CABOT CORP
Form 10-Q
February 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2011

or

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

For the transition period from to

Commission file number 1-5667

Cabot Corporation

(Exact name of registrant as specified in its charter)

Delaware	**04-2271897**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**
Two Seaport Lane	
Boston, Massachusetts	**02210-2019**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (617) 345-0100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer (Do not check if smaller reporting company) ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of Common Stock, as of the latest practicable date.

As of February 2, 2012 the Company had 63,054,706 shares of Common Stock, par value $1 per share, outstanding.

CABOT CORPORATION

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Part I. Financial Information

Item 1. Financial Statements

CABOT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

UNAUDITED

	Three Months Ended December 31 2011	2010
	(In millions, except per share amounts)	
Net sales and other operating revenues	$ 762	$ 694
Cost of sales	619	563
Gross profit	143	131
Selling and administrative expenses	65	63
Research and technical expenses	17	15
Income from operations	61	53
Interest and dividend income	1	1
Interest expense	(10)	(10)
Other income	3	2
Income from continuing operations before income taxes and equity in net earnings of affiliated companies	55	46
(Provision) benefit for income taxes	(16)	15
Equity in net earnings of affiliated companies	1	3
Income from continuing operations	40	64
Income from discontinued operations, net of tax	11	16
Net income	51	80
Net income attributable to noncontrolling interests, net of tax	5	5
Net income attributable to Cabot Corporation	$ 46	$ 75
Weighted-average common shares outstanding, in millions:		
Basic	63.5	64.4
Diluted	64.2	65.2
Income per common share:		
Basic:		
Income from continuing operations attributable to Cabot Corporation	$ 0.55	$ 0.89
Income from discontinued operations	0.17	0.25
Net income attributable to Cabot Corporation	$ 0.72	$ 1.14
Diluted:		

Income from continuing operations attributable to Cabot Corporation	$	0.55	$	0.88
Income from discontinued operations		0.16		0.25
Net income attributable to Cabot Corporation	$	0.71	$	1.13
Dividends per common share	$	0.18	$	0.18

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

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CABOT CORPORATION

CONSOLIDATED BALANCE SHEETS

ASSETS

UNAUDITED

	December 31, 2011	September 30, 2011
	(In millions)	
Current assets:		
Cash and cash equivalents	$ 188	$ 286
Accounts and notes receivable, net of reserve for doubtful accounts of $4 and $4	663	659
Inventories:		
Raw materials	110	120
Work in process	2	3
Finished goods	262	233
Other	39	37
Inventories	413	393
Prepaid expenses and other current assets	68	76
Deferred income taxes	34	35
Current assets held for sale	120	106
Total current assets	1,486	1,555
Property, plant and equipment	2,979	2,967
Accumulated depreciation and amortization	(1,928)	(1,931)
Net property, plant and equipment	1,051	1,036
Goodwill	39	40
Equity affiliates	60	60
Assets held for rent	51	46
Deferred income taxes	257	261
Other assets	103	104
Noncurrent assets held for sale	39	39
Total assets	$ 3,086	$ 3,141

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

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CABOT CORPORATION

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS EQUITY

UNAUDITED

	December 31, 2011	September 30, 2011
	(In millions, except share and per share amounts)	
Current liabilities:		
Notes payable to banks	$ 83	$ 86
Accounts payable and accrued liabilities	421	461
Income taxes payable	30	34
Deferred income taxes	5	6
Current portion of long-term debt	52	57
Current liabilities held for sale	13	12
Total current liabilities	604	656
Long-term debt	551	556
Deferred income taxes	9	8
Other liabilities	294	299
Noncurrent liabilities held for sale	6	6
Commitments and contingencies (Note E)		
Stockholders equity:		
Preferred stock:		
Authorized: 2,000,000 shares of $1 par value		
Issued and Outstanding : None and none		
Common stock:		
Authorized: 200,000,000 shares of $1 par value		
Issued: 63,289,605 and 63,894,443 shares		
Outstanding: 63,008,453 and 63,860,777 shares	63	64
Less cost of 281,152 and 33,666 shares of common treasury stock	(9)	(1)
Additional paid-in capital	4	18
Retained earnings	1,348	1,314
Deferred employee benefits	(12)	(14)
Accumulated other comprehensive income	92	106
Total Cabot Corporation stockholders equity	1,486	1,487
Noncontrolling interests	136	129
Total stockholders equity	1,622	1,616
Total liabilities and stockholders equity	$ 3,086	$ 3,141

