to elect a date on which deferred compensation will begin to be distributed, which date generally must be at least two years after the end of the year deferrals are made. As of the date the shares are earned, the fees are converted into the right to acquire the equivalent number of shares of common stock at the end of the deferral period. These rights to acquire shares under the Directors' Deferred Compensation Plan are reported as beneficially owned on Form 4 filings for each participating director. As of January 20, 2004, an aggregate of approximately \$552,832, of directors' compensation was deferred under the plan.

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### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

None of the current or former members of the compensation committee are or have been our employees.

### FEES OF INDEPENDENT AUDITORS AND AUDIT COMMITTEE REPORT

#### FEES BILLED BY INDEPENDENT AUDITORS

During fiscal years 2002 and 2003, the audit committee pre-approved all audit and non-audit services provided by our independent auditors. The following table presents fees for audit services rendered by PricewaterhouseCoopers LLP for the audit of the company's annual financial statements for the fiscal year ended September 30, 2003, and September 30, 2002, and fees billed for other services rendered by PricewaterhouseCoopers LLP during those periods. Certain amounts for 2002 have been reclassified to conform to the 2003 presentation.

FEES	FISCAL YEAR ENDED SEPTEMBER 30, 2003 (\$)	FISCAL YEAR ENDED SEPTEMBER 30, 2002 (\$)
Audit Fees(1).....	521,240	458,980
Audit-Related Fees(2).....	50,483	31,540
Tax Fees(3).....	336,526	309,441
All Other Fees(4).....	0	0
	-----	-----
Total.....	908,249	799,961

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(1) Audit Fees include fees for services that normally would be provided by PricewaterhouseCoopers LLP in connection with statutory and regulatory filings or engagements. In addition to including fees for services necessary to perform an audit or review in accordance with GAAP, this category also may include services that generally only PricewaterhouseCoopers LLP reasonably can provide, such as comfort letters, statutory audits, attest services, consents and assistance with and review of documents filed with the SEC.

(2) Audit Related Fees include assurance and related services (e.g., due diligence services) traditionally performed by PricewaterhouseCoopers LLP including employee benefit plan audits, due diligence related to mergers and acquisitions, accounting consultations and audits in connection with acquisitions, internal control reviews, attest services that are not required by statute or regulation and consultation concerning financial accounting and reporting standards.



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- (3) Tax Fees include all services performed by professional staff in PricewaterhouseCoopers LLP's tax division except those services related to the audit, including fees for tax compliance, tax planning, and tax advice. Tax compliance generally involves preparation of original and amended tax returns, claims for refund and tax payment-planning services. Tax planning and tax advice encompass a diverse range of services, including assistance with tax audits and appeals, tax advice related to mergers and acquisitions, employee benefit plans and requests for rulings or technical advice from taxing authorities.
- (4) All Other Fees includes fees related to financial information systems implementation and design services. Our independent auditors did not render any such services to us in fiscal year 2003 or any prior year.

### REPORT OF THE AUDIT COMMITTEE

The following report of the audit committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other of our filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate this report by reference therein.

The audit committee of the board of directors is responsible for providing independent, objective oversight of the company's accounting and system of internal controls, the quality and integrity of the company's financial reports, and the independence and the selection, appointment, retention, compensation and oversight of the performance of the company's independent auditors. The audit committee is comprised of

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independent directors and operates under a written charter, a current copy of which is attached to this proxy statement as Appendix A and is also available on our website at [www.cabotcmp.com](http://www.cabotcmp.com).

Management is responsible for the company's internal controls and the financial reporting process. The independent auditors are responsible for performing an independent audit of the company's financial statements in accordance with generally accepted auditing standards and issuing a report on those financial statements. The audit committee monitors and oversees these processes.

In this context, the audit committee reviewed and discussed the audited financial statements for fiscal year 2003 with management and with the independent auditors. Specifically, the audit committee has discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committees), which include, among other things:

- methods used to account for any significant and unusual transactions;
- the effect of any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus;
- the process used by management in formulating any particularly sensitive accounting estimates and the basis for the auditors' conclusions regarding the reasonableness of those estimates; and
- any disagreements with management over the application of accounting

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principles, the basis for management's accounting estimates, and the disclosures in the financial statements.

The audit committee believes strongly in the principles underlying the requirement that independent auditors maintain their independence in strict compliance with applicable independence rules. The audit committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1 (Independence Discussions With Audit Committees) and has discussed with the independent auditors the issue of the independent auditors' independence from the company and management. In addition, in accordance with the Securities and Exchange Commission's auditor independence requirements, the audit committee has considered whether the independent auditors' provision of non-audit services to the company is compatible with maintaining the independence of the auditors and has concluded that it is.

Based on its review of the audited financial statements and the various discussions noted above, the audit committee recommended to the board of directors that the audited financial statements be included in the company's Annual Report on Form 10-K for the fiscal year ended September 30, 2003.

Respectfully submitted by the audit committee,

Juan Enriquez-Cabot  
John P. Frazee, Jr.  
J. Joseph King  
Steven V. Wilkinson, Chairman

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### EXECUTIVE COMPENSATION

#### SUMMARY OF CASH AND CERTAIN OTHER COMPENSATION

The following table sets forth certain compensation information for the Chief Executive Officer and our four other executive officers who were the most highly compensated for the fiscal year ended September 30, 2003 (together, the "named executive officers"). All of the information in this table reflects compensation earned by the named executive officers for services rendered to us.

#### SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	FISCAL YEAR	ANNUAL COMPENSATION			LONG-TERM COMPENSATION AWARD		
		SALARY (\$)	BONUS (\$)	OTHER ANNUAL COMPEN- SATION (\$)	RESTRICTED STOCK AWARD (\$)	STOCK AWARD (\$)	SECURITIES UNDER OPTI-
Matthew Neville (1) Former President and Chief Executive Officer	2003	393,750	300,000	--	--	--	100,
	2002	368,750	260,000	--	--	--	100,
	2001	325,000	310,000	--	--	--	100,
William P. Noglows (2) President and Chief Executive Officer	2003	--	--	--	--	--	--
	2002	--	--	--	--	--	--
	2001	--	--	--	--	--	--

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Daniel J. Pike	2003	247,875	150,000	--	--	54,
Vice President	2002	236,250	107,000	--	--	50,
of Operations	2001	211,250	120,000	--	--	54,
H. Carol Bernstein	2003	227,500	140,000	8,000 (6)	--	47,
Vice President, Secretary	2002	217,500	96,000	8,000 (6)	--	42,
and General Counsel	2001	207,500	112,000	8,000 (6)	--	47,
Stephen R. Smith	2003	208,625	125,000	670 (6)	--	57,
Vice President of	2002	185,640	128,000 (5)	58,168 (6)	--	27,
Marketing and Sales	2001	--	--	--	--	
J. Michael Jenkins	2003	201,750	90,000	--	--	47,
Vice President of	2002	174,057	85,000	--	--	42,
Human Resources	2001	168,625	96,000	--	--	45,

- (1) Mr. Neville resigned from his position as our President and Chief Executive Officer, effective as of November 2, 2003.
- (2) Mr. Noglows joined us as our new President and Chief Executive Officer effective November 3, 2003. Mr. Noglows had previously served as an outside director of our company from the time of our initial public offering in April 2000 through April 2002, after first having been appointed a director in December, 1999. These amounts do not include options to acquire 7,500 shares granted to Mr. Noglows in March 2001 and options to acquire 7,500 shares granted to Mr. Noglows in March 2002 as compensation for his service on our board of directors. Upon his resignation from our board of directors in April 2002, any such options, as well as options that he had been granted for service as a director in April 2000, that were unvested, terminated in accordance with their terms.
- (3) These amounts do not include options granted to certain of our named executive officers after the end of fiscal year 2003. On November 3, 2003, as part of Mr. Noglows' employment agreement to join the company, we granted him 250,000 options at an exercise price of \$55.37 that expire on November 3,

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2013. On December 11, 2003, we granted options to certain of our named executive officers that have an exercise price of \$48.91 and expire December 11, 2013 in the amounts set forth in the table below:

NAME	SECURITIES UNDERLYING OPTIONS (#)
----	-----
Mr. Neville.....	0
Mr. Noglows.....	0
Mr. Pike.....	60,000
Ms. Bernstein.....	60,000
Mr. Smith.....	60,000
Mr. Jenkins.....	0

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- (4) The information in the column headed "All Other Compensation" includes matching contributions to our tax-qualified savings plans (collectively referred to as "401(k) Plan") and accruals under our non-qualified supplemental savings plans (collectively referred to as "Supplemental Plan") for fiscal year 2003 on behalf of the named executive officers in the following amounts:

NAME	401(k) PLAN	SUPPLEMENTAL PLAN
Mr. Neville.....	\$17,000	\$18,150
Mr. Noglows.....	0	0
Mr. Pike.....	17,454	5,880
Ms. Bernstein.....	18,942	4,880
Mr. Smith.....	16,276	3,920
Mr. Jenkins.....	17,910	3,380

In fiscal year 2003, we provided each of our named executive officers with basic life insurance and accidental death and dismemberment insurance coverage that was provided on the same basis to all of our employees. There is no cash surrender value associated with this insurance coverage. The value paid for this coverage attributable to each named executive officer (Mr. Neville, \$603; Mr. Noglows, \$0; Mr. Pike, \$497; Ms. Bernstein, \$457; Mr. Smith, \$420 and Mr. Jenkins, \$406) is also reflected in the column headed "All Other Compensation" for fiscal 2003.

In addition, adjustments were made to correct amounts of contributions to accounts of certain named executive officers that are reflected in the "All Other Compensation" amounts for fiscal years 2001 and 2002. None of the adjustments were material.

- (5) These figures include a sign-on bonus of \$30,000 paid to Mr. Smith in fiscal year 2002. Mr. Smith's hire date was October 29, 2001.
- (6) These figures reflect transportation allowances paid to Ms. Bernstein for fiscal years 2001, 2002 and 2003, and reimbursement of relocation expenses paid to Mr. Smith in fiscal year 2002 and 2003.

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OPTION GRANTS

The following table sets forth the number of shares of our common stock underlying the options granted to the named executive officers during the fiscal year ended September 30, 2003.

OPTION GRANTS IN LAST FISCAL YEAR

NUMBER OF SHARES UNDERLYING	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN	EXERCISE PRICE	EXPIRATION
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NAME	OPTIONS GRANTED	FISCAL YEAR	PER SHARE(\$)	DATE
Matthew Neville	100,000 (2)	10.9%	\$51.37	12/11/
William P. Noglows	-- (3)	--	--	
Daniel J. Pike	54,000 (2) (3)	5.9%	\$51.37	12/11/
H. Carol Bernstein	47,500 (2) (3)	5.2%	\$51.37	12/11/
Stephen R. Smith	57,000 (2) (3)	6.2%	\$51.37	12/11/
J. Michael Jenkins	47,500 (2) (3)	5.2%	\$51.37	12/11/

(1) These values were estimated using the Black-Scholes option pricing formula on the basis of the following assumptions: expected volatility: 76.0%; risk free rate of return: 3.0%; annualized dividend yield: 0.0%; and expected time until exercise: 5.0 years.

(2) These options have a term of ten years, expiring December 11, 2012, vesting in equal amounts annually over a four-year period, within the first quarter.

(3) This table does not include options granted to certain of our named executive officers after the end of fiscal year 2003. On November 3, 2003, as part of Mr. Noglows' employment agreement to join our company, we granted to him 250,000 options that vest in equal increments upon each anniversary over four years and have a term of ten years, expiring November 3, 2013, at an exercise price of \$55.37. For fiscal year 2004, on December 11, 2003, we granted 60,000 options to each Mr. Pike, Ms. Bernstein, and Mr. Smith. These options have an exercise price of \$48.91, vest in equal increments upon each anniversary over four years, and have a term of ten years, expiring December 11, 2013.

