

CABOT CORP  
Form 10-Q  
February 05, 2015  
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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, 2014**

**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**  
**(State of Incorporation)**

**04-2271897**  
**(I.R.S. Employer**

**Identification No.)**

**Two Seaport Lane**

**Boston, Massachusetts**  
**(Address of principal executive offices)**

**02210-2019**  
**(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  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  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

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

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 3, 2015 the Company had 63,717,924 shares of Common Stock, par value \$1.00 per share, outstanding.**



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	<b>Three Months Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
	<b>(In millions, except share</b>	
	<b>and per share amounts)</b>	
Net sales and other operating revenues	\$ 812	\$ 898
Cost of sales	655	719
Gross profit	157	179
Selling and administrative expenses	78	77
Research and technical expenses	15	15
Income from operations	64	87
Interest and dividend income	1	1
Interest expense	(13)	(14)
Other (expense) income	(1)	35
Income from continuing operations before income taxes and equity in earnings of affiliated companies	51	109
Provision for income taxes	(3)	(24)
Equity in earnings of affiliated companies, net of tax	1	2
Income from continuing operations	49	87
Loss from discontinued operations, net of tax		(1)
Net income	49	86
Net income attributable to noncontrolling interests, net of tax	4	6
Net income attributable to Cabot Corporation	\$ 45	\$ 80
Weighted-average common shares outstanding, in millions:		
Basic	64.1	64.2
Diluted	64.6	64.8

Income per common share:			
Basic:			
Income from continuing operations attributable to Cabot Corporation	\$	0.70	\$ 1.25
Loss from discontinued operations			(0.01)
Net income attributable to Cabot Corporation	\$	0.70	\$ 1.24
Diluted:			
Income from continuing operations attributable to Cabot Corporation	\$	0.69	\$ 1.24
Loss from discontinued operations			(0.01)
Net income attributable to Cabot Corporation	\$	0.69	\$ 1.23
Dividends per common share	\$	0.22	\$ 0.20

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

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**CABOT CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**  
**UNAUDITED**

	<b>Three Months Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
	<b>(In millions)</b>	
Net income	\$ 49	\$ 86
Other comprehensive loss, net of tax		
Foreign currency translation adjustment (net of tax provision of \$1 and \$-)	(103)	(21)
Pension and other postretirement benefit liability adjustments		
Pension and other postretirement benefit liability adjustments arising during the period (net of tax benefit of \$6 and \$-)	21	
Other comprehensive loss	(82)	(21)
Comprehensive (loss) income	(33)	65
Net income attributable to noncontrolling interests	4	6
Noncontrolling interests foreign currency translation adjustment, net of tax	(2)	(1)
Comprehensive income attributable to noncontrolling interests, net of tax	2	5
Comprehensive (loss) income attributable to Cabot Corporation	\$ (35)	\$ 60

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

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**CABOT CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

**ASSETS**

**UNAUDITED**

	<b>December 31,</b>	<b>September 30,</b>
	<b>2014</b>	<b>2014</b>
	<b>(In millions)</b>	
<b>Current assets:</b>		
Cash and cash equivalents	\$ 88	\$ 67
Accounts and notes receivable, net of reserve for doubtful accounts of \$7 and \$7	643	688
<b>Inventories:</b>		
Raw materials	93	111
Work in process	1	2
Finished goods	337	341
Other	44	44
<b>Total inventories</b>	<b>475</b>	<b>498</b>
Prepaid expenses and other current assets	67	69
Deferred income taxes	42	42
<b>Total current assets</b>	<b>1,315</b>	<b>1,364</b>
<b>Property, plant and equipment, net</b>	<b>1,547</b>	<b>1,581</b>
Goodwill	524	536
Equity affiliates	66	68
Intangible assets, net	335	347
Assets held for rent	59	56
Deferred income taxes	79	80
Other assets	52	52
<b>Total assets</b>	<b>\$ 3,977</b>	<b>\$ 4,084</b>

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



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**CABOT CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**LIABILITIES AND STOCKHOLDERS EQUITY**  
**UNAUDITED**

	December 31, 2014	September 30, 2014
	(In millions, except share and per share amounts)	
Current liabilities:		
Notes payable	\$ 159	\$ 44
Accounts payable and accrued liabilities	437	512
Income taxes payable	48	49
Deferred income taxes	1	1
Current portion of long-term debt	1	24
<b>Total current liabilities</b>	<b>646</b>	<b>630</b>
Long-term debt	995	1,004
Deferred income taxes	67	68
Other liabilities	265	291
Redeemable preferred stock	28	27
Commitments and contingencies (Note I)		
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: 63,901,219 and 64,634,731 shares		
Outstanding: 63,648,854 and 64,382,366 shares	64	64
Less cost of 252,365 and 252,365 shares of common treasury stock	(7)	(7)
Additional paid-in capital	9	49
Retained earnings	1,930	1,900
Accumulated other comprehensive loss	(144)	(64)
<b>Total Cabot Corporation stockholders' equity</b>	<b>1,852</b>	<b>1,942</b>
Noncontrolling interests	124	122
<b>Total stockholders' equity</b>	<b>1,976</b>	<b>2,064</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 3,977</b>	<b>\$ 4,084</b>

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

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**CABOT CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**UNAUDITED**

	<b>Three Months Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
	<b>(In millions)</b>	
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 49	\$ 86
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	45	51
Impairment of assets		3
Deferred tax provision	(7)	3
Gain on existing investment in NHUMO		(29)
Employee benefit plan settlement	18	
Equity in earnings of affiliated companies	(1)	(2)
Non-cash compensation	4	4
Other, net		2
Changes in assets and liabilities:		
Accounts and notes receivable	23	(34)
Inventories	7	(39)
Prepaid expenses and other assets	(2)	(13)
Accounts payable and accrued liabilities	(73)	(62)
Income taxes payable	(2)	4
Other liabilities	(14)	(7)
Cash dividends received from equity affiliates	3	17
Other	6	(2)
<b>Cash provided by (used in) operating activities</b>	<b>56</b>	<b>(18)</b>
<b>Cash Flows from Investing Activities:</b>		
Additions to property, plant and equipment	(41)	(42)
Change in assets held for rent	(3)	(4)
Acquisition of business, net of cash acquired		(73)
<b>Cash used in investing activities</b>	<b>(44)</b>	<b>(119)</b>
<b>Cash Flows from Financing Activities:</b>		
Borrowings under financing arrangements		8
Repayments under financing arrangements	(3)	
Proceeds from issuance of commercial paper, net	117	149
Proceeds from long-term debt, net of issuance costs		11
Repayments of long-term debt	(32)	(1)

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Increase in notes payable, net	1	
Purchases of common stock	(47)	(6)
Proceeds from sales of common stock	2	7
Cash dividends paid to common stockholders	(14)	(13)
Cash provided by financing activities	24	155
Effect of exchange rate changes on cash	(15)	(8)
Increase in cash and cash equivalents	21	10
Cash and cash equivalents at beginning of period	67	95
Cash and cash equivalents at end of period	\$ 88	\$ 105

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

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**CABOT CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2014**

**UNAUDITED**

**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 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, 2014 ( 2014 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, 2014 and 2013. 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 November 2013, the Company purchased all of Grupo Kuo S.A.B. de C.V.'s ( KUO ) common stock in NHUMO, S.A. de C.V. ( NHUMO ), a carbon black joint venture between the Company and KUO in Mexico, which represented approximately 60% of the outstanding common stock of NHUMO (the NHUMO transaction ). Prior to this transaction, the Company owned approximately 40% of the outstanding common stock of NHUMO, and the NHUMO entity was accounted for as an equity affiliate of the Company. The financial position, results of operations and cash flows of NHUMO are included in the Company's consolidated financial statements from the date of acquisition.

In July 2014, the Company completed the sale of its Security Materials business. The Consolidated Statements of Operations and the notes to the consolidated financial statements for all periods presented exclude the Security Materials business.

In December 2014, the Company realigned its business reporting structure into four segments that consist of Reinforcement Materials, Performance Chemicals, Purification Solutions and Specialty Fluids. The new structure is aligned with senior management changes and it better leverages Cabot's global activities across common customer applications, production, and research and development activities. Prior period segment results have been recast to reflect the realignment.

**B. Significant Accounting Policies**

***Revenue Recognition and Accounts Receivable***

Cabot recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured. 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.

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The following table shows the relative size of the revenue recognized in each of the Company's reportable segments for the periods presented.

	<b>Three Months Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Reinforcement Materials	59%	62%
Performance Chemicals	29%	27%
Purification Solutions	10%	8%
Specialty Fluids	2%	3%

Cabot derives the substantial majority of its revenues from the sale of products in Reinforcement Materials and Performance Chemicals. 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 customer's cash discounts and volume rebates as sales incentives. Depending on the nature of the contract with the customer, a portion of the revenue may be recognized using proportional performance. 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 adjust its revenues accordingly.

Revenue in Purification Solutions is typically recognized when the product is shipped and title and risk of loss have passed to the customer. For major activated carbon injection systems projects, revenue is recognized using the percentage-of-completion method.

Revenue in Specialty Fluids 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. The Company also generates revenues from cesium formate sold 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 collectability of specific customer accounts, the aging of accounts receivable and other economic information on both a historical and prospective basis. Customer account balances are charged against the allowance when it is probable the receivable will not be recovered. There is no material off-balance sheet credit exposure related to customer receivable balances.

***Property, Plant and Equipment***

Property, plant and equipment are recorded at cost. Depreciation of property, plant and equipment is calculated using the straight-line method over the estimated useful lives. The depreciable lives for buildings, machinery and equipment, and other fixed assets are twenty to twenty-five years, ten to twenty-five years, and three to twenty-five years, respectively. The cost and accumulated depreciation for property, plant and equipment sold, retired, or otherwise disposed of are removed from the Consolidated Balance Sheets and resulting gains or losses are included in earnings in the Consolidated Statements of Operations. Expenditures for repairs and maintenance are charged to expenses as incurred. Expenditures for major renewals and betterments, which significantly extend the useful lives of existing plant and equipment, are capitalized and depreciated.

### ***Intangible Assets and Goodwill***

The Company records tangible and intangible assets acquired and liabilities assumed in business combinations under the acquisition method of accounting. Amounts paid for an acquisition are allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition. Goodwill is comprised of the purchase price of business acquisitions in excess of the fair value assigned to the net tangible and identifiable intangible assets acquired. Goodwill is not amortized, but is reviewed for impairment annually as of May 31, or when events or changes in the business environment indicate that the carrying value of the reporting unit may exceed its fair value. A reporting unit, for the purpose of the impairment test, is at or below the operating segment level, and constitutes a business for which discrete financial information is available and regularly reviewed by segment management. The separate businesses included within Performance Chemicals are considered separate reporting units. The goodwill balance relative to this segment is recorded in the Fumed Metal Oxides reporting unit within Performance Chemicals.



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For the purpose of the goodwill impairment test, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an initial qualitative assessment identifies that it is more likely than not that the carrying value of a reporting unit exceeds its estimated fair value, an additional quantitative evaluation is performed under the two-step impairment test. Alternatively, the Company may elect to proceed directly to the quantitative goodwill impairment test. If based on the quantitative evaluation the fair value of the reporting unit is less than its carrying amount, the Company performs an analysis of the fair value of all assets and liabilities of the reporting unit. If the implied fair value of the reporting unit's goodwill is determined to be less than its carrying amount, an impairment is recognized for the difference. The fair value of a reporting unit is based on discounted estimated future cash flows. The fair value is also benchmarked against a market approach using the guideline public companies method. The assumptions used to estimate fair value include management's best estimates of future growth rates, operating cash flows, capital expenditures and discount rates over an estimate of the remaining operating period at the reporting unit level. Should the fair value of any of the Company's reporting units decline because of reduced operating performance, market declines, changes in the discount rate, or other indicators of impairment, charges for impairment may be necessary. Based on the Company's most recent annual goodwill impairment test performed as of May 31, 2014, the fair values of the Reinforcement Materials and Fumed Metal Oxides reporting units were substantially in excess of their carrying values. At that date, the fair value of the Purification Solutions reporting unit exceeded its carrying value by approximately 9%. At December 31, 2014, the Purification Solutions reporting unit had the most significant goodwill balance, in the amount of \$452 million. The future growth in the Purification Solutions business is highly dependent on achieving the expected volumes and margins in the activated carbon based mercury removal business. These volumes and margins are highly dependent on demand for mercury removal products and the Company's successful realization of its anticipated share of volumes in this segment over the next 3 years. The expected demand for mercury removal products significantly depends on: (1) the implementation and enforcement of environmental laws and regulations, particularly those that would require U.S. based coal-fired electric utilities to reduce the quantity of air pollutants they release, including mercury, to comply with the Mercury and Air Toxics Standards (MATS) that become effective beginning in April 2015 and (2) other factors such as the anticipated usage of activated carbon in the coal-fired energy units. Recently, the U.S. Supreme Court agreed to consider whether the Environmental Protection Agency (EPA) appropriately considered costs in determining whether it is necessary and appropriate to regulate hazardous air pollutants emitted by electric utilities. It is not possible to predict the outcome of the Supreme Court's review of this matter. A meaningful change in the implementation of or requirements under MATS that negatively impacts the Company's growth assumptions and projected operating cash flows for the Purification Solutions business could result in asset impairment charges.