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

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CABOT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

	Three Months Ended December 31 2011	2010
	(In millions)	
Cash Flows from Operating Activities:		
Net income	$ 51	$ 80
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	36	35
Deferred tax provision (benefit)	7	(22)
Loss on sale of property, plant and equipment	1	
Equity in net earnings of affiliated companies	(1)	(3)
Non-cash compensation	5	5
Other non-cash charges, net	(1)	
Changes in assets and liabilities:		
Accounts and notes receivable	(12)	6
Inventories	(46)	(6)
Prepaid expenses and other current assets	9	(6)
Accounts payable and accrued liabilities	(32)	(46)
Income taxes payable	(3)	(4)
Other liabilities	6	
Cash dividends received from equity affiliates	1	2
Other	(1)	(1)
Cash provided by operating activities	20	40
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(61)	(31)
Decrease (increase) in assets held for rent	(4)	1
Cash used in investing activities	(65)	(30)
Cash Flows from Financing Activities:		
Borrowings under financing arrangements	19	11
Repayments under financing arrangements	(3)	(13)
Proceeds from long-term debt, net of issuance costs	1	
Repayments of long-term debt	(10)	(1)
(Decrease) increase in notes payable to banks, net	(19)	4
Proceeds from cash contributions received from noncontrolling interest stockholders	4	
Purchases of common stock	(30)	
Proceeds from sales of common stock	1	1
Cash dividends paid to common stockholders	(12)	(12)
Proceeds from restricted stock loan repayments	1	
Cash used in financing activities	(48)	(10)
Effect of exchange rate changes on cash	(5)	1
(Decrease) increase in cash and cash equivalents	(98)	1

Cash and cash equivalents at beginning of period	286	387
Cash and cash equivalents at end of period	$ 188	$ 388

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

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CABOT CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)

Three Months Ended December 31, 2010

(In millions, except shares in thousands)

UNAUDITED

	Common Stock, Net of Treasury Stock		Additional		Deferred	Accumulated Other	Cabot Corporation		Total	
	Shares	Cost	Paid-in Capital	Retained Earnings	Employee Benefits	Comprehensive Income	Stockholders Equity	Non-controlling Interests	Stockholders Equity	Comprehensive Income
Balance at September 30, 2010	65,370	$ 63	$ 46	$ 1,125	$ (20)	$ 88	$ 1,302	$ 115	$ 1,417	
Net income attributable to Cabot Corporation				75						$ 75
Foreign currency translation adjustment, net of tax						8				8
Total other comprehensive income										$ 8
Comprehensive income attributable to Cabot Corporation							83			$ 83
Net income attributable to noncontrolling interests, net of tax								5		5
Comprehensive income attributable to noncontrolling interests										$ 5
Comprehensive income									88	$ 88
Noncontrolling interest - dividends								(1)	(1)	
Cash dividends paid to common stockholders				(12)			(12)		(12)	
Issuance of stock under employee compensation plans, net of forfeitures	62		2				2		2	
Amortization of share-based compensation			4				4		4	
Purchase and retirement of common and treasury stock	(23)									
Principal payment by Employee Stock Ownership Plan under guaranteed loan					2		2		2	

Balance at December 31, 2010	65,409	$ 63	$ 52	$ 1,188	$ (18)	$ 96	$ 1,381	$ 119	$ 1,500

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

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CABOT CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)

Three Months Ended December 31, 2011

(In millions, except shares in thousands)