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OPTION EXERCISES AND FISCAL YEAR-END VALUES

The following table sets forth information with respect to the number of unexercised stock options held by the named executive officers on September 30, 2003, and the value of the unexercised in-the-money stock options on that date.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

NAME	SHARES ACQUIRED UPON EXERCISES (#)	VALUE REALIZED (\$)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END (#)		EX
			EXERCISABLE	UNEXERCISABLE	
Matthew Neville	15,000	480,815	150,000	225,000	2
William P. Noglows (2)	40,000	1,575,544	--	--	

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Daniel J. Pike	25,000	1,040,813	51,500	118,500
H. Carol Bernstein	5,000	55,720	46,500	102,500
Stephen R. Smith	--	--	11,750	72,250
J. Michael Jenkins	20,500	378,645	32,500	101,500

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- (1) We determined the value of unexercised in-the-money options as of September 30, 2003 by taking the difference between the fair market value of a share of our common stock on September 30, 2003 of \$55.63 and the option exercise price of the applicable in-the-money option grant multiplied by the number of shares underlying those options as of that date.
- (2) While employed by Cabot Corporation through August, 2003, Mr. Noglows exercised options that had been granted to him at the time of our initial public offering for his service as an employee of Cabot Corporation according to their terms.

### EXECUTIVE OFFICER DEPOSIT SHARE PLAN

Our executive officers are eligible to participate in the Executive Officer Deposit Share Plan, which was adopted by the board of directors in March 2000. Under this plan, our executive officers are entitled to convert all or a portion of their bonus compensation into shares of restricted stock awarded under the 2000 Equity Incentive Plan. These shares are retained on deposit with our company until the third anniversary of the date of deposit ("deposit shares"), and our company matches the deposit with a restricted stock grant equal to 50% of the shares deposited by the participant ("award shares"). If the participant is employed by our company on the third anniversary of the deposit date and the deposit shares have remained on deposit with our company through such date, the restrictions on the award shares will lapse. Five individuals are currently participating in the deposit share plan, and 2,542 shares (including award shares) are currently on deposit under that plan.

### EMPLOYMENT, TERMINATION OF EMPLOYMENT, AND CHANGE IN CONTROL AGREEMENTS

Effective November 2, 2003, Mr. Neville resigned from our board of directors and as our Chairman, President and Chief Executive Officer. On November 3, 2003, we entered into an Employment and Transition Agreement with Mr. Neville, our former President and Chief Executive Officer that provided for the continuation of his employment with our company until November 3, 2005. In consideration of Mr. Neville continuing to provide advice to the new leadership of our company and of the other terms of the agreement, including those relating to a non-competition, confidentiality, and a general release from claims, we agreed to pay Mr. Neville a bonus of \$300,000 for fiscal year 2003, which already has been paid, and to continue his annual base salary of \$400,000 for the remainder of his employment with us. As part of the agreement,

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Mr. Neville's Change in Control Severance Protection Agreement terminated on November 3, 2003, and subject to its terms, all provisions cease as of November 3, 2004. If any payments become due under the Change in Control Severance Protection Agreement, Mr. Neville will not receive any remaining payments under the Employment and Transition Agreement.

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On November 2, 2003, we entered into an employment agreement with Mr. Noglows to become our Chairman, President and Chief Executive Officer. Pursuant to this employment agreement, among other terms, we agree to pay Mr. Noglows an annual base salary of \$450,000 and a cash bonus for fiscal year 2004 that will not be less than \$160,000, following the end of fiscal year 2004. Additionally, we granted Mr. Noglows an option to purchase 250,000 shares of our common stock at an exercise price of \$55.63 that vests in four equal annual installments on each subsequent anniversary of November 3, 2003, and that expires on November 3, 2013. We also have agreed to pay Mr. Noglows one year's base salary if we terminate his employment without cause and to provide certain relocation and other reimbursements.

Mr. Jenkins recently informed us that he intends to resign his employment as Vice President of Human Resources, effective as of February 29, 2004. We have agreed to pay to Mr. Jenkins, subject to the satisfaction of certain conditions, the sum of one-year's salary of \$204,000, which will be paid in twelve equal monthly installments, and a fiscal year 2003 bonus of \$90,000, which already has been paid. Mr. Jenkins also will be eligible to receive reimbursement for costs associated with certain relocation and outplacement services.

Jeremy K. Jones, who has served as the Vice President of New Business Development, also has recently decided to resign from the company, effective as of January 31, 2004. We have agreed to pay to Mr. Jones, subject to the satisfaction of certain conditions, the sum of one-year's salary of \$188,200, which will be paid in twelve equal monthly installments, and a fiscal year 2003 bonus of \$40,000, which already has been paid. Mr. Jones will also be eligible to receive reimbursement for costs associated with certain outplacement services.

In consideration of the amounts to be paid to each of Messrs. Jenkins and Jones pursuant to the arrangements described above, each executive will be required to adhere to certain non-competition and confidentiality terms and to provide to us a general release from claims.

In addition to these arrangements, the company has entered into an employment agreement with Clifford L. Spiro, our Vice President of Research and Development, under which we would be obligated to pay him one year's base salary if we terminate his employment without cause. We have not entered into any employment or termination of employment agreements with any of our other named executive officers or other executive officers.

The company entered into Change in Control Severance Protection Agreements ("change in control agreements") with each of the named executive officers. Pursuant to the terms of the Employment and Transition Agreement with Mr. Neville, Mr. Neville's change in control agreement terminated on November 3, 2003, and subject to its terms, all provisions cease as of November 3, 2004. Under the change in control agreements, each executive whose employment with our company terminates, other than for cause, disability, death or certain other specified reasons, within two years (in the case of Ms. Bernstein, Mr. Jenkins, Mr. Pike and Mr. Smith) or three years (in the case of Mr. Noglows) after a "change in control" of our company (as such term is defined in the agreements), is entitled to a severance benefit. The severance benefit includes accrued and unpaid salary and bonuses plus two times (in the case of Ms. Bernstein, Mr. Jenkins, Mr. Pike and Mr. Smith) or three times (in the case of Mr. Neville and Mr. Noglows) the executive's annual cash compensation (salary plus bonus). The severance benefit also includes health and welfare benefits for 24 months (in the case of Ms. Bernstein, Mr. Jenkins, Mr. Pike and Mr. Smith) or 36 months (in the case of Mr. Neville and Mr. Noglows) following the executive's termination date. We also have similar change in control severance protection agreements providing for two times severance benefits in place with our other executive officers.