The Company uses assumptions and estimates in determining the fair value of assets acquired and liabilities assumed in a business combination. The determination of the fair value of intangible assets requires the use of significant judgment with regard to assumptions used in the valuation model. The Company estimates the fair value of identifiable acquisition-related intangible assets principally based on projections of cash flows that will arise from these assets. The projected cash flows are discounted to determine the fair value of the assets at the dates of acquisition.

Definite-lived intangible assets, which are comprised of customer relationships and developed technologies, are amortized over their estimated useful lives and are reviewed for impairment when indication of potential impairment exists, such as a significant reduction in cash flows associated with the assets. The Company evaluates indefinite-lived intangible assets, which are comprised of the trademarks of Purification Solutions, for impairment annually or when events occur or circumstances change that may reduce the fair value of the asset below its carrying amount. The annual review is performed as of May 31. The Company may first perform a qualitative assessment to determine whether it is necessary to perform the quantitative impairment test or bypass the qualitative assessment and proceed directly to performing the quantitative impairment test. The quantitative impairment test is based on discounted estimated future cash flows. The assumptions used to estimate fair value include management's best estimates of future growth rates and discount rates over an estimate of the remaining operating period at the unit of accounting level. These future growth rates depend on achieving the expected volumes and pricing levels of the products of Purification Solutions.

***Long-lived Assets***

The Company's long-lived assets primarily include property, plant and equipment, long-term investments and assets held for rent. The carrying values of long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be recoverable. An asset impairment is recognized when the carrying value of the asset is not recoverable based on the probability-weighted undiscounted estimated future cash flows to be generated by the asset. The Company's estimates reflect management's assumptions about selling prices, production and sales volumes, costs and market conditions over an estimate of the remaining operating period. If an impairment is indicated, the asset is written down to fair value. If the asset does not have a readily determinable market value, a discounted cash flow model may be used to determine the fair value of

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the asset. The key inputs to the discounted cash flow would be the same as the undiscounted cash flow noted above, with the addition of the discount rate used. In circumstances when an asset does not have separate identifiable cash flows, an impairment charge is recorded when the Company no longer intends to use the asset.

To test for impairment of assets the Company generally uses a probability-weighted estimate of the future undiscounted net cash flows of the assets over their remaining lives to determine if the value of the asset is recoverable. Long-lived assets are grouped with other assets and liabilities at the lowest level for which independent identifiable cash flows are determinable.

***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.

Valuation allowances are provided against the future tax benefits that arise from the deferred tax assets 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.

***Inventory Valuation***

Inventories are stated at the lower of cost or market. The cost of all carbon black inventories in the U.S. is determined using 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 \$46 million and \$52 million higher as of December 31, 2014 and September 30, 2014, respectively. The cost of Specialty Fluids inventories is determined using the average cost method. The cost of other U.S. and non-U.S. inventories is determined using 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.

***Pensions and Other Postretirement Benefits***

The Company recognizes the funded status of defined benefit pension and other postretirement benefit plans as an asset or liability. This amount is defined as the difference between the fair value of plan assets and the benefit obligation. The Company is required to recognize as a component of other comprehensive income, net of tax, the actuarial gains/losses and prior service costs/credits that arise but were not previously required to be recognized as components of net periodic benefit cost. Other comprehensive income is adjusted as these amounts are later recognized in income as components of net periodic benefit cost.

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***Accumulated Other Comprehensive Loss***

Accumulated other comprehensive (loss) income ( AOCI ), which is included as a component of stockholders' equity, includes unrealized gains or losses on available-for-sale marketable securities, currency translation adjustments in foreign subsidiaries, translation adjustments on foreign equity securities and pension liability adjustments.

***Recent Accounting Pronouncements***

In July 2013, the Financial Accounting Standards Board (FASB) issued a new standard related to the Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists . The standard requires, unless certain conditions exist, an unrecognized tax benefit or a portion of an unrecognized tax benefit to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, similar to a tax loss or a tax credit carryforward. This standard is applicable for fiscal years beginning after December 15, 2013, and for interim periods within those years. The Company adopted this standard on October 1, 2014 and the implementation of the new standard did not have a material impact on its consolidated financial statements.

In April 2014, the FASB issued a new standard related to Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity . The standard requires discontinued operations treatment for disposals of a component or group of components of a business that represents a strategic shift that has or will have a major impact on an entity's operations or financial results and requires additional disclosures for discontinued operations and new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. This standard is applicable for fiscal years beginning after December 15, 2014 and for interim periods within those years with early adoption permitted, but only for disposals that have not been reported in financial statements previously issued. The Company expects to adopt this standard beginning on October 1, 2015.

In May 2014, the FASB issued a new standard related to the Revenue from Contracts with Customers which amends the existing accounting standards for revenue recognition. The standard requires entities to recognize revenue when they transfer promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. This standard is applicable for fiscal years beginning after December 15, 2016 and for interim periods within those years and early adoption is not permitted. The Company expects to adopt this standard on October 1, 2017. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

**C. Acquisition of NHUMO**

In November 2013, the Company purchased all of KUO's common stock in the NHUMO joint venture, which represented approximately 60% of the outstanding common stock of the joint venture. Prior to this transaction, the

Company owned approximately 40% of the outstanding common stock of NHUMO, and the NHUMO entity was accounted for as an equity affiliate of the Company.

At the close of the transaction, the Company paid KUO \$80 million in cash and NHUMO issued redeemable preferred stock to KUO with a redemption value of \$25 million. The preferred stock accumulates dividends at a fixed rate of 6% annually and is redeemable at the option of KUO or the Company for \$25 million starting in November 2018 or upon the occurrence of certain other conditions. Annual payment by NHUMO of the dividends will be contingent on NHUMO achieving a minimum EBITDA (earnings before interest, taxes, depreciation and amortization) level and if such minimum EBITDA is not achieved in any year, the dividend will be accumulated and paid at the time the preferred shares are redeemed. The minimum EBITDA was achieved in 2014 and a dividend payment of \$1.5 million was made in December 2014. The preferred stock issued in connection with the transaction is not mandatorily redeemable and has embedded put and call rights at the fixed redemption price. Accordingly, the instrument is accounted for as a financing obligation and has been separately presented in the Consolidated Balance Sheets as a long-term liability. Upon acquisition, the Company began consolidating NHUMO into its consolidated financial statements. Prior to closing, the Company received a \$14 million dividend from NHUMO.

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**CABOT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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As of September 2014, the Company completed the valuation of its assets acquired and liabilities assumed. The allocation of the purchase price is based on the fair value of assets acquired and liabilities assumed, and Cabot's previously held equity interest in NHUMO as of the acquisition date. During fiscal 2014, the Company recorded certain measurement period adjustments which are presented in the table below. The measurement period adjustments and the related tax impact were immaterial to the Company's consolidated financial statements. The following table presents the components and allocation of the purchase price, including the measurement period adjustments:

	At Acquisition Date (October 31, 2013)	Measurement Period Adjustments (Dollars in millions)	At Acquisition Date (As adjusted at September 30, 2014)
<b>Assets</b>			
Current assets	\$ 54	\$	\$ 54
Property, plant and equipment	48		48
Other non-current assets	1		1
Intangible assets	57	6	63
Goodwill	51	(6)	45
<b>Total assets acquired</b>	<b>211</b>		<b>211</b>
<b>Liabilities</b>			
Accounts payable, accruals and other liabilities	(18)	(2)	(20)
Deferred tax liabilities - long-term	(31)	2	(29)
<b>Total liabilities assumed</b>	<b>(49)</b>		<b>(49)</b>
<b>Net assets acquired</b>	<b>\$ 162</b>	<b>\$</b>	<b>\$ 162</b>
Cash consideration paid	\$ 80		
Fair value of redeemable preferred stock	28		
Previously held equity interest in NHUMO	54		
<b>Total</b>	<b>\$ 162</b>		

As a result of the acquisition, the Company recorded a gain of \$29 million for the difference between the carrying value and the fair value of the previously held equity interest in NHUMO, which was included in Other (expense) income in the first quarter of fiscal 2014. The fair value of \$54 million for the previously held equity interest was

determined based on the fair value of Cabot's pre-existing interest in NHUMO as adjusted for a control premium derived from synergies gained as a result of the Company obtaining control of NHUMO.

As part of the purchase price allocation, the Company determined that a separately identifiable intangible asset was customer relationships in the amount of \$63 million, which is being amortized over a period of 20 years. The Company estimated the fair value of the identifiable acquisition-related intangible asset based on projections of cash flows that will arise from the asset. The projected cash flows are discounted to determine the fair value of the asset at the date of acquisition. The determination of the fair value of the intangible asset acquired required the use of significant judgment with regard to assumptions in the discounted cash flow model used.

The fair value of the redeemable preferred stock was determined based on a discounted cash flow model, using the expected timing of the cash flows and an appropriate discount rate.

The excess of the purchase price, which includes the cash consideration paid, the fair value of redeemable preferred stock and the previously held equity interest in NHUMO, over the fair value of the tangible net assets and intangible asset acquired, was recorded as goodwill. The goodwill recognized is attributable to the expected growth and operating synergies that the Company expects to realize from this acquisition. Goodwill generated from the acquisition is not deductible for tax purposes.



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**D. Discontinued Operations**

In July 2014, the Company sold its Security Materials business to SICPA SA. The Consolidated Statements of Operations for all periods presented have been recast to reflect the Security Materials business in discontinued operations.

**E. Employee Benefit Plans**

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

	Three Months Ended December 31								
	2014		2013		2014		2013		
	Pension Benefits		Pension Benefits		Postretirement Benefits		Postretirement Benefits		
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	
(Dollars in millions)									
Service cost	\$	\$	2	\$	1	\$	\$	\$	\$
Interest cost		2	3	2	4			1	
Expected return on plan assets		(3)	(4)	(3)	(5)				
Amortization of prior service credit						(1)		(1)	
Amortization of actuarial loss			1		1				
Settlement costs			18						
Net periodic benefit cost (credit)	\$ (1)	\$	20	\$	\$	2	\$ (1)	\$	\$

***Settlement of employee benefit plan***

Effective October 1, 2014, the Company transferred the defined benefit obligations and pension plan assets in one of its foreign defined benefit plans to a multi-employer plan. This decision effectively moves the administrative, asset custodial, asset investment, actuarial, communication and benefit payment obligations to the multi-employer fund administrator. Cabot is required to make contributions to the multi-employer plan which is over 80% funded. Contributed assets by one participating employer may be used to provide benefits to employees of other participating employers since assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer. As a result of the transfer, a pre-tax charge of \$18 million has been recorded in the period ended December 31, 2014 as reflected in Settlement costs in the table above. The pre-tax charge consists of \$27 million released from AOCI and \$2 million of employer contributions at the time of the settlement, partially offset by an \$11 million release of the pension liability. The settlement charge has been recorded

primarily in Cost of sales in the Consolidated Statements of Income.

#### F. Goodwill and Other Intangible Assets

Cabot had goodwill balances of \$524 million and \$536 million at December 31, 2014 and September 30, 2014, respectively. The carrying amount of goodwill attributable to each reportable segment with goodwill balances and the changes in those balances during the period ended December 31, 2014 are as follows:

	<b>Reinforcement Materials</b>	<b>Performance Chemicals</b>	<b>Purification Solutions</b>	<b>Total</b>
	<b>(Dollars in millions)</b>			
Balance at September 30, 2014	\$ 68	\$ 10	\$ 458	\$ 536
Foreign currency impact	(6)		(6)	(12)
Balance at December 31, 2014	\$ 62	\$ 10	\$ 452	\$ 524

Goodwill impairment tests are performed at least annually. The Company performed its last annual impairment assessment as of May 31, 2014 and determined there was no impairment.