UNAUDITED

	Common Stock, Net of Treasury Stock		Additional		Deferred	Accumulated Other	Cabot Corporation		Total	
	Shares	Cost	Paid-in Capital	Retained Earnings	Employee Benefits	Comprehensive Income	Stockholders Equity	Non-controlling Interests	Stockholders Equity	Comprehensive Income
Balance at September 30, 2011	63,861	$ 63	$ 18	$ 1,314	$ (14)	$ 106	$ 1,487	$ 129	$ 1,616	
Net income attributable to Cabot Corporation				46						$ 46
Foreign currency translation adjustment, net of tax						(13)				(13)
Change in employee benefit plans, net of tax						(1)				(1)
Total other comprehensive income										$ (14)
Comprehensive income attributable to Cabot Corporation							32			$ 32
Net income attributable to noncontrolling interests, net of tax								5		5
Noncontrolling interests - foreign currency translation adjustment								(2)		(2)
Comprehensive income attributable to noncontrolling interests										$ 3
Comprehensive income									35	$ 35
Contribution from noncontrolling interests								4	4	
Cash dividends paid to common stockholders				(12)			(12)		(12)	
Issuance of stock under employee compensation plans, net of forfeitures	87		2				2		2	
Amortization of share-based compensation			4				4		4	
Purchase and retirement of common stock	(690)	(1)	(21)				(22)		(22)	
Purchase of treasury stock	(250)	(8)					(8)		(8)	
Principal payment by Employee Stock Ownership Plan under guaranteed loan					2		2		2	
			1				1		1	

Notes receivable for restricted stock - payments									
Balance at December 31, 2011	63,008	$ 54	$ 4	$ 1,348	$ (12)	$ 92	$ 1,486	$ 136	$ 1,622

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

CABOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

UNAUDITED

Note A. Basis of Presentation

The consolidated financial statements include the accounts of Cabot Corporation (Cabot or the Company) and its wholly owned subsidiaries and majority-owned and controlled U.S. and non-U.S. subsidiaries. Additionally, Cabot considers consolidation of entities over which control is achieved through means other than voting rights, of which there were none in the periods presented. Intercompany transactions have been eliminated in consolidation.

The unaudited consolidated financial statements have been prepared in accordance with the requirements of Form 10-Q and consequently do not include all disclosures required by Form 10-K. Additional information may be obtained by referring to Cabot s Annual Report on Form 10-K for the fiscal year ended September 30, 2011 (2011 10-K).

The financial information submitted herewith is unaudited and reflects all adjustments which are, in the opinion of management, necessary to provide a fair statement of the results for the interim periods ended December 31, 2011 and 2010. All such adjustments are of a normal recurring nature. The results for interim periods are not necessarily indicative of the results to be expected for the fiscal year.

In August 2011, the Company entered into an agreement to sell its Supermetals Business. The sale was completed in January 2012. Applicable assets and liabilities of the business have been classified as held for sale in the Consolidated Balance Sheets as of December 31, 2011 and 2010. The Consolidated Statements of Operations for all periods presented have been recast to reflect the presentation of discontinued operations. Unless otherwise indicated, all disclosures and amounts in the Notes to the Consolidated Financial Statements relate to the Company s continuing operations.

Note B. Significant Accounting Policies

Revenue Recognition and Accounts Receivable

Cabot recognizes revenue when persuasive evidence of a sales arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectability is probable. Cabot generally is able to ensure that products meet customer specifications prior to shipment. If the Company is unable to determine that the product has met the specified objective criteria prior to shipment or if title has not transferred because of sales terms, the revenue is considered unearned and is deferred until the revenue recognition criteria are met.

Shipping and handling charges related to sales transactions are recorded as sales revenue when billed to customers or included in the sales price. Shipping and handling costs are included in cost of sales.

The following table shows the relative size of the revenue recognized in each of the Company s reportable segments:

	Three Months Ended December 31	
	2011	**2010**
Core Segment	67%	65%
Performance Segment	28%	28%
New Business Segment	3%	4%
Specialty Fluids Segment	2%	3%

Cabot derives the substantial majority of its revenues from the sale of products in the Core and Performance Segments. Revenue from these products is typically recognized when the product is shipped and title and risk of loss have passed to the customer. The Company offers certain of its customers cash discounts and volume rebates as sales incentives. The discounts and volume rebates are recorded as a reduction in sales at the time revenue is recognized and are estimated based on historical experience and contractual obligations. Cabot periodically reviews the assumptions underlying its estimates of discounts and volume rebates and adjusts its revenues accordingly.