Under the change in control agreements, all amounts accrued or awarded to the executives under any incentive compensation or benefit plan, including options and restricted stock granted under the 2000 Equity Incentive Plan, will immediately vest on each executive's respective termination date.

The change in control agreements provide each executive a full "gross-up payment" of all excise taxes assessed on amounts received under the change in control agreements, as well as all other taxes that may become due as a result of the gross-up payment.

#### STANDARD EMPLOYEE BENEFITS

We have adopted various employee benefit plans and arrangements for the purpose of providing compensation and employee benefits to our employees, including our executive officers. These plans and arrangements include an equity incentive plan, an employee stock purchase plan, a tax-qualified savings plan and a non-qualified supplemental savings plan.

#### REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

The following report of the compensation committee and the performance graph included elsewhere in this proxy statement do not constitute soliciting material and should not be deemed filed or incorporated by reference into any other of our filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate this report or the performance graph by reference therein.

GENERAL. The company's executive compensation program is administered by the compensation committee of the board of directors, which is composed solely of independent directors. The compensation committee is responsible for determining the level of compensation paid to our chairman, president and chief executive officer and our other executive officers, and determining awards under and administering the Second Amended and Restated 2000 Equity Incentive Plan ("2000 Equity Incentive Plan"). The compensation committee is also responsible for reviewing and establishing all other executive compensation plans which the company may adopt from time to time.

During and for fiscal year 2003, the compensation committee made all decisions pertaining to the compensation of our former Chairman, President and Chief Executive Officer, Mr. Matthew Neville, our named executive officers and our other executive officers. The compensation committee also reviewed and approved the methodology used for compensation of our general employee population. The compensation committee, which was established in April 2000 concurrent with the completion of our IPO, has made all decisions pertaining to the compensation of our executive officers since its creation. In November, 2003, the compensation committee, along with the independent directors of our board of directors, and in consultation with outside advisors hired by the committee, made all decisions relating to the Employment and Transition Agreement with Mr. Neville, who resigned as our Chairman, President and Chief Executive Officer in November, 2003. In addition, the compensation committee, in consultation with outside advisors hired by the committee, made all decisions pertaining to the employment offer and agreement and compensation of our new Chairman, President and Chief Executive Officer, Mr. William P. Noglows, who was appointed to these positions in November, 2003.

COMPENSATION POLICY AND OVERALL OBJECTIVES. In determining the amount and composition of executive compensation, the committee's goal is to provide compensation that will enable the company to attract and retain talented executives, align compensation with business objectives and performance, and



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link the interests of the company's executives to the interests of the company's stockholders.

The compensation committee believes that each element of the compensation program should target compensation levels at rates that take into account current market practices. Offering market-comparable pay opportunities allows the company to maintain a stable, successful management team. The company's market for compensation comparison purposes is comprised of a group of companies that develop or use semiconductor products and processes, with an emphasis on chemical mechanical planarization products and processes, as well as companies that have similar sales volumes, market capitalizations, employment levels, and geographic

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presence. In evaluating this comparison group for compensation purposes, the compensation committee exercises its discretion and makes its judgment after considering all relevant factors.

The key elements of the company's executive compensation program are base salary, annual bonuses and long-term incentives. Each of these is addressed separately below. In determining compensation, the compensation committee considers all elements of an executive's total compensation package, including change in control arrangements, participation in savings plans and other benefits.

**BASE SALARIES.** The compensation committee regularly reviews each executive officer's base salary. The committee targets the base salary of the company's executives to be in the 50th to 75th percentile of the salary ranges of similarly positioned executives in the comparison group of companies.

Base salaries for executive officers are initially determined by evaluating the executives' levels of responsibility, prior experience, breadth of knowledge, internal equity issues and external pay practices. Increases to base salaries are driven primarily by performance, and evaluated based on sustained levels of contribution to the company in the context of the company's performance-based management process.

The factors impacting base salary levels are not assigned specific weights. Rather, the compensation committee reviews all of the factors and makes base pay determinations that reflect the compensation committee's analysis of the aggregate impact of these factors.

**ANNUAL BONUSES.** All employees of the company are eligible to participate in the company's cash bonus program, with executive employee bonuses determined by the compensation committee. The compensation committee believes that a cash bonus program allows the company to communicate specific goals that are of primary importance during the coming year and motivates executives to achieve these goals.

Each year, the compensation committee establishes specific performance goals in accordance with the performance-based management process, the achievement of which determines the funding of a bonus pool. In turn, the size of the bonus pool determines the amount of the relative awards to participants. Accordingly, executives' opportunities to earn bonuses correspond to the degree to which the pre-established goals are achieved.

In general, the compensation committee targets the bonus awards of the company's executives to be in the 50th to 75th percentile of the bonus range of similarly positioned executives in the comparison group of companies. Actual payouts can be above or below the targeted levels, depending upon performance

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relative to the pre-established goals.

At the beginning of fiscal year 2003, the compensation committee established the specific performance goals upon which annual bonus awards for services rendered in fiscal year 2003 by our then Chairman, President and Chief Executive Officer, our other named executive officers, our other executive officers, and all employees would be based. Upon completion of the fiscal year, the compensation committee evaluated the performance of our executive officers in light of the pre-established performance goals and determined the amount of the bonus award to be paid to each such executive. The performance goals established by the compensation committee for these executives included the following criteria: financial goals and business metrics such as revenue, gross margin, market share and cost management, business growth through market and technology extension, safety, improvement in technology and quality leadership, business processes, organizational effectiveness and operational excellence.