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The following table provides information regarding the Company's intangible assets:

	December 31, 2014			September 30, 2014		
	Gross Carrying Value	Accumulated Amortization	Net Intangible Assets	Gross Carrying Value	Accumulated Amortization	Net Intangible Assets
	(Dollars in millions)					
Intangible assets with finite lives						
Developed technology	\$ 150	\$ (18)	\$ 132	\$ 152	\$ (16)	\$ 136
Customer relationships	164	(18)	146	171	(17)	154
Total intangible assets, finite lives	\$ 314	\$ (36)	\$ 278	\$ 323	\$ (33)	\$ 290
Trademarks, indefinite lives	57		57	57		57
Total intangible assets	\$ 371	\$ (36)	\$ 335	\$ 380	\$ (33)	\$ 347

Intangible assets with finite lives are amortized over their estimated useful lives, which range from sixteen to twenty years, with a weighted average amortization period of approximately nineteen years. Amortization expense for each of the three month periods ended December 31, 2014 and 2013 was \$4 million and is included in Cost of sales and Selling and administrative expenses in the Consolidated Statements of Operations. Total amortization expense is estimated to be approximately \$17 million each year for the next five fiscal years. Intangible assets with indefinite lives are evaluated for impairment at least annually. The Company performed its annual impairment assessment as of May 31, 2014, and determined there was no impairment.

### G. Stockholders' Equity

In fiscal 2007, the Board of Directors authorized Cabot to repurchase up to ten million shares of Cabot's common stock in the open market or in privately negotiated transactions. This authorization did not have a set expiration date. During the first quarter of fiscal 2015, Cabot repurchased 925,700 shares of its common stock under this authorization. As of December 31, 2014, less than 1 million shares remained available for repurchase under that authorization.

In January 2015, the Board of Directors authorized Cabot to repurchase up to five million shares of the Company's common stock in the open market or in privately negotiated transactions and cancelled the previous authorization.

During the first quarter of fiscal 2015, Cabot paid cash dividends of \$0.22 per share of common stock for a total of \$14 million. During the first quarter of fiscal 2014, Cabot paid cash dividends of \$0.20 per share of common stock for a total of \$13 million.

*Noncontrolling interests*

The following table illustrates the noncontrolling interests activity for the periods presented:

	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Balance at September 30	\$ 122	\$ 132
Net income attributable to noncontrolling interests	4	6
Noncontrolling interest foreign currency translation adjustment	(2)	(1)
Noncontrolling interest dividends		(6)
Balance at December 31	\$ 124	\$ 131

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**H. Accumulated Other Comprehensive Loss**

Comprehensive income combines net income and other comprehensive income items, which are reported as components of stockholders' equity in the accompanying Consolidated Balance Sheets.

Changes in each component of AOCI, net of tax, are as follows:

	<b>Currency Translation Adjustment</b>	<b>Unrealized Gains on Investments</b>	<b>Pension and Other Postretirement Benefit Liability Adjustment</b>	<b>Total</b>
	<b>(Dollars in millions)</b>			
Balance at September 30, 2014, attributable to Cabot Corporation	\$ 27	\$ 2	\$ (93)	\$ (64)
Other comprehensive loss before reclassifications	(103)			(103)
Amounts reclassified from accumulated other comprehensive income			21	21
Net other comprehensive items	(103)		21	(82)
Less: Noncontrolling interest	(2)			(2)
Balance at December 31, 2014, attributable to Cabot Corporation	\$ (74)	\$ 2	\$ (72)	\$ (144)

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Accumulated other comprehensive items in the accompanying Consolidated Balance Sheets consist of the following items net of tax:

	<b>December 31, 2014</b>	<b>September 30, 2014</b>
Foreign currency translation adjustments at beginning of period	\$ 27	\$ 154
Net foreign currency translation adjustments attributable to Cabot Corporation during the period	(101)	(127)
Balance at end of period	(74)	27
Unrealized gain on investments at beginning of period	2	2
Net unrealized gains during the period		
Balance at end of period	2	2
Pension and other postretirement benefit plans attributable to Cabot Corporation at beginning of period	(93)	(53)
Net change in pension and other postretirement benefit plans during the period	21	(40)
Balance at end of period	(72)	(93)
Total accumulated other comprehensive loss	\$ (144)	\$ (64)

The amounts reclassified out of AOCI and into the Statement of Operations for the three months ended December 31, 2014 and 2013 are as follows:

**Three Months Ended December 31**  
**Affected Line Item in the Consolidated 2014 2013**

**Statements of Operations****(Dollars in  
millions)**

Pension and other postretirement benefit liability adjustment		
Amortization of actuarial losses	Net Periodic Benefit Cost - see Note E for details	\$ 1 \$ 1
Amortization of prior service cost	Net Periodic Benefit Cost - see Note E for details	(1) (1)
Settlement costs	Net Periodic Benefit Cost - see Note E for details	27
Total before tax		27
Tax impact	Benefit for income taxes	(6)
Total after tax		\$ 21 \$

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**I. Commitments and Contingencies***Purchase Commitments*

Cabot has entered into long-term purchase agreements primarily for the purchase of raw materials. 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, 2014.

	Payments Due by Fiscal Year						Total
	Remainder of Fiscal						
	2015	2016	2017	2018	2019	Thereafter	
	(Dollars in millions)						
Reinforcement Materials	\$ 224	\$ 214	\$ 193	\$ 186	\$ 179	\$ 2,096	\$ 3,092
Performance Chemicals	47	52	34	30	29	210	402
Purification Solutions	14	11	8	8	7	9	57
Total	\$ 285	\$ 277	\$ 235	\$ 224	\$ 215	\$ 2,315	\$ 3,551

*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 with customers, Cabot has provided 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.

*Contingencies*



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

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***Environmental Matters***

As of December 31, 2014 and September 30, 2014, Cabot had \$17 million reserved for environmental matters, substantially all of which is accounted for on an undiscounted basis. These environmental matters mainly relate to closed sites. These reserves represent Cabot's best estimates of the probable costs to be incurred at those sites where costs are reasonably estimable based on the Company's 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. Cash payments related to these environmental matters were less than \$1 million in the first three months of both fiscal 2015 and 2014. Cabot reviews the adequacy of the reserves as circumstances change at individual sites and adjusts the reserves as appropriate. Almost all of Cabot's environmental issues relate to sites that are mature and have been investigated and studied and, in many cases, are subject to agreed upon remediation plans. However, depending on the results of future testing, changes in risk assessment practices, remediation techniques and regulatory requirements, newly discovered conditions, and other factors, it is reasonably possible that the Company could incur additional costs in excess of environmental reserves currently recorded. Management estimates, based on the latest available information, that any such future environmental remediation costs that are reasonably possible to be in excess of amounts already recorded would be immaterial to the Company's consolidated financial statements.

***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 Cabot 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. In exchange for the subsidiary's assumption of certain of AO's respirator liabilities, AO agreed to provide to the subsidiary the benefits of: (i) AO's insurance coverage for the period prior to the 1990 acquisition and (ii) a former owner's indemnity of AO holding it harmless from any liability allocable to AO respiratory products used prior to May 1982. As more fully described in the 2014 10-K, the respirator liabilities generally 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 and/or labeled.

As of both December 31, 2014 and September 30, 2014, there were approximately 41,000 claimants, respectively, 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. At December 31, 2014 and September 30, 2014, the reserve was \$12 million and \$13 million, respectively. Cash payments related to this liability were \$1 million and \$2 million in the first three months of fiscal 2015 and 2014, respectively.

***Other***

The Company is subject to 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 consolidated 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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**J. Income Tax Uncertainties**

Cabot files U.S. federal and state and non-U.S. income tax returns in jurisdictions with varying statutes of limitations. The 2011 through 2014 tax years remain subject to examination by the United States Internal Revenue Service ( IRS ) and various tax years from 2005 through 2014 remain subject to examination by the respective state tax authorities. In significant non-U.S. jurisdictions, various tax years from 2004 through 2014 remain subject to examination by their respective tax authorities. Cabot's significant non-U.S. jurisdictions include China, France, Germany, Italy, Japan, and the Netherlands.

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 change in the unrecognized tax benefits may also occur within the next twelve months related to the settlement of one or more of these audits, however, an estimated range of the impact on the unrecognized tax benefits cannot be quantified at this time.

During the three months ended December 31, 2014, Cabot released uncertain tax positions of \$11 million due to the expirations of statutes of limitations in various jurisdictions. As of October 1, 2014, Cabot adopted a new accounting standard which requires, unless certain conditions exist, an unrecognized tax benefit or a portion of an unrecognized tax benefit be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, similar to a tax loss or a tax credit carryforward. This resulted in a reduction of the liability for uncertain tax positions and deferred tax assets of \$5 million.

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**K. Earnings Per Share**

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

	<b>Three Months Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars and shares in millions, except per share amounts)</b>	
<b>Basic EPS:</b>		
Net income attributable to Cabot Corporation	\$ 45	\$ 80
Less: Dividends and dividend equivalents to participating securities		
Less: Undistributed earnings allocated to participating securities <sup>(1)</sup>		1
Earnings allocated to common shareholders (numerator)	\$ 45	\$ 79
Weighted average common shares and participating securities outstanding	64.6	64.8
Less: Participating securities <sup>(1)</sup>	0.5	0.6
Adjusted weighted average common shares (denominator)	64.1	64.2
<b>Amounts per share - basic:</b>		
Income from continuing operations attributable to Cabot Corporation	\$ 0.70	\$ 1.25
Loss from discontinued operations		(0.01)
Net income attributable to Cabot Corporation	\$ 0.70	\$ 1.24
<b>Diluted EPS:</b>		
Earnings allocated to common shareholders	\$ 45	\$ 79
Plus: Earnings allocated to participating securities		1
Less: Adjusted earnings allocated to participating securities <sup>(2)</sup>		(1)
Earnings allocated to common shareholders (numerator)	\$ 45	\$ 79

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Adjusted weighted average common shares outstanding	64.1	64.2
Effect of dilutive securities:		
Common shares issuable <sup>(3)</sup>	0.5	0.6
Adjusted weighted average common shares (denominator)	64.6	64.8
Amounts per share - diluted:		
Income from continuing operations attributable to Cabot Corporation	\$ 0.69	\$ 1.24
Loss from discontinued operations		(0.01)
Net income attributable to Cabot Corporation	\$ 0.69	\$ 1.23

- (1) Participating securities consist of shares of unvested restricted stock and unvested time-based restricted stock units.

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Undistributed earnings are the earnings which remain after dividends declared during the period are assumed to be distributed to the common and participating shareholders. Undistributed earnings are allocated to common and participating shareholders on the same basis as dividend distributions. The calculation of undistributed earnings is as follows:

	<b>Three Months Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
<b>Calculation of undistributed earnings:</b>		
Net income attributable to Cabot Corporation	\$ 45	\$ 80
Less: Dividends declared on common stock	14	13
Less: Dividends declared on participating securities		
<b>Undistributed earnings</b>	<b>\$ 31</b>	<b>\$ 67</b>
<b>Allocation of undistributed earnings:</b>		
Undistributed earnings allocated to common shareholders	\$ 31	\$ 66
Undistributed earnings allocated to participating shareholders		1
<b>Undistributed earnings</b>	<b>\$ 31</b>	<b>\$ 67</b>

- (2) Undistributed earnings are adjusted for the assumed distribution of dividends to the dilutive securities, which are described in (3) below, and then reallocated to participating securities.
- (3) Represents incremental shares of common stock from the (i) assumed exercise of stock options issued under Cabot's equity incentive plans; (ii) assumed issuance of shares to employees pursuant to the Company's Deferred Compensation and Supplemental Retirement Plan; and (iii) assumed issuance of shares under outstanding performance-based restricted stock unit awards issued under Cabot's equity incentive plans. For the three months ended December 31, 2014 and 2013, 325,550 and 119,164 incremental shares of common stock, respectively, were not included in the calculation of diluted earnings per share because the inclusion of these shares would have been antidilutive.





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**L. Restructuring**

Cabot's restructuring activities were recorded in the Consolidated Statements of Operations as follows:

	<b>Three Months Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Cost of sales	\$ 2	\$ 5
Selling and administrative expenses	5	
<b>Total</b>	<b>\$ 7</b>	<b>\$ 5</b>

Details of these restructuring activities and the related reserves during the three months ended December 31, 2014 are as follows:

	<b>Severance and Employee Benefits</b>	<b>Environmental Remediation</b>	<b>Asset Impairment and Accelerated Depreciation</b>	<b>Other</b>	<b>Total</b>
	<b>(Dollars in millions)</b>				
Reserve at September 30, 2014	\$ 16	\$ 2	\$	\$ 1	\$ 19
Charges	3		1	3	7
Costs charged against assets/liabilities			(1)		(1)
Cash paid	(4)			(3)	(7)
Foreign currency translation adjustment	(1)				(1)
Reserve at December 31, 2014	\$ 14	\$ 2	\$	\$ 1	\$ 17

**Business Service Center Transition**

In January 2014, the Company announced its intention to open a new Europe, Middle East and Africa ( EMEA ) business service center in Riga, Latvia, and to close its Leuven, Belgium site, subject to the Belgian information and

consultation process, which was successfully completed in June 2014. These actions were developed following an extensive evaluation of the Company's business service capabilities in the EMEA region and a determination that the future EMEA business service center will enable the Company to provide the highest quality of service at the most competitive cost.