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Revenue in the New Business Segment is typically recognized when the product is shipped and title and risk of loss have passed to the customer. Depending on the nature of the contract with the customer, a portion of the segment s revenue may be recognized using proportional performance.

The majority of the revenue in the Specialty Fluids Segment arises from the rental of cesium formate. This revenue is recognized throughout the rental period based on the contracted rental terms. Customers are also billed and revenue is recognized, typically at the end of the job, for cesium formate product that is not returned. On occasion, the Company also generates revenues from cesium formate outside of a rental process and revenue is recognized upon delivery of the fluid.

Cabot maintains allowances for doubtful accounts based on an assessment of the collectibility of specific customer accounts, the aging of accounts receivable and other economic information on both an historical and prospective basis. Customer account balances are charged against the allowance when it is probable the receivable will not be recovered. Changes in the allowance during the first quarter of fiscal 2012 and 2011 were immaterial. There is no off-balance sheet credit exposure related to customer receivable balances.

Financial Instruments

Cabot s financial instruments consist primarily of cash and cash equivalents, accounts and notes receivable, investments, accounts payable and accrued liabilities, short-term and long-term debt, and derivative instruments. The carrying values of Cabot s financial instruments approximate fair value with the exception of long-term debt that has not been designated as part of a fair value hedge. The non-hedged long-term debt is recorded at amortized cost. The fair values of the Company s financial instruments are based on quoted market prices, if such prices are available. In situations where quoted market prices are not available, the Company relies on valuation models to derive fair value. Such valuation takes into account the ability of the financial counterparty to perform.

Cabot uses derivative financial instruments primarily for purposes of hedging exposures to fluctuations in interest rates and foreign currency exchange rates, which exist as part of its on-going business operations. Cabot does not enter into derivative contracts for speculative purposes, nor does it hold or issue any derivative contracts for trading purposes. All derivatives are recognized on the Consolidated Balance Sheets at fair value. Where Cabot has a legal right to offset derivative settlements under a master netting agreement with a counterparty, derivatives with that counterparty are presented on a net basis. The changes in the fair value of derivatives are recorded in either earnings or Accumulated other comprehensive income, depending on whether or not the instrument is designated as part of a hedge transaction and, if designated as part of a hedge transaction, the type of hedge transaction. The gains or losses on derivative instruments reported in Accumulated other comprehensive income are reclassified to earnings in the period in which earnings are affected by the underlying hedged item. The ineffective portion of all hedges is recognized in earnings during the period in which the ineffectiveness occurs.

In accordance with Cabot s risk management strategy, the Company may enter into certain derivative instruments that may not be designated as hedges for hedge accounting purposes. Although these derivatives are not designated as hedges, the Company believes that such instruments are closely correlated with the underlying exposure, thus managing the associated risk. The Company records in earnings the gains or losses from changes in the fair value of derivative instruments that are not designated as hedges. Cash movements associated with these instruments are presented in the Consolidated Statement of Cash Flows as Cash Flows from Operating Activities because the derivatives are designed to mitigate risk to the Company s cash flow from operations.

Income Tax in Interim Periods

The Company records its tax provision or benefit on an interim basis using an estimated annual effective tax rate. This rate is applied to the current period ordinary income or loss to determine the income tax provision or benefit allocated to the interim period. Losses from jurisdictions for which no benefit can be recognized and the income tax effects of unusual or infrequent items are excluded from the estimated annual effective tax rate and are recognized in the impacted interim period as discrete items.

Valuation allowances are provided against the future tax benefits that arise from the losses in jurisdictions for which no benefit can be recognized. The estimated annual effective tax rate may be significantly impacted by nondeductible expenses and the Company s projected earnings mix by tax jurisdiction. Adjustments to the estimated annual effective income tax rate are recognized in the period when such estimates are revised.

CABOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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UNAUDITED

Inventory Valuation

The cost of most raw materials, work in process and finished goods inventories in the U.S. is determined by the last-in, first-out (LIFO) method. Had the Company used the first-in, first-out (FIFO) method instead of the LIFO method for such inventories, the value of those inventories would have been $53 million higher as of both December 31, 2011 and September 30, 2011. The cost of other U.S. and all non-U.S. inventories is determined using the average cost method or the FIFO method.

Cabot reviews inventory for both potential obsolescence and potential declines in anticipated selling prices. In this review, the Company makes assumptions about the future demand for and market value of the inventory, and based on these assumptions estimates the amount of any obsolete, unmarketable, slow moving or overvalued inventory. Cabot writes down the value of these inventories by an amount equal to the difference between the cost of the inventory and its estimated market value. There were no significant write-downs in either the three months ended December 31, 2011 or 2010.

Note C. Discontinued Operations

In August 2011, the Company entered into a Sale and Purchase Agreement (the Purchase Agreement) with Global Advanced Metals Pty Ltd., an Australian company (GAM), for the sale of substantially all of the assets of the Company s Supermetals Business.

The results of the Supermetals Business are reported as Income from discontinued operations, net of tax, in the Consolidated Statements of Operations and have been excluded from segment results presented in Note M. The assets and liabilities associated with the Supermetals Business are presented as Assets held for sale and Liabilities held for sale in the Consolidated Balance Sheets. All previously reported financial information has been recast to conform to the current presentation. In addition, for the three-months ended December 31, 2010, Income from discontinued operations, net of tax also includes the benefit of $1 million associated with a separate business divested in a prior years.

The following table summarizes the results from discontinued operations during the three months ended December 31, 2011 and 2010:

	Three Months Ended December 31	
	2011	2010
	(Dollars in millions)	
Net sales and other operating revenues	$ 38	$ 59
Income from operations before income taxes	18	24
Provision for income taxes	(7)	(8)
Income from discontinued operations, net of tax	$ 11	$ 16

CABOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

UNAUDITED

The following table summarizes the assets and liabilities held for sale in the Company s Consolidated Balance Sheets:

	December 31, 2011	September 30, 2011
	(Dollars in millions)	
Assets		
Accounts and notes receivable, net of reserve for doubtful accounts	$ 38	$ 41
Inventories	82	64
Prepaid expenses and other current assets		1
Total Current assets held for sale	$ 120	$ 106
Net property, plant and equipment	$ 39	$ 39
Other assets		
Total Noncurrent assets held for sale	$ 39	$ 39
Liabilities		
Accounts payable and accrued liabilities	$ 13	$ 12
Total Current liabilities held for sale	$ 13	$ 12
Other liabilities	$ 6	$ 6
Total Noncurrent liabilities held for sale	$ 6	$ 6

In January 2012, the Company completed the sale of its Supermetals Business pursuant to the Purchase Agreement. The total minimum consideration from the sale was approximately $450 million, including cash consideration of $175 million received on the closing date. In addition, the Company (i) received two-year promissory notes, which may be pre-paid by GAM at any time prior to maturity, for total aggregate payments of $215 million (consisting of principal, imputed interest and a prepayment penalty, if applicable), secured by liens on the property and assets of the acquired business and guaranteed by the GAM corporate group and (ii) will receive quarterly cash payments in each calendar quarter that the promissory notes are outstanding in an amount equal to 50% of cumulative annual adjusted EBITDA of the acquired business for the relevant calendar quarter. Regardless of the adjusted EBITDA generated, a minimum payment of $11.5 million is guaranteed in the first year following the closing of the transaction pursuant to one-year promissory notes. In connection with the transaction, the Company also sold to GAM its excess inventory for approximately $50 million. Payment for the excess inventory was made with a two-year promissory note, which is also secured by liens on the property and assets of the acquired business and guaranteed by the GAM corporate group.