**LONG-TERM INCENTIVES.** Long-term incentives are provided to executives pursuant to the Amended and Restated 2000 Equity Incentive Plan. The compensation committee believes that equity-based compensation is an essential element in the company's overall compensation scheme. Equity-based compensation is emphasized in the design of the company's executive compensation program because it involves at-risk components of pay which directly link executives' interests with those of the company's stockholders.

Initial or "new-hire" options and restricted stock may be granted to executive officers when they first join the company. Thereafter, options and restricted stock may be granted to each executive officer annually and from time to time based on performance. To enhance retention, options and restricted stock granted to executive officers are subject to vesting restrictions that generally lapse over a four-year period.

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When determining awards under the Amended and Restated 2000 Equity Incentive Plan, the compensation committee considers the company's and individual's performance in the prior year, the executives' levels of responsibility, prior experience and years of service, historical award data and compensation practices at the comparison group of companies. In determining award sizes, the compensation committee does not assign specific weights to these factors. Rather, the factors are evaluated on an aggregate basis.

In this regard, the compensation committee and the board of directors have approved the Second Amended and Restated 2000 Equity Incentive Plan which provides for an increase in the number of shares of common stock available for issuance under the plan by 3,000,000 shares and recommend that our stockholders approve the second amended and restated plan at the annual meeting. See "APPROVAL OF OUR SECOND AMENDED AND RESTATED 2000 EQUITY INCENTIVE PLAN," below.

Our executive officers are also eligible to participate in the Executive Officer Deposit Share Plan. See "EXECUTIVE COMPENSATION -- Executive Officer Deposit Share Plan," above.

**CEO COMPENSATION.** The compensation committee used the executive compensation practices described above to determine Mr. Neville's compensation for fiscal year 2003, in consultation with outside advisors hired by the committee. In addition, in setting both the cash-based and equity-based elements of Mr. Neville's compensation, the compensation committee made an overall assessment of Mr. Neville's leadership in establishing and achieving the company's long-term and short-term strategic, operational and business goals. Mr. Neville's leadership during fiscal year 2003 that contributed to the company's continued solid financial results during the prolonged and significant downturn in both the global economy and semiconductor industry was also taken

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into consideration in determining his compensation package. The committee also considered Mr. Neville's decision to resign from his roles as Chairman, President and Chief Executive Officer. In addition to these factors, Mr. Neville's bonus award reflected our performance against certain financial objectives in fiscal year 2003, which in general met the overall pre-established goals for fiscal year 2003. Based upon all of these criteria, the compensation committee awarded Mr. Neville \$300,000 as a cash bonus for fiscal year 2003, pursuant to Mr. Neville's Employment and Transition Agreement with the company, which together with his \$400,000 annual base salary effective January 1, 2003 (\$393,750 paid over fiscal year 2003), resulted in total cash compensation to Mr. Neville for fiscal year 2003 equal to \$693,750. On December 11, 2002, the compensation committee had awarded Mr. Neville equity-based compensation in the form of stock options to purchase an aggregate of 100,000 shares of the company's common stock that vest in equal increments upon each anniversary over four years and have a term of ten years that expires December 11, 2012, at an exercise price of \$51.37; Mr. Neville has not been granted any additional stock options since this grant in 2002. Aside from the number of options granted, the terms and conditions of this option grant (and for any other grants that Mr. Neville had received prior to this grant), are the same as those for grants made to our other employees, including those that provide that any options that are not vested at the time of the termination of employment are forfeited.

Since the end of fiscal year 2003, the compensation committee, in consultation with outside advisors hired by the committee, used the executive compensation practices described above to determine the terms of Mr. Noglows' employment offer and compensation for fiscal year 2004. Based upon these criteria, the compensation committee set Mr. Noglows' base salary at \$450,000 and agreed to pay Mr. Noglows a cash bonus for fiscal year 2004 of not less than \$160,000, following the end of fiscal year 2004. In addition, in connection with Mr. Noglows' joining the company, the compensation committee awarded him equity-based compensation in the form of stock options to purchase an aggregate of 250,000 shares of our common stock that vest in equal increments upon each anniversary of the grant date of November 3, 2003, Mr. Noglows' date of hire, over four years and that have a term of ten years that expires November 3, 2013, at an exercise price of \$55.37.

INTERNAL REVENUE CODE SECTION 162(M). As one of the factors in its review of compensation matters, the committee considers the anticipated tax treatment to our company and to our executives of various payments and benefits. The deductibility of some types of compensation payments depends upon the timing of an executive's vesting or exercise of previously granted rights. Furthermore, interpretations of and changes in the tax laws and other factors beyond the compensation committee's control also affect the deductibility of

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compensation. For these and other reasons, the compensation committee will not necessarily limit executive compensation to that deductible under Section 162(m) of the Internal Revenue Code of 1986, as amended. The compensation committee will consider various alternatives to preserving the deductibility of compensation payments and benefits to the extent reasonably practicable and to the extent consistent with its other compensation objectives. In fiscal year 2001, at our annual meeting of stockholders held on March 13, 2001, our Amended and Restated 2000 Equity Incentive Plan was submitted to our stockholders for approval, and our stockholders approved that plan. At our upcoming annual meeting of stockholders, our Second Amended and Restated 2000 Equity Incentive Plan will be submitted to our stockholders for approval. The current Amended and Restated 2000 Equity Incentive Plan and the proposed Second Amended and Restated 2000 Equity Incentive Plan are intended to qualify certain compensation awarded under that plan for tax deductibility under Section 162(m).