The Company has recorded \$4 million of charges during the first three months of fiscal 2015 related to this plan, comprised of employee severance costs of \$1 million and other transition costs including training costs and redundant salaries of \$3 million. Through December 31, 2014, the Company has recorded \$22 million for this plan comprised of \$16 million severance charges and \$6 million of other costs. The Company expects that the majority of actions related to the transition of the business service center will be completed by the end of fiscal 2015 and result in total cash charges of approximately \$25 million, comprised of \$17 million of severance charges and \$8 million of other transition costs. Through December 31, 2014, the Company has made \$9 million in cash payments related to this plan, comprised of \$6 million of transition costs and \$3 million of severance costs, and expects to make additional cash payments of approximately \$15 million during the remainder of fiscal 2015 and thereafter, comprised of \$12 million of severance costs and \$3 million of other transition costs.

As of December 31, 2014, Cabot has \$12 million of accrued restructuring costs in the Consolidated Balance Sheet related to this closure comprised of accrued severance charges.

#### ***Closure of Port Dickson, Malaysia Manufacturing Facility***

On April 26, 2013, the Company announced that the Board of its carbon black joint venture, Cabot Malaysia Sdn. Bhd. ( CMSB ), decided to cease production at its Port Dickson, Malaysia facility. The facility ceased production in June 2013. The Company holds a 50.1 percent equity share in CMSB. The decision, which affected approximately 90 carbon black employees, was driven by the facility's manufacturing inefficiencies and raw materials costs.

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Through December 31, 2014 the Company recorded pre-tax restructuring charges related to this plan of \$20 million comprised mainly of accelerated depreciation and asset write-offs of \$15 million, severance charges of \$2 million, site demolition, clearing and environmental remediation charges of \$2 million, and other closure related charges of \$1 million. CMSB's net income or loss is attributable to Cabot Corporation and to the noncontrolling interest in the joint venture. The Company has recorded less than \$1 million of charges related to this plan in the first quarter of fiscal 2015 and 2014, respectively. The portion of the charges that are allocable to the noncontrolling interest in CMSB (49.9%) are recorded within Net income attributable to noncontrolling interests, net of tax, in the Consolidated Statements of Operations. The majority of actions related to closure of the plant were completed in fiscal 2014.

Cumulative net cash outlays related to this plan are expected to be approximately \$8 million comprised primarily of \$5 million for site demolition, clearing and environmental remediation, \$2 million for severance, and \$1 million for other closure related charges. Through December 31, 2014, CMSB has made approximately \$4 million in cash payments related to this plan mainly for severance and site demolition and clearing costs.

CMSB expects to make net cash payments of \$4 million during the remainder of fiscal 2015 and thereafter mainly for site demolition, clearing and environmental remediation costs. These amounts exclude any proceeds that may be received from the sale of land or other manufacturing assets.

As of December 31, 2014, Cabot has less than \$1 million of accrued restructuring costs in the Consolidated Balance Sheets related to this closure, which is mainly for accrued environmental and other charges.

***Other Activities***

The Company has recorded pre-tax charges of approximately \$1 million and \$4 million during the first three months of fiscal 2015 and 2014, respectively, related to restructuring activities at several other locations. Fiscal 2015 charges are comprised of severance costs whereas fiscal 2014 charges are comprised of accelerated depreciation and asset write-offs. The Company anticipates that it will record additional charges of \$1 million in the remainder of fiscal 2015 related to these actions.

The Company made payments of \$1 million related to these actions in the first quarter of fiscal 2015 and expects to pay \$3 million in the remainder of fiscal 2015 mainly for severance and other closure related costs at the impacted locations.

As of December 31, 2014, Cabot has \$2 million of accrued severance and other closure related costs in the Consolidated Balance Sheets related to these activities.

***Previous Actions and Sites Pending Sale***

Beginning in fiscal 2009, the Company entered into several different restructuring plans which have been substantially completed, pending the sale of former manufacturing sites in Thane, India, Stanlow, U.K. and Hong Kong. The Company has incurred total cumulative pre-tax charges of approximately \$164 million related to these plans through December 31, 2014, comprised of \$67 million for severance charges, \$66 million for accelerated depreciation and asset impairments, \$10 million for environmental, demolition and site clearing costs, and \$22 million of other closure related charges, partially offset by gains on asset sales of \$1 million. These amounts do not include any gain that may be recorded if the Company successfully sells its land rights and certain manufacturing related assets in India and Hong Kong or its land in the U.K.

Pre-tax restructuring expenses related to these plans were approximately \$2 million and less than \$1 million during the first quarter of fiscal 2015 and 2014, respectively. Since fiscal 2009, Cabot has made net cash payments of \$86 million related to these plans and expects to pay approximately \$3 million in the remainder of fiscal 2015 and thereafter. The remaining payments consist mainly of environmental and other closure related costs.

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As of December 31, 2014, Cabot has \$3 million of accrued environmental, severance and other closure related costs in the Consolidated Balance Sheets related to these activities.

**M. Financial Instruments and Fair Value Measurements**

The FASB authoritative guidance on fair value measurements defines fair value, provides a framework for measuring fair value in generally accepted accounting principles, and requires certain disclosures about fair value measurements. The disclosures focus on the inputs used to measure fair value. The guidance establishes the following hierarchy for categorizing these inputs:

- Level 1 Quoted market prices in active markets for identical assets or liabilities
- Level 2 Significant other observable inputs (e.g., quoted prices for similar items in active markets, quoted prices for identical or similar items in markets that are not active, inputs other than quoted prices that are observable such as interest rate and yield curves, and market-corroborated inputs)
- Level 3 Significant unobservable inputs

There were no transfers of financial assets or liabilities measured at fair value between Level 1 and Level 2, or transfers into or out of Level 3, during the first three months of both fiscal 2015 and 2014.

At both December 31, 2014 and September 30, 2014, the fair value of Guaranteed investment contracts, included in Other assets in the Consolidated Balance Sheets, was \$13 million. Guaranteed investment contracts were classified as Level 2 instruments within the fair value hierarchy as the fair value determination was based on the other observable inputs.

At December 31, 2014 and September 30, 2014, the fair values of cash and cash equivalents, accounts and notes receivable, accounts payable and accrued liabilities, and notes payable and variable rate debt approximated their carrying values due to the short-term nature of these instruments. The carrying value and fair value of the long-term fixed rate debt was \$0.98 billion and \$1.04 billion, respectively, as of December 31, 2014. The carrying value and fair value of the long-term fixed rate debt were \$0.98 billion and \$1.05 billion, respectively, as of September 30, 2014. The fair values of Cabot's fixed rate long-term debt and capital lease obligations are estimated based on comparable quoted market prices at the respective period ends. The carrying amounts of Cabot's floating rate long-term debt and capital lease obligations approximate their fair values. All such measurements are based on observable inputs and are classified as Level 2 within the fair value hierarchy. The valuation technique used is the discounted cash flow model.



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**N. Derivatives***Interest Rate Risk Management*

Cabot's objective is to maintain a certain fixed-to-variable interest rate mix on the Company's debt obligations. Cabot may enter into interest rate swaps as a hedge of the underlying debt instruments to effectively change the characteristics of the interest rate without changing the debt instrument. As of both December 31, 2014 and September 30, 2014, there were no derivatives held to manage interest risk.

*Foreign Currency Risk Management*

Cabot's international operations are subject to certain risks, including currency exchange rate fluctuations and government actions. Cabot endeavors to match the currency in which debt is issued to the currency of the Company's major, stable cash receipts. In some situations Cabot has issued debt denominated in U.S. dollars and then entered into cross currency swaps that exchange the dollar principal and interest payments into a currency where the Company expects long-term, stable cash receipts.

Additionally, the Company has foreign currency exposure arising from its net investments in foreign operations. Cabot, from time to time, enters into cross-currency swaps to mitigate the impact of currency rate changes on the Company's net investments.

The Company also has foreign currency exposure arising from the denomination of monetary assets and liabilities in foreign currencies other than the functional currency of a given subsidiary as well as the risk that currency fluctuations could affect the dollar value of future cash flows generated in foreign currencies. Accordingly, Cabot uses short-term forward contracts to minimize the exposure to foreign currency risk. In certain situations where the Company has forecasted purchases under a long-term commitment or forecasted sales denominated in a foreign currency, Cabot may enter into appropriate financial instruments in accordance with the Company's risk management policy to hedge future cash flow exposures.

The following table provides details of the derivatives held as of December 31, 2014 and September 30, 2014 to manage foreign currency risk.

Description	Borrowing	Notional Amount, net		Hedge Designation
		December 31, 2014	September 30, 2014	
Forward Foreign Currency Contracts <sup>(1)</sup>	N/A	USD 2 million	USD 32 million	No designation

- (1) Cabot's forward foreign exchange contracts are denominated primarily in the Brazilian real, British pound sterling, Czech koruna, Indonesian rupiah, and Malaysian ringgit.

***Accounting for Derivative Instruments and Hedging Activities***

The Company determines the fair value of financial instruments using quoted market prices whenever available. When quoted market prices are not available for various types of financial instruments (such as forwards, options and swaps), the Company uses standard models with market-based inputs, which take into account the present value of estimated future cash flows and the ability of the financial counterparty to perform. For interest rate and cross-currency swaps, the significant inputs to these models are interest rate curves for discounting future cash flows. For forward foreign currency contracts, the significant inputs are interest rate curves for discounting future cash flows, and exchange rate curves of the foreign currency for translating future cash flows.

*Fair Value Hedge*

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in current period earnings.

*Cash Flow Hedge*

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is recorded in AOCI and reclassified to earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current period earnings.



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*Other Derivative Instruments*

From time to time, the Company may enter into certain derivative instruments that may not be designated as hedges for accounting purposes, which include cross currency swaps, foreign currency forward contracts and commodity derivatives. For cross currency swaps and foreign currency forward contracts not designated as hedges, the Company uses standard models with market-based inputs. The significant inputs to these models are interest rate curves for discounting future cash flows, and exchange rate curves of the foreign currency for translating future cash flows. In determining the fair value of the commodity derivatives, the significant inputs to valuation models are quoted market prices of similar instruments in active markets. Although these derivatives do not qualify for hedge accounting, Cabot believes that such instruments are closely correlated with the underlying exposure, thus managing the associated risk. The gains or losses from changes in the fair value of derivative instruments that are not accounted for as hedges are recognized in current period earnings.

For both December 31, 2014 and September 30, 2014, the fair value of derivative instruments were immaterial and were presented in Prepaid expenses and other current assets and Accounts payable and accrued liabilities on the Consolidated Balance Sheets.

The net after-tax amounts to be reclassified from AOCI to earnings within the next 12 months are expected to be immaterial.

**O. Venezuela**

Cabot owns 49% of an operating carbon black affiliate in Venezuela, which is accounted for as an equity affiliate, through wholly-owned subsidiaries that carry the investment and receive its dividends. As of December 31, 2014, these subsidiaries carried the operating affiliate investment of \$16 million and held 19 million bolivars (less than \$1 million) in cash.

During both the three months ended December 31, 2014 and 2013, the operating affiliate declared dividends in the amounts of \$2 million which were paid in U.S. dollars and repatriated to the Company's wholly-owned subsidiaries.

A significant portion of the Company's operating affiliate's sales are exports denominated in U.S. dollars. The Venezuelan government mandates that a certain percentage of the dollars collected from these sales be converted into bolivars. The operating affiliate and the Company's wholly owned subsidiaries used an exchange rate that is available to the Company when converting these dollars into bolivars to remeasure their bolivar denominated monetary accounts. The exchange rate made available to the Company on December 31, 2014 was 50 bolivars to the U.S. dollar (B/\$).

The operating entity has generally been profitable and has significant export operations from which it is entitled to retain a certain percentage of the foreign currency that it collects, which is principally the U.S. dollar. The Company continues to closely monitor developments in Venezuela and their potential impact on the recoverability of its equity affiliate investment.

The Company closely monitors its ability to convert its bolivar holdings into U.S. dollars, as the Company intends to convert substantially all bolivars held by its wholly-owned subsidiaries in Venezuela to U.S. dollars as soon as practical. Any future change in the exchange rate made available to the Company or opening of additional parallel markets could cause the Company to change the exchange rate it uses and result in gains or losses on the bolivar denominated assets held by its operating affiliate and wholly-owned subsidiaries.