In connection with the transaction, the parties entered into a tantalum ore supply agreement under which the Company will sell to GAM all of the tantalum ore mined at the Company s mine in Manitoba, Canada for a three-year period commencing in 2013. The Company also entered into a transition services agreement for the Company to provide certain information technology applications and infrastructure and various administrative services to GAM for a period of six months from the closing date in exchange for one-time and monthly service fees. GAM has the option to terminate these transition services with notice at any time and may also elect to extend the services for up to three months. The future continuing cash flows from the disposed business to Cabot resulting from the tantalum ore supply agreement and transition services agreement are not significant and do not constitute a material continuing financial interest in the Supermetals Business.

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CABOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

UNAUDITED

Note D. Employee Benefit Plans

Net periodic defined benefit pension and other postretirement benefit costs

Net periodic defined benefit pension and other postretirement benefit costs include the following:

	Three Months Ended December 31							
	2011		2010		2011		2010	
	Pension Benefits				Postretirement Benefits			
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
	(Dollars in millions)							
Service cost	$ 1	$ 1	$ 1	$ 1	$	$	$	$
Interest cost	2	3	2	2	1		1	
Expected return on plan assets	(2)	(3)	(2)	(3)				
Amortization of prior service credit					(1)		(1)	
Amortization of actuarial loss		1		1				
Curtailment income				(1)				
Net periodic benefit cost	$ 1	$ 2	$ 1	$	$	$	$	$

Note E. Commitments and Contingencies

Purchase Commitments

Cabot has entered into long-term purchase agreements primarily for the purchase of raw materials and natural gas. Under certain of these agreements the quantity of material being purchased is fixed, but the price paid changes as market prices change. For those commitments, the amounts included in the table below are based on market prices at December 31, 2011.

	Payments Due by Fiscal Year						
	Remainder of fiscal 2012	2013	2014	2015	2016	Thereafter	Total
	(Dollars in millions)						
Core Segment	$ 300	$ 274	$ 250	$ 246	$ 219	$ 2,804	$ 4,093
Performance Segment	18	34	31	31	30	279	423
New Business Segment	1	1					2
Specialty Fluids Segment	1						1
Total	$ 320	$ 309	$ 281	$ 277	$ 249	$ 3,083	$ 4,519

Guarantee Agreements

Cabot has provided certain indemnities pursuant to which it may be required to make payments to an indemnified party in connection with certain transactions and agreements. In connection with certain acquisitions and divestitures, Cabot has provided routine indemnities with respect to such matters as environmental, tax, insurance, product and employee liabilities. In connection with various other agreements, including service and supply agreements, Cabot may provide routine indemnities for certain contingencies and routine warranties. Cabot is unable to estimate the maximum potential liability for these types of indemnities as a maximum obligation is not explicitly stated in most cases and the amounts, if any, are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be reasonably estimated. The duration of the indemnities vary, and in many cases are indefinite. Cabot has not recorded any liability for these indemnities in the consolidated financial statements, except as otherwise disclosed.

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CABOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

UNAUDITED

Contingencies

Cabot is a defendant, or potentially responsible party, in various lawsuits and environmental proceedings wherein substantial amounts are claimed or at issue.

Environmental Matters

As of both December 31, 2011 and September 30, 2011, Cabot had $6 million, on a discounted and undiscounted basis, reserved for environmental matters primarily related to divested businesses. These amounts represent Cabot s best estimates of its share of costs likely to be incurred at those sites where costs are reasonably estimable based on its analysis of the extent of clean up required, alternative clean up methods available, abilities of other responsible parties to contribute and its interpretation of laws and regulations applicable to each site. Cabot reviews the adequacy of this reserve as circumstances change at individual sites. Cash payments related to these environmental matters were less than $1 million in each of the first three months of fiscal 2012 and 2011.

In June 2009, Cabot received an information request from the United States Environmental Protection Agency (EPA) regarding Cabot s carbon black manufacturing facility in Pampa, Texas. The information request relates to the Pampa facility s compliance with certain regulatory and permitting requirements under the Clean Air Act, including the New Source Review (NSR) construction permitting requirements. EPA has indicated that this information request is part of an EPA national initiative focused on the U.S. carbon black manufacturing sector. Cabot responded to EPA s information request in August 2009 and is in discussions with EPA. Based upon the Company s discussions with EPA and how EPA has handled similar NSR initiatives with other industrial sectors, it is anticipated that EPA will seek to require Cabot to employ additional technology control devices or approaches with respect to emissions at certain U.S. facilities and seek a civil penalty from Cabot. The costs of such additional technology control devices would likely be capital in nature and would likely impact the Consolidated Statement of Operations over the depreciable lives of the associated assets.