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Respectfully submitted by the compensation committee,

John P. Frazee, Jr.  
H. Laurance Fuller  
J. Joseph King  
Ronald L. Skates, Chairman  
Steven V. Wilkinson

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### APPROVAL OF SECOND AMENDED AND RESTATED CABOT MICROELECTRONICS CORPORATION 2000 EQUITY INCENTIVE PLAN

Our board of directors has approved our Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan, which is an amendment of our Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan, as amended in June 2003 (referred to below as the "Existing Plan"), for the primary purpose of increasing the number of shares of our common stock reserved for issuance under the plan from 6,500,000 shares to 9,500,000 shares. The Second Amended and Restated 2000 Equity Incentive Plan is attached to this Proxy Statement as Appendix B and is sometimes referred to below as the "Plan." Our board of directors has directed that the Plan be submitted to our stockholders at this time for their approval for three reasons in particular:

- to comply with Nasdaq rules, which require such approval,
- to ensure that the Plan continues to satisfy the requirements set forth in Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), and the related regulations with respect to "qualified performance-based compensation," and
- to comply with the Existing Plan, which, by its terms, requires such approval.

In order to give the company ongoing flexibility to attract, retain and reward our employees, directors, consultants and advisors, in addition to the increase in the number of shares from 6,500,000 shares to 9,500,000 shares, our board of directors has approved the following material amendments to the Existing Plan:

- the addition of the ability for the company to make restricted stock unit grants under the Plan;
- an increase in the number of shares reserved for issuance from 875,000 shares of restricted stock to 1,900,000 shares of restricted stock or restricted stock units in the aggregate;
- the addition of the ability for the company to make restricted stock or restricted stock unit awards that are designed to qualify for the performance-based exception from the tax deductibility limitations of Section 162(m) of the Code, and any regulations promulgated thereunder, according to the performance goals described in the Plan; and
- the addition of the ability for participants in the Plan to elect to defer the delivery of shares of restricted stock or restricted stock units in order that the participant would not recognize income until the company actually distributed shares of common stock or cash to the participant.

The other material features of the Existing Plan remain in the Plan, including such provisions as the specific prohibition on the repricing of options granted under the Plan. A description of certain features of the Plan, including the amended features of the Plan, is included below.

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## EXISTING PLAN INFORMATION

Shown below is information as of January 20, 2004 with respect to the shares of common stock that may be issued under the Existing Plan. As of January 20, 2004, the closing sale price of our common stock as reported on the Nasdaq National Market was \$57.54 per share.

### EXISTING PLAN INFORMATION

NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF SECURITIES REMAINING AVAILABLE FOR ISSUANCE UNDER THE EXISTING PLAN
4,086,206(1)	1,373,627(2)(3)

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(1) Includes options to purchase 4,082,059 shares of our common stock that have been granted under the Existing Plan and 4,147 shares of restricted stock with restrictions that have not yet lapsed that have been awarded under the Existing Plan.

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(2) Common stock reserved for issuance under the Existing Plan of 6,500,000 shares has been reduced by options to purchase 5,416,611 shares of our common stock that have been granted under the Existing Plan (of which options to purchase 312,346 shares have been forfeited and therefore are available for future grants), and 23,442 shares of restricted stock that have been awarded under the Existing Plan (of which 1,334 shares of restricted stock have been forfeited and therefore are available for future awards).

(3) Does not include the proposed increase of available shares under our Second Amended and Restated Equity Incentive Plan.

## EXISTING EQUITY COMPENSATION PLAN INFORMATION

Shown below is information as of September 30, 2003 with respect to the shares of common stock that may be issued under our existing equity compensation plans.

### EXISTING EQUITY COMPENSATION PLAN INFORMATION

PLAN CATEGORY	(A) NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	(B) WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF SECURITIES REMAINING AVAILABLE FOR ISSUANCE UNDER THE EXISTING PLAN (EXCLUDING RESERVED SHARES)
Equity compensation plans approved by security			

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holders	3,145,841(2)	\$51.50
Equity compensation plans not approved by security holders	--	--
Total	3,145,841	\$51.50

(1) Includes 336,830 shares currently available for future issuance under our Employee Stock Purchase Plan. Does not include the proposed increase of available shares under our Second Amended and Restated Equity Incentive Plan.

(2) On November 3, 2003, William P. Noglows was elected Chairman, President and Chief Executive Officer of our company. On that date the compensation committee of the board of directors approved Mr. Noglows' participation in the Plan and further approved the grant of 250,000 non-qualified stock options at an exercise price of \$55.37 per share. The options carry a ten year term and vest equally over a four year period, with the first vesting on the one year anniversary of the date of the grant.

On December 1, 2003, Clifford L. Spiro was appointed Vice President, Research and Development of our company. On that date the compensation committee of the board of directors approved Dr. Spiro's participation in the Plan and further approved the grant of 50,000 non-qualified stock options at an exercise price of \$54.28 per share. The options carry a ten year term and vest equally over a four year period, with the first vesting on the one year anniversary of the date of the grant.

On December 11, 2003, the compensation committee of the board of directors approved the fiscal year 2004 grants of stock options to certain employees and executive officers, with 702,200 total options granted at an exercise price of \$48.91. The options carry a ten year term and vest equally over a four year period, with the first vesting on the one year anniversary of the date of the grant.

AMENDED AND RESTATED 2000 EQUITY INCENTIVE PLAN BENEFITS

At this time, specific benefits or amounts to be received or allocated to named executive officers, current executive officers as a group, current directors who are not executive officers as a group and all employees, including all current officers who are not executive officers, as a group pursuant to this Plan are not determinable. However, for the purposes of illustration, the following table sets forth the benefits and amounts

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that were granted to the named executive officers, current executive officers as a group, current directors who are not executive officers as a group and all current employees, including all current officers who are not executive officers, as a group during the fiscal year ended September 30, 2003 pursuant to the Existing Plan.