#### **P. Financial Information by Segment**

The Company identifies a business as an operating segment if: i) it engages in business activities from which it may earn revenues and incur expenses; ii) its operating results are regularly reviewed by the Chief Operating Decision Maker ( CODM ) to make decisions about resources to be allocated to the segment and assess its performance; and iii) it has available discrete financial information. The Company has determined that all of its reported businesses are operating segments. The CODM reviews financial information at the operating segment level to allocate resources and to assess the operating results and financial performance for each operating segment. Operating segments are aggregated if the operating segments are determined to have similar economic characteristics and if the operating segments are similar in the following areas: i) nature of products and services; ii) nature of production processes; iii) type or class of customer for their products and services; iv) methods used to distribute the products or provide services; and v) if applicable, the nature of the regulatory environment.

In December 2014, the Company realigned its business reporting structure into four segments that consist of Reinforcement Materials, Performance Chemicals, Purification Solutions and Specialty Fluids. Segment results have been recast for all periods presented to reflect the realignment of the Company's global business segments. The new segment structure is designed to improve efficiency and resource prioritization and reflects how the Company's CODM reviews segment results to assess performance and allocate resources.

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The Reinforcement Materials segment combines the rubber blacks and elastomer composites product lines.

The Performance Chemicals segment combines the specialty carbons and compounds, and inkjet colorants product lines into the Specialty Carbons and Formulations business, and combines the fumed metal oxides and aerogel product lines into the Metal Oxides business. These businesses are similar in terms of economic characteristics, nature of products, processes, customer class and product distribution methods, and therefore have been aggregated into one reportable segment.

The Purification Solutions segment represents the Company's activated carbon business and the Specialty Fluids business includes cesium formate oil and gas drilling fluids and high-purity fine cesium chemicals.

Reportable segment operating profit (loss) before interest and taxes ( Segment EBIT ) is presented for each reportable segment in the financial information by reportable segment table below on the line entitled Income (loss) from continuing operations before taxes. Segment EBIT excludes certain items, meaning items management does not consider representative of segment results. In addition, Segment EBIT includes Equity in earnings of affiliated companies, net of tax, the full operating results of a contractual joint venture in Purification Solutions, royalties, Net income attributable to noncontrolling interests, net of tax, and discounting charges for certain Notes receivable, but excludes Interest expense, foreign currency transaction gains and losses, interest income, dividend income, unearned revenue, the effects of LIFO accounting for inventory, general unallocated expense and unallocated corporate costs.

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Financial information by reportable segment is as follows:

	<b>Reinforcement Materials</b>	<b>Performance Chemicals</b>	<b>Purification Solutions</b>	<b>Specialty Fluids</b>	<b>Segment Total</b>	<b>Unallocated and Other<sup>(1)</sup></b>	<b>Consolidated Total</b>
	<b>(Dollars in millions)</b>						
<b>Three Months Ended December 31, 2014</b>							
Revenues from external customers <sup>(2)</sup>	\$ 460	\$ 229	\$ 76	\$ 16	\$ 781	\$ 31	\$ 812
Income (loss) from continuing operations before taxes <sup>(3)</sup>	\$ 53	\$ 39	\$ (1)	\$ 6	\$ 97	\$ (46)	\$ 51
<b>Three Months Ended December 31, 2013</b>							
Revenues from external customers <sup>(2)</sup>	\$ 533	\$ 237	\$ 72	\$ 28	\$ 870	\$ 28	\$ 898
Income (loss) from continuing operations before taxes <sup>(3)</sup>	\$ 73	\$ 37	\$ (9)	\$ 13	\$ 114	\$ (5)	\$ 109

(1) Unallocated and Other includes certain items and eliminations necessary to reflect management's reporting of operating segment results. These items are reflective of the segment reporting presented to the Chief Operating Decision Maker.

(2) Revenue from external customers that are categorized as Unallocated and Other reflects royalties, other operating revenues, external shipping and handling costs, the impact of unearned revenue, the removal of 100% of the sales of an equity method affiliate and discounting charges for certain Notes receivable. Details are provided in the table below:

**Three Months Ended  
December 31  
2014          2013**

	<b>(Dollars in millions)</b>	
Royalties, other operating revenues, the impact of unearned revenue, the removal of 100% of the sales of an equity method affiliate and discounting charges for certain Notes receivable.	\$ 4	\$
Shipping and handling fees	27	28
<b>Total</b>	<b>\$ 31</b>	<b>\$ 28</b>

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(3) Income (loss) from continuing operations before taxes that are categorized as Unallocated and Other includes:

	<b>Three Months Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Interest expense	\$ (13)	\$ (14)
Total certain items, pre-tax <sup>(a)</sup>	(26)	24
Less: Equity in earnings of affiliated companies, net of tax <sup>(b)</sup>	(1)	(2)
Unallocated corporate costs <sup>(c)</sup>	(12)	(13)
General unallocated income <sup>(d)</sup>	6	
 Total	 \$ (46)	 \$ (5)

(a) Certain items are items that management does not consider to be representative of operating segment results and they are, therefore, excluded from Segment EBIT. Certain items, pre-tax, for the three months ended December 31, 2014 include \$7 million related to global restructuring activities, \$1 million for acquisition and integration-related charges and \$18 million related to an employee benefit plan settlement charge. Certain items, pre-tax, for the three months ended December 31, 2013 include \$5 million related to global restructuring activities, \$5 million for acquisition and integration-related charges (consisting of \$3 million for certain other one-time integration costs and \$2 million of additional charges related to acquisition accounting adjustments for the acquired inventory of NHUMO), and \$1 million for legal and environmental matters and reserves offset by \$6 million of foreign currency gain on revaluation of the notes Cabot received in connection with the sale of its Supermetals business in 2012 and a \$29 million non-cash gain recognized on the Company's pre-existing investment in NHUMO as a result of the NHUMO transaction.

(b) Equity in earnings of affiliated companies, net of tax is included in Segment EBIT and is removed from Unallocated and other to reconcile to income (loss) from operations before taxes.

(c)

Unallocated corporate costs are not controlled by the segments and primarily benefit corporate interests.

- (d) General unallocated income consists of gains (losses) arising from foreign currency transactions, net of other foreign currency risk management activities, the impact of accounting for certain inventory on a LIFO basis, the profit or loss related to the corporate adjustment for unearned revenue, and the impact of including the full operating results of an equity affiliate in Purification Solutions Segment EBIT.

Performance Chemicals is comprised of two businesses that sell the following products: specialty grades of carbon black, thermoplastic concentrates and compounds and inkjet colorants (the Specialty Carbons and Formulation business); and fumed silica, fumed alumina and dispersions thereof, and aerogel (the Metal Oxides business). The net sales from each of these businesses for the three months ended December 31, 2014 and 2013 are as follows:

	<b>Three Months Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Specialty Carbons and Formulations	\$ 157	\$ 163
Metal Oxides	72	74
<b>Total Performance Chemicals</b>	<b>\$ 229</b>	<b>\$ 237</b>

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Critical Accounting Policies**

The preparation of our consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and related disclosure of contingent assets and liabilities. We consider an accounting estimate to be critical to the financial statements if (i) the estimate is complex in nature or requires a high degree of judgment and (ii) different estimates and assumptions were used, the results could have a material impact on the consolidated financial statements. On an ongoing basis, we evaluate our policies and estimates. We base our estimates on historical experience, current conditions and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The estimates that we believe are critical to the preparation of the consolidated financial statements are presented below.

**Revenue Recognition and Accounts Receivable**

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured. We generally are able to ensure that products meet customer specifications prior to shipment. If we are 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.

The following table shows the relative size of the revenue recognized in each of our reportable segments for the periods presented.

	<b>Three Months Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Reinforcement Materials	59%	62%
Performance Chemicals	29%	27%
Purification Solutions	10%	8%
Specialty Fluids	2%	3%

We derive the substantial majority of revenues from the sale of products in Reinforcement Materials and Performance Chemicals. Revenue from these products 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. We have technology and licensing agreements with one customer that are accounted for as multiple element arrangements. Revenue is recognized ratably over the term of the agreements, limited by the cumulative amounts that become due, some of which are through 2022. We offer certain 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. We periodically review the assumptions underlying estimates of discounts and volume rebates and adjust revenues accordingly.



Revenue in Purification Solutions is typically recognized when the product is shipped and title and risk of loss have passed to the customer. For major activated carbon injection systems projects, revenue is recognized using the percentage-of-completion method.

A significant portion of the revenue in Specialty Fluids 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. We also generate revenues from cesium formate sold outside of a rental process and revenue is recognized upon delivery of the fluid.

We maintain allowances for doubtful accounts based on an assessment of the collectability 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. There is no material off-balance sheet credit exposure related to customer receivable balances.

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**Table of Contents*****Intangible Assets and Goodwill***

We record tangible and intangible assets acquired and liabilities assumed in business combinations under the acquisition method of accounting. Amounts paid for an acquisition are allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition. Goodwill is comprised of the purchase price of business acquisitions in excess of the fair value assigned to the net tangible and identifiable intangible assets acquired. Goodwill is not amortized, but is reviewed for impairment annually as of May 31, or when events or changes in the business environment indicate that the carrying value of the reporting unit may exceed its fair value. A reporting unit, for the purpose of the impairment test, is at or below the operating segment level, and constitutes a business for which discrete financial information is available and regularly reviewed by segment management. The separate businesses included within Performance Chemicals are considered separate reporting units. The goodwill balance relative to this segment is recorded in the Metal Oxides reporting unit within Performance Chemicals.

For the purpose of the goodwill impairment test, we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an initial qualitative assessment identifies that it is more likely than not that the carrying value of a reporting unit exceeds its estimated fair value, an additional quantitative evaluation is performed under the two-step impairment test. Alternatively, we may elect to proceed directly to the quantitative goodwill impairment test. If based on the quantitative evaluation the fair value of the reporting unit is less than its carrying amount, we perform an analysis of the fair value of all assets and liabilities of the reporting unit. If the implied fair value of the reporting unit's goodwill is determined to be less than its carrying amount, an impairment is recognized for the difference. The fair value of a reporting unit is based on discounted estimated future cash flows. The fair value is also benchmarked against a market approach using the guideline public companies method. The assumptions used to estimate fair value include management's best estimates of future growth rates, operating cash flows, capital expenditures and discount rates over an estimate of the remaining operating period at the reporting unit level. Should the fair value of any of our reporting units decline because of reduced operating performance, market declines, changes in the discount rate, or other indicators of impairment, charges for impairment may be necessary. Based on our most recent annual goodwill impairment test performed as of May 31, 2014, the fair values of the Reinforcement Materials and Metal Oxides reporting units were substantially in excess of their carrying values. At that date, the fair value of the Purification Solutions reporting unit exceeded its carrying value by approximately 9%. At December 31, 2014, the Purification Solutions reporting unit had the most significant goodwill balance, in the amount of \$452 million. The future growth in the Purification Solutions business is highly dependent on achieving the expected volumes and margins in the activated carbon based mercury removal business. These volumes and margins are highly dependent on demand for mercury removal products and our successful realization of its anticipated share of volumes in this segment over the next 3 years. The expected demand for mercury removal products significantly depends on: (1) the implementation and enforcement of environmental laws and regulations, particularly those that would require U.S. based coal-fired electric utilities to reduce the quantity of air pollutants they release, including mercury, to comply with the Mercury and Air Toxics Standards (MATS) that become effective beginning in April 2015 and (2) other factors such as the anticipated usage of activated carbon in the coal-fired energy units. Recently, the U.S. Supreme Court agreed to consider whether the Environmental Protection Agency (EPA) appropriately considered costs in determining whether it is necessary and appropriate to regulate hazardous air pollutants emitted by electric utilities. It is not possible to predict the outcome of the Supreme Court's review of this matter. A meaningful change in the implementation of or requirements under MATS that negatively impacts our growth assumptions and projected operating cash flows for the Purification Solutions business could result in asset impairment charges.

We use assumptions and estimates in determining the fair value of assets acquired and liabilities assumed in a business combination. The determination of the fair value of intangible assets requires the use of significant judgment with regard to assumptions used in the valuation model. We estimate the fair value of identifiable acquisition-related

intangible assets principally based on projections of cash flows that will arise from these assets. The projected cash flows are discounted to determine the fair value of the assets at the dates of acquisition.

Definite-lived intangible assets, which are comprised of customer relationships and developed technologies, are amortized over their estimated useful lives and are reviewed for impairment when indication of potential impairment exists, such as a significant reduction in cash flows associated with the assets. We evaluate indefinite-lived intangible assets, which are comprised of the trademarks of Purification Solutions, for impairment annually or when events occur or circumstances change that may reduce the fair value of the asset below its carrying amount. The annual review is performed as of May 31. We may first perform a qualitative assessment to determine whether it is necessary to perform the quantitative impairment test or bypass the qualitative assessment and proceed directly to performing the quantitative impairment test. The quantitative impairment test is based on discounted estimated future cash flows. The assumptions used to estimate fair value include management's best estimates of future growth rates and discount rates over an estimate of the remaining operating period at the unit of accounting level. These future growth rates depend on achieving the expected volumes and pricing levels of the products of Purification Solutions.