Other Matters

Respirator Liabilities

Cabot has exposure in connection with a safety respiratory products business that a subsidiary acquired from American Optical Corporation (AO) in an April 1990 asset purchase transaction. The subsidiary manufactured respirators under the AO brand and disposed of that business in July 1995. In connection with its acquisition of the business, the subsidiary agreed, in certain circumstances, to assume a portion of AO s liabilities, including costs of legal fees together with amounts paid in settlements and judgments, allocable to AO respiratory products used prior to the 1990 purchase by the Cabot subsidiary. As more fully described in the 2011 10-K, the Company s respirator liabilities involve claims for personal injury, including asbestosis, silicosis and coal worker s pneumoconiosis, allegedly resulting from the use of respirators that are alleged to have been negligently designed or labeled.

As of both December 31, 2011 and September 30, 2011, there were approximately 42,000 claimants in pending cases asserting claims against AO in connection with respiratory products. Cabot has a reserve to cover its expected share of liability for existing and future respirator liability claims. The book value of the reserve is being accreted up to the undiscounted liability through interest expense over the expected cash flow period, which is through 2062. At December 31, 2011 and September 30, 2011, the reserve was $10 million and $11 million, respectively, on a discounted basis ($16 million on an undiscounted basis at both December 31, 2011 and September 30, 2011). Cash payments related to this liability were less than $1 million and $1 million in the first quarter of fiscal 2012 and 2011, respectively.

Other

The Company has various other lawsuits, claims and contingent liabilities arising in the ordinary course of its business and with respect to the Company s divested businesses. In the opinion of the Company, although final disposition of some or all of these other suits and claims may impact the Company s financial statements in a particular period, they should not, in the aggregate, have a material adverse effect on the Company s financial position.

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Note F. Income Tax Uncertainties

As of December 31, 2011, the total amount of unrecognized tax benefits was $65 million, of which $39 million was recorded in the Company s Consolidated Balance Sheet and $26 million, principally related to certain net operating loss carryforwards, was not recorded. In addition, accruals of $3 million and $14 million have been recorded for penalties and interest, respectively, as of December 31, 2011.

If the unrecognized tax benefits of $65 million were recognized at a given point in time, there would be approximately a $55 million favorable impact on the Company s tax provision.

Certain Cabot subsidiaries are under audit in jurisdictions outside of the U.S. In addition, certain statutes of limitations are scheduled to expire in the near future. It is reasonably possible that a further change in the unrecognized tax benefits may occur within the next twelve months related to the settlement of one or more of these audits or the lapse of applicable statutes of limitations; however, an estimated range of the impact on the unrecognized tax benefits cannot be quantified at this time.

Cabot files U.S. federal and state and non-U.S. income tax returns in jurisdictions with varying statutes of limitations. The 2007 through 2011 tax years generally remain subject to examination by the IRS and various tax years from 2004 through 2011 remain subject to examination by the respective state tax authorities. In significant non-U.S. jurisdictions, various tax years from 2001 through 2011 remain subject to examination by their respective tax authorities. Cabot s significant non-U.S. jurisdictions include Australia, Canada, China, France, Germany, Italy, Japan, Malaysia, the Netherlands, and the United Kingdom.

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Note G. Earnings Per Share

The following tables summarize the components of the basic and diluted earnings per common share computations:

	Three Months Ended December 31	
	2011	2010
	(In millions, except per share amounts)	
Basic EPS:		
Net income attributable to Cabot Corporation	$ 46	$ 75
Less: Dividends and dividend equivalents to participating securities		
Less: Undistributed earnings allocated to participating securities[(1)]		1
Earnings allocated to common shareholders (numerator)	$ 46	$ 74
Weighted average common shares and participating securities outstanding	64.1	