AMENDED AND RESTATED 2000 EQUITY INCENTIVE PLAN BENEFITS

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NAME AND POSITION	DOLLAR VALUE (1) (\$)	NUMBER OF OPTIONS	NUMBER OF SHARES OF RESTRICTED STOCK
Matthew Neville, Former President and Chief Executive Officer	621,986	100,000	318
William P. Noglows, President and Chief Executive Officer	--	--	--
Daniel J. Pike, Vice President of Operations	333,180	54,000	--
H. Carol Bernstein, Vice President, Secretary and General Counsel	293,075	47,500	--
Stephen R. Smith, Vice President of Marketing and Sales	351,690	57,000	--
J. Michael Jenkins, Vice President of Human Resources	298,061	47,500	318
All current executive officers as a group	2,391,714	330,750	318
All current directors who are not executive officers as a group	864,000	45,000	--
All current employees, including current officers who are not executive officers, as a group	3,578,311	539,760	318

(1) Dollar Value is based upon the total dollar value for options and restricted stock. For the purposes of illustration, the dollar value of options has been computed based upon the difference between the price of our common stock as of January 20, 2004, which was \$57.54, and the exercise price of the options. The dollar value of restricted stock awards has been computed based upon the closing price for the shares of common stock on the date of grant. We ascribe no value to restricted stock in the Executive Officer Deposit Share Plan for which full value was paid.

DESCRIPTION OF THE SECOND AMENDED AND RESTATED 2000 EQUITY INCENTIVE PLAN

The purposes of the Plan are to enhance our company's ability to (a) attract and retain employees, directors, consultants and advisors who are in a position to make significant contributions to the success of our company; (b) reward these individuals for these contributions; (c) encourage these individuals to take into account the long-term interests of our company and its stockholders; and (d) reward individuals who have contributed to our company's success, in each case, through ownership of shares of our common stock.

Our board of directors and our compensation committee believe that the grant of equity incentives is an essential component of compensation and is

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standard and expected in our industry. They also believe that awards under the Existing Plan have played an important part in enabling the company to attract, retain and

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motivate employees in the extremely competitive, high growth industry in which we operate. The ability to continue to attract new employees and to retain current employees is a critical element in our strategy for future growth, and our ability to attract and retain qualified employees could be impeded if sufficient equity incentives are not available in the future for grant under the Plan. Furthermore, the ability to motivate and incent employees and senior management to take into account the long-term interests of our company and its stockholders is also essential to our future growth, and our ability to so motivate and incent our employees and senior management could be impeded if sufficient equity incentives are not available in the future.

With these matters in mind, the board of directors and the compensation committee engaged an outside advisor to assist in an evaluation of the Existing Plan, in general, and the adequacy of the number of shares available under the Existing Plan (prior to the proposed amendment and restatement), in particular. The advisor conducted a study of the Existing Plan and a comparative analysis of similar plans of peer companies in our industry. The advisor also evaluated the adequacy of the number of equity awards available under the Existing Plan to our executive officers, senior managers and other employees in light of our goals for attracting, retaining, rewarding and incenting our employees as described above.

In addition, in the past year, the availability of shares under the plan has been important in allowing us to attract and incent high quality executives, such as Mr. Noglows, our new President and Chief Executive Officer, Mr. William S. Johnson, our Vice President and Chief Financial Officer, and Dr. Spiro, our Vice President of Research and Development, to join our company. In this regard, it is especially important that the number of shares available under the Plan be sufficient to allow us to continue to attract and retain other executive officers and senior managers, as Mr. Noglows continues to refine the composition of his executive team.

Based in significant part on all of these factors and the consultant's conclusions and advice, our board of directors believes that, while the number of shares available under the Existing Plan (prior to the proposed amendment and restatement) is expected to be sufficient during the next twelve months, additional shares will be required soon thereafter to enable the company to continue realizing the plan's intended benefits. Accordingly, our board of directors recommends that stockholders approve the Second Amended and Restated Cabot Microelectronics Corporation 2000 Equity Incentive Plan.

The following description of certain features of the Plan is qualified in its entirety by reference to the full text of the Plan.

GENERAL; SHARES AVAILABLE FOR ISSUANCE UNDER THE PLAN. The Plan enables us to make awards of options, restricted stock and restricted stock units to eligible employees, directors, consultants and advisers of our company and our affiliates. We believe that the Plan provides us with flexibility in designing and providing incentive compensation to Plan participants. Subject to adjustment for stock splits and similar events, the maximum number of shares of common stock that may be issued under the Plan is 9,500,000 shares. This number does not include shares that will become available under the Plan because of events such as forfeitures. In addition, awards granted through the assumption of, or in substitution or exchange for, similar awards in connection with the acquisition of another corporation or business entity shall not be counted for



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purposes of applying the limitations of this section on the number of shares of common stock available for awards generally or any particular kind of award under the Plan.

ADMINISTRATION; ELIGIBLE GRANTEES. The compensation committee of the board of directors administers the Plan and has the sole discretion to construe and interpret the Plan and any awards made under the Plan. These interpretations are binding on our company and on the Plan participants. The compensation committee also determines the Plan participants who will receive awards, the number of shares subject to such awards and the terms and conditions of each such award. It may make any amendment or modification to any award agreement consistent with the terms of the Plan and relevant rules and regulations. The compensation committee currently consists of five independent members of our board of directors, all of whom meet the Nasdaq and SEC criteria for independence and none of whom are employees of our company. Officers and other employees as well as our directors, advisors and consultants are eligible to receive awards under the Plan,

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but no participant may receive awards under the Plan in any calendar year covering more than 300,000 shares of common stock.

As of January 20, 2004, there were approximately nine officers, 257 other employees, and six independent, non-employee directors who are participants in the plan. We estimate that approximately 575 persons are currently eligible to receive awards under the Plan.

In addition, the compensation committee may grant substitute awards of "incentive stock options" or "ISOs" as defined in Section 422 of the Code, stock options that are not intended to qualify under Section 422 of the Code ("NQSOs") or shares of our restricted stock or restricted stock units to persons who become our employees in connection with business acquisitions. These substitute awards would replace equity incentives held by these persons in the acquired entity or the selling business.

AWARDS. Under the Plan, we are permitted to make awards in the form of ISOs, NQSOs and shares of restricted common stock and restricted stock units.