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**Table of Contents*****Long-lived Assets***

Our long-lived assets primarily include property, plant and equipment, long-term investments and assets held for rent. The carrying values of long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be recoverable. An asset impairment is recognized when the carrying value of the asset is not recoverable based on the probability-weighted undiscounted estimated future cash flows to be generated by the asset. Our estimates reflect management's assumptions about selling prices, production and sales volumes, costs and market conditions over an estimate of the remaining operating period. If an impairment is indicated, the asset is written down to fair value. If the asset does not have a readily determinable market value, a discounted cash flow model may be used to determine the fair value of the asset. The key inputs to the discounted cash flow would be the same as the undiscounted cash flow noted above, with the addition of the discount rate used. In circumstances when an asset does not have separate identifiable cash flows, an impairment charge is recorded when we no longer intend to use the asset.

To test for impairment of assets we generally use a probability-weighted estimate of the future undiscounted net cash flows of the assets over their remaining lives to determine if the value of the asset is recoverable. Long-lived assets are grouped with other assets and liabilities at the lowest level for which independent identifiable cash flows are determinable.

***Property, Plant and Equipment***

Property, plant and equipment are recorded at cost. Depreciation of property, plant and equipment is calculated using the straight-line method over the estimated useful lives. The depreciable lives for buildings, machinery and equipment, and other fixed assets are twenty to twenty-five years, ten to twenty-five years, and three to twenty-five years, respectively. The cost and accumulated depreciation for property, plant and equipment sold, retired, or otherwise disposed of are removed from the Consolidated Balance Sheets and resulting gains or losses are included in earnings in the Consolidated Statements of Operations. Expenditures for repairs and maintenance are charged to expenses as incurred. Expenditures for major renewals and betterments, which significantly extend the useful lives of existing plant and equipment, are capitalized and depreciated.

***Litigation and Contingencies***

We are involved in litigation in the ordinary course of business, including personal injury and environmental litigation. After consultation with counsel, as appropriate, we accrue a liability for litigation when it is probable that a liability has been incurred and the amount can be reasonably estimated. The estimated reserves are recorded based on our best estimate of the liability associated with such matters or the low end of the estimated range of liability if we are unable to identify a better estimate within that range. Our best estimate is determined through the evaluation of various information, including claims, settlement offers, demands by government agencies, estimates performed by independent third parties, identification of other responsible parties and an assessment of their ability to contribute, and our prior experience. Litigation is highly uncertain and there is always the possibility of an unusual result in any particular case that may reduce our earnings and cash flows.

The most significant reserves that we have established are for environmental remediation and respirator litigation claims. The amount accrued for environmental matters reflects our assumptions about remediation requirements at the contaminated sites, the nature of the remedies, the outcome of discussions with regulatory agencies and other potentially responsible parties at multi-party sites, and the number and financial viability of other potentially responsible parties. These liabilities can be affected by the availability of new information, changes in the assumptions on which the accruals are based, unanticipated government enforcement action or changes in applicable government

laws and regulations, which could result in higher or lower costs.

Our current estimate of the cost of our share of existing and future respirator liability claims is based on facts and circumstances existing at this time. Developments that could affect our estimate include, but are not limited to, (i) significant changes in the number of future claims, (ii) changes in the rate of dismissals without payment of pending silica and non-malignant asbestos claims, (iii) significant changes in the average cost of resolving claims, (iv) significant changes in the legal costs of defending these claims, (v) changes in the nature of claims received, (vi) changes in the law and procedure applicable to these claims, (vii) the financial viability of other parties which contribute to the settlement of respirator claims, (viii) a change in the availability of insurance coverage maintained by the entity from which we acquired the safety respiratory products business or the indemnity provided by its former owner, (ix) changes in the allocation of costs among the various parties paying legal and settlement costs and (x) a determination that the assumptions that were used to estimate our share of liability are no longer reasonable. We cannot determine the impact of these potential developments on our current estimate of our share of liability for these existing and future claims. Accordingly, the actual amount of these liabilities for existing and future claims could be different than the reserved amount.

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***Income Taxes***

Our business operations are global in nature, and we are subject to taxes in numerous jurisdictions. Tax laws and tax rates vary substantially in these jurisdictions and are subject to change based on the political and economic climate in those countries. We file our tax returns in accordance with our interpretations of each jurisdiction's tax laws.

Significant judgment is required in determining our worldwide provision for income taxes and recording the related tax assets and liabilities. In the ordinary course of our business, there are operational decisions, transactions, facts and circumstances, and calculations which make the ultimate tax determination uncertain. Furthermore, our tax positions are periodically subject to challenge by taxing authorities throughout the world. We have recorded reserves on uncertain tax position for taxes and associated interest and penalties that may become payable in future years as a result of audits by tax authorities. Any significant impact as a result of changes in underlying facts, law, tax rates, tax audit, or review could lead to adjustments to our income tax expense, our effective tax rate, and/or our cash flow.

We record our 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. The estimated annual effective tax rate may be significantly impacted by nondeductible expenses and our 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.

We record benefits for uncertain tax positions based on an assessment of whether the position is more likely than not to be sustained by the taxing authorities. If this threshold is not met, no tax benefit of the uncertain tax position is recognized. If the threshold is met, the tax benefit that is recognized is the largest amount that is greater than 50% likely of being realized upon ultimate settlement. This analysis presumes the taxing authorities' full knowledge of the positions taken and all relevant facts, but does not consider the time value of money. We also accrue for interest and penalties on these uncertain tax positions and include such charges in the income tax provision in the Consolidated Statements of Operations.

Additionally, we have established valuation allowances against a variety of deferred tax assets, including net operating loss carry forwards, foreign tax credits, and other income tax credits. Valuation allowances take into consideration our ability to use these deferred tax assets and reduce the value of such items to the amount that is deemed more likely than not to be recoverable. Our ability to utilize these deferred tax assets is dependent on achieving our forecast of future taxable operating income over an extended period of time. We review our forecast in relation to actual results and expected trends on a quarterly basis. Failure to achieve our operating income targets may change our assessment regarding the recoverability of our net deferred tax assets and such change could result in a valuation allowance being recorded against some or all of our net deferred tax assets. An increase in a valuation allowance would result in additional income tax expense, while a release of valuation allowances in periods when these tax attributes become realizable would reduce our income tax expense.

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**Table of Contents*****Inventory Valuation***

Inventories are stated at the lower of cost or market. The cost of all carbon black inventories in the U.S. is determined using the last-in, first-out ( LIFO ) method. Had we used the first-in, first-out ( FIFO ) method instead of the LIFO method for such inventories, the value of those inventories would have been \$46 million and \$52 million higher as of December 31, 2014 and September 30, 2014, respectively. The cost of Specialty Fluids inventories is determined using the average cost method. The cost of other U.S. and non-U.S. inventories is determined using the FIFO method. In periods of rapidly rising or declining raw material costs, the inventory method we employ can have a significant impact on our profitability. Under our current LIFO method, when raw material costs are rising, our most recent higher priced purchases are the first to be charged to cost of sales. If, however, we were using a FIFO method, our purchases from earlier periods, which were at lower prices, would instead be the first charged to cost of sales. The opposite result could occur during a period of rapid decline in raw material costs.

We review inventory for both potential obsolescence and potential loss of value periodically. In this review, we make assumptions about the future demand for and market value of our inventory and based on these assumptions estimate the amount of any obsolete, unmarketable or slow moving inventory. We write down the value of our inventories by an amount equal to the difference between the cost of the inventory and its estimated market value. Historically, such write-downs have not been significant. If actual market conditions are less favorable than those projected by management at the time of the assessment, however, additional inventory write-downs may be required, which could reduce our gross profit and our earnings.

**Results of Operations*****Definition of Terms and Non-GAAP Financial Measures***

When discussing our results of operations, we use several terms as described below.

The term *product mix* refers to the mix of types and grades of products sold or the mix of geographic regions where products are sold, and the positive or negative impact this has on the revenue or profitability of the business and/or segment.

The term *LIFO* includes two factors: (i) the impact of current inventory costs being recognized immediately in Cost of sales under a last-in first-out method, compared to the older costs that would have been included in Cost of sales under a first-in first-out method ( *Cost of sales impact* ); and (ii) the impact of reductions in inventory quantities, causing historical inventory costs to flow through Cost of sales ( *liquidation impact* ).

The discussion under the heading *Provision for Income Taxes and Reconciliation of Effective Tax Rate to Operating Tax Rate* includes a discussion of our *effective tax rate* and our *operating tax rate* and includes a reconciliation of the two rates. Our operating tax rate is a non-GAAP financial measure and should not be considered as an alternative to our effective tax rate, the most comparable GAAP financial measure. In calculating our operating tax rate, we exclude discrete tax items, which include: i) unusual or infrequent items such as a significant release of a valuation allowance, ii) items related to uncertain tax positions such as the tax impact of audit settlements, interest on tax reserves, and the release of tax reserves from the expiration of statutes of limitations, and iii) other discrete tax items, such as the tax impact of legislative changes and, on a quarterly basis, the timing of losses in certain jurisdictions and the cumulative rate adjustment, if applicable. We also exclude the tax impact of certain items, as defined below in the discussion of Total segment EBIT, on both operating income and the tax provision. Our definition of the operating tax rate may not be comparable to the definition used by other companies. Management believes that the non-GAAP financial measure is useful supplemental information because it helps our investors compare our tax rate year to year on a consistent

basis and understand what our tax rate on current operations would be without the impact of these items which we do not believe are reflective of the underlying business results.

Total segment EBIT is a non-GAAP performance measure, and should not be considered an alternative for Income from continuing operations before taxes, the most directly comparable GAAP financial measure. In calculating Total segment EBIT, we make certain adjustments such as excluding certain items, meaning items that management does not consider representative of our



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fundamental segment results, as well as items that are not allocated to our business segments, such as interest expense and other corporate costs. Our Chief Operating Decision Maker uses segment EBIT to evaluate the operating results of each segment and to allocate resources to the segments. We believe Total segment EBIT provides useful supplemental information for our investors as it is an important indicator of the Company's operational strength and performance. Investors should consider the limitations associated with this non-GAAP measure, including the potential lack of comparability of this measure from one company to another. A reconciliation of Total segment EBIT to Income from continuing operations before income taxes and equity in earnings of affiliated companies is provided in Note P of our consolidated financial statements.

Cabot is organized into four reportable business segments: Reinforcement Materials, Performance Chemicals, Purification Solutions and Specialty Fluids. Cabot is also organized for operational purposes into three geographic regions: the Americas; Europe, Middle East and Africa; and Asia Pacific. Discussions of all periods reflect these structures.

Our analysis of our financial condition and operating results should be read with our consolidated financial statements and accompanying notes.

***Overview***

During the first quarter of fiscal 2015, Income from continuing operations before income taxes and equity in earnings of affiliated companies decreased compared to the first quarter of fiscal 2014 primarily due to lower volumes as a result of soft demand in South America and Europe and customer inventory destocking.

***First Quarter Fiscal 2015 versus First Quarter Fiscal 2014 Consolidated******Net Sales and other operating revenues and Gross Profit***

	<b>Three Months Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Net sales and other operating revenues	\$ 812	\$ 898
Gross profit	\$ 157	\$ 179

The \$86 million decrease in net sales from the first quarter of fiscal 2014 to the first quarter of fiscal 2015 was due primarily to lower volumes (\$40 million), a less favorable price and product mix (combined \$16 million) and an unfavorable impact from foreign currency translation (\$27 million).

Gross profit decreased by \$22 million in the first quarter of fiscal 2015 compared to the first quarter of fiscal 2014 primarily due to lower volumes and a pension settlement charge resulting from the transfer of a foreign defined benefit plan to a multi-employer plan.

**Table of Contents***Selling and Administrative Expenses*

**Three Months Ended  
December 31  
2014          2013  
(Dollars in  
millions)**

Selling and administrative expenses	\$ 78	\$ 77
-------------------------------------	-------	-------

Selling and administrative expenses increased by \$1 million in the first quarter of fiscal 2015 compared to first quarter of fiscal 2014. The increase was principally driven by higher expenses related to restructuring actions taken to move our Europe, Middle East and Africa ( EMEA ) business service center from Belgium to Latvia, partially offset by reduced spending for other selling and administrative expenses.