STOCK OPTIONS. The compensation committee may grant stock options under the Plan. Stock options enable the holder of the option to purchase shares of our common stock at a price specified by the compensation committee at the time the award is made. The Plan permits the granting of stock options that qualify as ISOs under Section 422 of the Code as well as NQSOs. The compensation committee may grant ISOs to purchase up to 1,750,000 shares of our common stock under the Plan. The compensation committee determines the exercise price of all stock options which, as a general rule with respect to ISOs, may not be less than the fair market value of a share of common stock at the time of grant. In practice, to date the compensation committee has only granted NQSOs at an exercise price that is equal to the fair market value of a share of common stock at the time of grant and has not granted any ISOs. The Plan specifically prohibits the repricing of options. The compensation committee also determines when an option may be exercised and its term, which may not exceed ten years.

RESTRICTED STOCK. The compensation committee also may award up to 1,900,000 shares of restricted stock and restricted stock units ("RSUs") in the aggregate (see below) under the Plan. In general, an award of restricted stock entitles the recipient to shares of common stock, subject to restrictions determined by the compensation committee. The

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compensation committee may require the recipient to pay consideration for the restricted stock as a condition to the grant of the restricted stock. Restrictions on restricted stock lapse as specified by the compensation committee at the time of grant. Until the restrictions lapse, shares of restricted stock are non-transferable. Generally, recipients of restricted stock have all rights of a stockholder with respect to the shares, including voting and dividend rights, subject only to the conditions and restrictions generally applicable to restricted stock or to other restrictions and conditions specifically set forth in the award agreement. An award of restricted stock may provide for the right to receive on the payment date for any dividend on the stock, cash compensation from the company (a "dividend equivalent") equal to the dividend that would have been paid on such shares of restricted stock if such shares had been fully vested and held by the participant on the record date for payment of such dividend.

RESTRICTED STOCK UNITS. As stated above, the compensation committee also may award RSUs under the Plan, which together with awards of restricted stock, may not exceed 1,900,000 units or shares. In general, an award of RSUs entitles the recipient to a contingent right to receive shares of common stock (or the cash equivalent) in the future, subject to restrictions determined by the compensation committee. The compensation committee may require the recipient to pay consideration for the restricted stock as a condition to the grant of the RSUs. Restrictions on RSUs lapse as specified by the compensation committee at the time of grant. RSUs are non-transferable. The compensation committee will specify in the award agreement whether the recipient of RSUs has any of the rights of a stockholder with respect to the RSUs, including voting and dividend rights. An award of RSUs may provide for the right to receive on the payment date for any dividend on the common stock underlying the RSU, cash compensation from the company (a "dividend equivalent") equal to the dividend that would have been paid on the shares underlying such RSUs if such shares had been

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issued and outstanding, fully vested and held by the participant on the record date for payment of such dividend.

EFFECT OF TERMINATION OF SERVICE. As a general rule, a termination of a Plan participant's service with the company will result in the forfeiture of unvested options, restricted stock, and restricted stock units, although the compensation committee may depart from this general rule by providing otherwise in individual award agreements or by amending existing award agreements. In particular, the compensation committee has substantial discretion to address the effect of service termination upon the vesting of stock options (and the period during which they may be exercised), restricted stock and RSUs. Generally, under policies established by the compensation committee, in the event of the death or disability of a Plan participant, we will permit the Plan participant or his or her heirs up to three years (one year in the case of ISOs) to exercise vested options following such death or disability, but in any event such exercise must be made before the expiration of the original term of the award. The compensation committee may terminate and recover any Plan award if either (1) a Plan participant provides services to a competitor of the company within six months of exercising an option or terminating service with the company, discloses confidential information, engages in conduct that constitutes "Cause" or other circumstances (as defined in the Plan) for award termination or (2) the company terminates the Plan participant's service for "Cause." In the case of any such award termination or recovery, the Plan participant is required to disgorge his or her gains on the sale of any common stock he or she received as a result of a Plan award. In general, if a Plan participant terminates service with the company other than for Cause, disability or death, we will generally

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permit such participant from one to three months to exercise vested options following the date of termination, but in any event such exercise must be made before the expiration of the original term of the award.

ADJUSTMENTS FOR CHANGES IN CAPITALIZATION; CHANGE IN CONTROL. The compensation committee may make appropriate adjustments to the number of shares of our common stock that may be delivered under the Plan and to outstanding awards to reflect stock dividends, stock splits, and similar changes in our capitalization. When granting awards under the Plan, the compensation committee may provide for the accelerated vesting of options, and for the immediate lapsing of restrictions on restricted stock in the event of a "Change in Control." The term "Change in Control" is defined in the Plan, and includes:

- the occurrence of a person or entity becoming a beneficial owner of 30% or more of the voting power of our common stock;
- the merger of our company with another company (except where our stockholders would hold at least 60% of the voting power of our common stock after such merger);
- certain significant changes to the composition of our board of directors; and
- the liquidation of our company.

AMENDMENT AND TERMINATION. The compensation committee may at any time discontinue granting awards under the Plan. Our board of directors may at any time amend the Plan or terminate the Plan as to any further grants of awards. However, none of these actions may, without the approval of our stockholders, increase the maximum number of shares of common stock available under the Plan, extend the time within which awards may be granted, amend the provisions of the Plan relating to amendments, or otherwise make any amendments that by rule or regulation may be made only subject to the approval of stockholders, nor may any of these actions adversely affect the rights of a holder of any previously granted award.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES. Following is a brief summary of the principal federal income tax consequences of awards under the Plan. This summary is not an exhaustive description and does not describe all applicable federal, state or local tax laws.

ISOS. A Plan participant is not subject to federal income tax at the time of either the grant or the exercise of an ISO. In the year in which an ISO is exercised, however, the amount by which the fair market value of the shares of common stock received on the exercise of an ISO exceeds the exercise price will constitute an adjustment to the option holder's income in computing alternative minimum

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taxable income. If an option holder does not dispose of such shares of common stock within two years after the ISO was granted or one year after the ISO was exercised, whichever is later (a "disqualifying disposition"), then any gain or loss re