*Research and Technical Expenses*

**Three Months Ended  
December 31  
2014          2013  
(Dollars in  
millions)**

Research and technical expenses	\$ 15	\$ 15
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Research and technical expenses were consistent in the first quarter of fiscal 2015 as compared to the same period in fiscal 2014.

*Interest and Dividend Income, Interest Expense and Other (Expense) Income*

**Three Months Ended  
December 31  
2014          2013  
(Dollars in millions)**

Interest and dividend income	\$ 1	\$ 1
Interest expense	\$ (13)	\$ (14)
Other (expense) income	\$ (1)	\$ 35

Interest and dividend income was consistent in the first quarter of fiscal 2015 as compared to the same period in fiscal 2014.

Interest expense decreased by \$1 million in the first quarter of fiscal 2015 compared with the first quarter of fiscal 2014 due to the reduction of debt.

Other (expense) income in the first quarter of fiscal 2015 decreased by \$36 million compared to the first quarter of fiscal 2014 due principally to a gain recognized in the first quarter of fiscal 2014 on our existing equity investment in NHUMO (\$29 million) as a result of the NHUMO transaction, and an unfavorable comparison of foreign currency

movements (\$7 million).

**Table of Contents***Provision for Income Taxes and Reconciliation of Effective Tax Rate to Operating Tax Rate*

	<b>Three Months Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Provision for income taxes	\$ 3	\$ 24
Effective tax rate	5%	22%
Impact of discrete tax items:		
(1) Unusual or infrequent items	10%	(1%)
(2) Items related to uncertain tax positions	16%	1%
(3) Other discrete tax items	(1%)	(1%)
Impact of certain items	(2%)	7%
Operating tax rate	28%	28%

During the first quarter of fiscal 2015, we recorded a tax provision of \$3 million, resulting in an effective tax rate of 5%. This amount included net discrete tax benefits of \$13 million. The operating rate for the first quarter of fiscal 2015 was 28%. During the first quarter of fiscal 2014, we recorded a tax provision of \$24 million, resulting in an effective tax rate of 22%. This amount included a net discrete tax charge of \$1 million. The operating tax rate for the first quarter of fiscal 2014 was 28%.

We are currently under audit in a number of jurisdictions outside of the U.S. It is possible that some of these audits will be resolved in fiscal 2015, which may impact our tax expense and effective tax rate going forward. We expect our operating tax rate for fiscal 2015 to be between 27% and 29%.

*Equity in Earnings of Affiliated Companies and Net Income (Loss) Attributable to Noncontrolling Interests*

	<b>Three Months Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Equity in earnings of affiliated companies, net of tax	\$ 1	\$ 2
Net income attributable to noncontrolling interests, net of tax	\$ 4	\$ 6

Equity in earnings of affiliated companies, net of tax, decreased \$1 million in the first quarter fiscal 2015 when compared to the first quarter of fiscal 2014. The decline was due to the consolidation of earnings of NHUMO following the NHUMO transaction in November 2014 and lower earnings from our Venezuelan equity affiliate.

Net income attributable to noncontrolling interests, net of tax, decreased \$2 million in the first quarter of fiscal 2015 as compared to the first quarter of fiscal 2014. The decrease was due to lower profitability of our joint ventures.



**Table of Contents*****Net Income Attributable to Cabot Corporation***

In the first quarter of fiscal 2015, we reported net income attributable to Cabot Corporation of \$45 million (\$0.69 per diluted common share). This is compared to \$80 million (\$1.23 per diluted common share) in the first quarter of fiscal 2014.

***First Quarter Fiscal 2015 versus First Quarter Fiscal 2014 By Business Segment***

Total segment EBIT, certain items, other unallocated items and Income from continuing operations before income taxes and equity in earnings of affiliated companies for the three months ended December 31, 2014 and 2013 are set forth in the table below. The details of certain items and other unallocated items are shown below and in Note P of our consolidated financial statements.

	<b>Three Months Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Total segment EBIT	\$ 97	\$ 114
Certain items	(26)	24
Other unallocated items	(20)	(29)
Income from continuing operations before income taxes and equity in earnings of affiliated companies	\$ 51	\$ 109

In the first quarter of fiscal 2015, total segment EBIT decreased by \$17 million when compared to the same period of fiscal 2014. The decrease was principally driven by lower volumes (\$23 million), higher fixed costs (\$4 million) and an elastomer composites technology milestone payment received in the first quarter of fiscal 2014 that did not reoccur this year (\$4 million). These were partially offset by higher unit margins (\$15 million).

***Certain Items***

Details of the certain items for the first quarter of fiscal 2015 and 2014 are as follows:

	<b>Three Months Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Global restructuring activities	\$ (7)	\$ (5)
Acquisition and integration-related charges	(1)	(5)
Employee benefit plan settlement	(18)	
Foreign currency gain on revaluations		6
Gain on existing investment in NHUMO		29
Legal and environmental matters and reserves		(1)

Total certain items, pre-tax	(26)	24
<b>Tax-related certain items</b>		
Tax impact of certain items	6	1
Tax impact of certain foreign exchange losses		
Discrete tax items	13	(1)
Total tax-related certain items	19	
Total certain items after tax	\$ (7)	\$ 24

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Certain items for the first quarter of fiscal 2015 include charges related to restructuring activities, acquisition and integration-related charges, an employee benefit plan settlement, and tax certain items. Details of restructuring activities are included in Note L of the consolidated financial statements. Acquisition and integration-related charges include legal and professional fees, and other expenses related to the completion of the acquisitions and the integrations of Purification Solutions and NHUMO. Tax-related certain items include discrete tax items, which are unusual and infrequent, and the tax impact of certain foreign exchange losses.

*Other Unallocated Items*

	<b>Three Months Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Interest expense	\$ (13)	\$ (14)
Equity in earnings of affiliated companies	(1)	(2)
Unallocated corporate costs	(12)	(13)
General unallocated income	6	
<b>Total other unallocated items</b>	<b>\$ (20)</b>	<b>\$ (29)</b>

Costs from total other unallocated items decreased by \$9 million in the first quarter of fiscal 2015 as compared to the same period in fiscal 2014. The decrease was driven by a \$6 million increase in General unallocated income primarily due to the cost of sales impact of LIFO accounting (\$5 million).

*Reinforcement Materials*

Sales and EBIT for Reinforcement Materials for the first quarter of fiscal 2015 and fiscal 2014 are as follows:

	<b>Three Months Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Reinforcement Materials Sales	\$ 460	\$ 533
Reinforcement Materials EBIT	\$ 53	\$ 73



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In the first quarter of fiscal 2015, sales in Reinforcement Materials decreased by \$73 million when compared to the first quarter of fiscal 2014. The decrease was principally driven by the impact of lower volumes (\$23 million), a less favorable price and product mix (combined \$30 million), an unfavorable comparison from foreign currency translation (\$16 million), and an elastomer composites technology milestone payment received in the first quarter of fiscal 2014 that did not reoccur this year (\$4 million). Lower volumes were due to weak demand in South America and Europe and customer inventory destocking. The less favorable price and product mix impact was primarily due to lower selling prices in the quarter from price adjustments to customers for decreases in raw material costs.

EBIT in Reinforcement Materials decreased by \$20 million in the first quarter of fiscal 2015 when compared to the same period of fiscal 2014. The decrease was principally driven by lower volumes (\$9 million), higher fixed costs (\$10 million), and an elastomer composites technology milestone payment received in the first quarter of fiscal 2014 that did not reoccur this year (\$4 million). These impacts were partially offset by higher unit margins (\$2 million) from the benefit of energy efficiency investments. Lower volumes were driven by a 3% reduction in rubber blacks volumes as well as lower elastomer composites volumes. Higher fixed costs were primarily associated with new carbon black capacity in China and the acquisition of NHUMO.

**Performance Chemicals**

Sales and EBIT for Performance Chemicals for the first quarter of fiscal 2015 and fiscal 2014 are as follows:

	<b>Three Months Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Specialty Carbons and Formulations Sales	\$ 157	\$ 163
Metal Oxides Sales	72	74
Performance Chemicals Sales	\$ 229	\$ 237
Performance Chemicals EBIT	\$ 39	\$ 37

In the first quarter of fiscal 2015, sales in Performance Chemicals decreased by \$8 million when compared to the first quarter of fiscal 2014. The decrease was due to lower volumes (\$3 million) and the unfavorable impact of foreign currency translation (\$7 million), partially offset by a more favorable price and product mix (combined \$4 million). Volumes in Specialty Carbons and Formulations decreased by 1% primarily due to the impact from customer inventory destocking. The change in price and product mix was driven by price increases implemented in both the Specialty Carbons and Formulations and Metal Oxides businesses.

EBIT in Performance Chemicals increased by \$2 million in the first quarter of fiscal 2015 when compared to the same quarter of fiscal 2014 principally due to higher unit margins (\$8 million) partially offset by lower volumes (\$3 million) and the unfavorable impact of foreign currency translation (\$2 million). Higher unit margins were due to the combination of price increases and lower raw material costs. While Metal Oxides volumes increased by 4%, Specialty Carbons and Formulations volumes decreased by 1% primarily due to the impact from customer inventory destocking.

**Purification Solutions**

Sales and EBIT for Purification Solutions for the first quarter of fiscal 2015 and fiscal 2014 are as follows:

	<b>Three Months Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Purification Solutions Sales	\$ 76	\$ 72
Purification Solutions EBIT	\$ (1)	\$ (9)

Sales in Purification Solutions increased by \$4 million in the first quarter of fiscal 2015 when compared to the same period of fiscal 2014 due to higher volumes (\$2 million) and a favorable price and product mix (combined \$5 million) partially offset by an unfavorable impact of foreign currency translation (\$3 million). Higher volumes were driven by increased demand in the gas and air sector. The more favorable price and product mix was primarily due to the implementation of price increases.

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EBIT in Purification Solutions increased by \$8 million in the first quarter of fiscal 2015 when compared to the same quarter of fiscal 2014 due to higher volumes (\$1 million), higher unit margins (\$1 million), and lower fixed costs (\$5 million). Higher volumes were driven by increased demand in the gas and air sector. The more favorable price and product mix was primarily due to the implementation of price increases. The decrease in fixed costs was due to improved operational performance that lowered costs and from the benefit of building inventory in anticipation of future demand.

***Specialty Fluids***

Sales and EBIT for Specialty Fluids for the first quarter of fiscal 2015 and 2014 are as follows:

	<b>Three Months Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Specialty Fluids Sales	\$ 16	\$ 28
Specialty Fluids EBIT	\$ 6	\$ 13

Sales in Specialty Fluids decreased by \$12 million in the first quarter of fiscal 2015 when compared to the same period of fiscal 2014 primarily due to lower volumes (\$17 million) partially offset by a favorable price and product mix (combined \$5 million). The decline in volumes was driven by lower sales and rental volumes as a result of a lower level of project activity. The more favorable price and product mix was primarily due to a more favorable product mix.

EBIT in Specialty Fluids decreased by \$7 million in the first quarter of fiscal 2015 when compared to the same period of fiscal 2014 due to lower volumes (\$13 million) partially offset by a favorable price and product mix (combined \$5 million). The decline in volumes was driven by lower sales and rental volumes as a result of a lower level of project activity. The more favorable price and product mix was primarily due to a more favorable product mix.

**Cash Flows and Liquidity*****Overview***

Our liquidity position, as measured by cash and cash equivalents plus borrowing availability, decreased by \$96 million during the first quarter of fiscal 2015. The decrease was largely attributable to the issuance of commercial paper used for capital expenditures and share repurchases. At December 31, 2014, we had cash and cash equivalents of \$88 million, and current availability under our revolving credit agreement of \$603 million. The outstanding balance of commercial paper as of December 31, 2014 was \$147 million and is included within the Notes payable caption on our Consolidated Balance Sheets.

Effective October 3, 2014, we entered into a new revolving credit agreement that amended and extended our \$750 million revolving credit agreement (which was scheduled to mature on August 25, 2016). The new revolving credit agreement, which matures on October 3, 2019, subject to two one-year options to extend after the first and second anniversaries of the effective date, supports our commercial paper program. Borrowings under the new revolving

credit agreement may be used for working capital, letters of credit and other general corporate purposes. The new revolving credit agreement contains affirmative and negative covenants, a single financial covenant (debt-to-EBITDA) and events of default customary for financings of this type. At December 31, 2014 we were in compliance with this financial covenant.

We generally manage our cash and debt on a global basis to provide for working capital requirements as needed by region or site. Cash and debt are generally denominated in the local currency of the subsidiary holding the assets or liabilities, except where there are operational cash flow reasons to hold non-functional currency or debt. As of December 31, 2014, our cash and cash equivalent holdings included \$70 million held in the U.S. and \$18 million held outside of the U.S.

We anticipate sufficient liquidity from (i) cash on hand; (ii) cash flows from operating activities; and (iii) cash available from our revolving credit agreement and our commercial paper program to meet our operational and capital investment needs and financial obligations for the foreseeable future. Our liquidity derived from cash flows from operations is, to a large degree, predicated on our ability to collect our receivables in a timely manner, the cost of our raw materials, and our ability to manage inventory levels.

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### *Discontinued Operations*

Our Consolidated Statements of Cash Flows have been presented to include discontinued operations with continuing operations. Therefore, unless noted otherwise, the following discussion of our cash flows and liquidity position include both continuing and discontinued operations.

The following discussion of the changes in our cash balance refers to the various sections of our Consolidated Statements of Cash Flows.

### *Cash Flows from Operating Activities*

Cash provided by operating activities, which consists of net income adjusted for the various non-cash items included in income, changes in working capital (inventories plus accounts and notes receivable, less accounts payable and accrued liabilities) and changes in certain other balance sheet accounts, totaled \$56 million in the first three months of fiscal 2015. Operating activities used \$18 million of cash in the first three months of fiscal 2014.

Cash provided from operating activities in the first three months of fiscal 2015 was driven primarily by net income of \$49 million plus \$45 million of depreciation and amortization. These sources of cash were partially offset by a net increase in working capital. Our working capital increase during the first three months of fiscal 2015 was driven primarily by lower accounts payable and accruals due to the timing and payout of certain corporate accruals.

Cash used in operating activities in the first three months of fiscal 2014 was driven primarily by net income of \$86 million plus \$51 million of depreciation and amortization and \$17 million of dividends from equity affiliates. These sources of cash were partially offset by a net increase in working capital. Our working capital increase during the first three months of fiscal 2014 was driven primarily by higher accounts receivable, higher inventories and lower accounts payable and accrued liabilities due to the timing and payout of certain corporate accruals.

### *Cash Flows from Investing Activities*

In the three months ended December 31, 2014, investing activities consumed \$44 million of cash and were primarily driven by capital expenditures of \$41 million. In the three months ended December 31, 2013, investing activities consumed \$119 million of cash and were primarily driven by capital expenditures of \$42 million and cash paid in the NHUMO transaction of \$73 million. In each of these years, capital expenditures were primarily related to our lignite mine development in Marshall, sustaining and compliance capital projects at our operating facilities, and mine development activities for the Specialty Fluids segment.

Capital expenditures for the remainder of fiscal 2015 are expected to be between \$100 million and \$150 million. Our planned capital spending program for fiscal 2015 is primarily for sustaining and compliance capital projects at our operating facilities, investments in energy related projects, and site-development initiatives.

### *Cash Flows from Financing Activities*

Financing activities provided \$24 million of cash in the first three months of fiscal 2015 compared to providing \$155 million of cash in the first three months of fiscal 2014. In the first three months of fiscal 2015, our overall debt balance increased by \$83 million primarily to fund capital expenditures and share repurchases.

In the first three months of fiscal 2014, financing activities provided \$155 million primarily related to net inflows of \$149 million from our commercial paper program. Our overall debt balance increased by \$167 million primarily

driven by our purchase of NHUMO, capital expenditures and working capital increases.

***Venezuela***

We own 49% of an operating carbon black affiliate in Venezuela, which is accounted for as an equity affiliate, through wholly-owned subsidiaries that carry the investment and receive its dividends. As of December 31, 2014, these subsidiaries carried the operating affiliate investment of \$16 million and held 19 million bolivars (less than \$1 million) in cash.

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During both the three months ended December 31, 2014 and 2013, the operating affiliate declared dividends in the amounts of \$2 million which were paid in U.S. dollars and repatriated to our wholly-owned subsidiaries.

A significant portion of our operating affiliate's sales are exports denominated in U.S. dollars. The Venezuelan government mandates that a certain percentage of the dollars collected from these sales be converted into bolivars. The operating affiliate and our wholly owned subsidiaries used an exchange rate that was available to us when converting these dollars into bolivars to remeasure their bolivar denominated monetary accounts. The exchange rate made available to us on December 31, 2014 was 50 bolivars to the U.S. dollar (B/\$).

The operating entity has generally been profitable and has significant export operations from which it is entitled to retain a certain percentage of the foreign currency that it collects, which is principally the U.S. dollar. We continue to closely monitor developments in Venezuela and their potential impact on the recoverability of our equity affiliate investment.

We closely monitor our ability to convert our bolivar holdings into U.S. dollars, as we intend to convert substantially all bolivars held by our wholly-owned subsidiaries in Venezuela to U.S. dollars as soon as practical. Any future change in the exchange rate made available to us or opening of additional parallel markets could cause us to change the exchange rate we use and result in gains or losses on the bolivar denominated assets held by our operating affiliate and wholly-owned subsidiaries.

**Purchase Commitments**

Cabot has entered into long-term purchase agreements primarily for the purchase of raw materials. 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, 2014.

	Payments Due by Fiscal Year							Total
	Remainder of Fiscal							
		2015	2016	2017	2018	2019	Thereafter	
	(Dollars in millions)							
Reinforcement Materials	\$ 224	\$ 214	\$ 193	\$ 186	\$ 179	\$ 2,096	\$ 3,092	
Performance Chemicals	47	52	34	30	29	210	402	
Purification Solutions	14	11	8	8	7	9	57	
Total	\$ 285	\$ 277	\$ 235	\$ 224	\$ 215	\$ 2,315	\$ 3,551	

**Off-balance sheet arrangements**

Cabot has no material transactions that meet the definition of an off-balance sheet arrangement.

**Forward-Looking Information**

This report on Form 10-Q contains forward-looking statements under the Federal securities laws. These forward-looking statements address expectations or projections about the future, including the amount and timing of

the charge to earnings we will record and the cash outlays we will make in connection with the closing of certain manufacturing facilities and restructuring initiatives; our estimated future amortization expenses for our intangible assets; the sufficiency of our cash on hand, cash provided from operations and cash available under our credit facilities to fund our cash requirements; uses of available cash including anticipated capital spending and future cash outlays associated with long-term contractual obligations; our expected tax rate for fiscal 2015; the recoverability of our equity affiliate investment in Venezuela; and the possible outcome of legal and environmental proceedings. From time to time, we also provide forward-looking statements in other materials we release to the public and in oral statements made by authorized officers.

Forward-looking statements are based on our current expectations, assumptions, estimates and projections about Cabot's businesses and strategies, market trends and conditions, economic conditions and other factors. These statements are not guarantees of future performance and are subject to risks, uncertainties, potentially inaccurate assumptions, and other factors, some of which are beyond our control or difficult to predict. If known or unknown risks materialize, or should underlying assumptions prove inaccurate, our actual results could differ materially from those expressed in the forward-looking statements.



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In addition to factors described elsewhere in this report, the following are some of the factors that could cause our actual results to differ materially from those expressed in the forward-looking statements: changes in raw material costs; lower than expected demand for our products; the loss of one or more of our important customers; our inability to complete capacity expansions or other development projects, including at our cesium mine in Manitoba, as planned; the timing of implementation of environmental regulations; the availability of raw materials; our failure to develop new products or to keep pace with technological developments; fluctuations in currency exchange rates; patent rights of others; stock and credit market conditions; the timely commercialization of products under development (which may be disrupted or delayed by technical difficulties, market acceptance, competitors' new products, as well as difficulties in moving from the experimental stage to the production stage); demand for our customers' products; competitors' reactions to market conditions; delays in the successful integration of structural changes, including acquisitions or joint ventures; severe weather events that cause business interruptions, including plant and power outages or disruptions in supplier or customer operations; the accuracy of the assumptions we used in establishing reserves for environmental matters and for our share of liability for respirator claims; and the outcome of pending litigation. Other factors and risks are discussed in our 2014 10-K.

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**Table of Contents****Recently Issued Accounting Pronouncements**

In July 2013, the Financial Accounting Standards Board (FASB) issued a new standard related to the Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists . The standard requires, unless certain conditions exist, an unrecognized tax benefit or a portion of an unrecognized tax benefit be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, similar to a tax loss or a tax credit carryforward. This standard is applicable for fiscal years beginning after December 15, 2013, and for interim periods within those years. We adopted this standard on October 1, 2014 and the implementation of the new standard did not have a material impact on our consolidated financial statements.

In April 2014, the FASB issued a new standard related to Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity . The standard requires discontinued operations treatment for disposals of a component or group of components of a business that represents a strategic shift that has or will have a major impact on an entity's operations or financial results and requires additional disclosures for discontinued operations and new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. This standard is applicable for fiscal years beginning after December 15, 2014 and for interim periods within those years with early adoption permitted, but only for disposals that have not been reported in financial statements previously issued. We expect to adopt this standard beginning on October 1, 2015.

In May 2014, the FASB issued a new standard related to the Revenue from Contracts with Customers which amends the existing accounting standards for revenue recognition. The standard requires entities to recognize revenue when they transfer promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. This standard is applicable for fiscal years beginning after December 15, 2016 and for interim periods within those years and early adoption is not permitted. We expect to adopt this standard on October 1, 2017. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

***Item 3. Quantitative and Qualitative Disclosures About Market Risk***

Information about market risks for the period ended December 31, 2014 does not differ materially from that discussed under Item 7A of our 2014 10-K.

***Item 4. Controls and Procedures***

As of December 31, 2014, we carried out an evaluation, under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Executive Vice President and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act ). Based upon that evaluation, our President and Chief Executive Officer and our Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of that date.

There were no changes in our internal control over financial reporting that occurred during our fiscal quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



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***Part II. Other Information***

***Item I. Legal Proceedings***

***Respirator Liabilities***

We have 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. In exchange for the subsidiary 's assumption of certain of AO 's respirator liabilities, AO agreed to provide to the subsidiary the benefits of: (i) AO 's insurance coverage for the period prior to the 1990 acquisition and (ii) a former owner 's indemnity of AO holding it harmless from any liability allocable to AO respiratory products used prior to May 1982. As more fully described in our 2014 10-K, the respirator liabilities generally 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 and/or labeled.

As of both December 31, 2014 and September 30, 2014, there were approximately 41,000 claimants, respectively, in pending cases asserting claims against AO in connection with respiratory products. We have a reserve to cover our expected share of liability for existing and future respirator liability claims. At December 31, 2014 and September 30, 2014, the reserve was \$12 million and \$13 million, respectively. Cash payments related to this liability were \$1 million and \$2 million in the first three months of fiscal 2015 and 2014, respectively.

***Other Matters***

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

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The table below sets forth information regarding Cabot's purchases of its equity securities during the quarter ended December 31, 2014:

**Issuer Purchases of Equity Securities**

<b>Period</b>	<b>Total Number of Shares Purchased<sup>(1)</sup></b>	<b>Average Price Paid per Share</b>	<b>or Programs<sup>(1)</sup></b>	<b>Maximum Number (or Approximate Dollar Value) of Shares that Total Number of Shares Purchased May Yet Be as Part of Publicly Announced Plans or Programs<sup>(1)</sup></b>
October 1, 2014 - October 31, 2014		\$		1,424,394
November 1, 2014 - November 30, 2014	582,000	\$ 46.38	582,000	842,394
December 1, 2014 - December 31, 2014	343,700	\$ 43.37	343,700	498,694
Total	925,700		925,700	

- (1) On May 11, 2007, we publicly announced that the Board of Directors authorized us to repurchase five million shares of our common stock on the open market or in privately negotiated transactions. On September 14, 2007, the Board of Directors increased the share repurchase authorization to 10 million shares (the 2007 Authorization). This authorization did not have a set expiration date. In the first quarter of fiscal 2015, we repurchased 925,700 shares of our common stock under this authorization. In January 2015, the Board of Directors authorized us to repurchase up to five million shares of our common stock and cancelled the previous authorization.

**Table of Contents****Item 6. Exhibits**

The following Exhibits are filed herewith:

<b>Exhibit No.</b>	<b>Description</b>
Exhibit 10.1 *	The Separation Agreement between Cabot Corporation and David A. Miller dated November 18, 2014.
Exhibit 10.2	Credit Agreement, dated October 3, 2014, among Cabot Corporation, JPMorgan Chase Bank, N.A., J.P. Morgan Securities LLC, Citigroup Global Markets Inc., Citibank, N.A., Bank of America, N.A., Mizuho Bank, Ltd., and TD Bank, N.A., and the other lenders party thereto (incorporated herein by reference to Exhibit 10(a) of Cabot's Annual Report on Form 10-K for the fiscal year ended September 30, 2014, file reference 1-5667, filed with the SEC on November 26, 2014).
Exhibit 31.1*	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
Exhibit 31.2*	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
Exhibit 32**	Certifications of the Principal Executive Officer and the Principal Financial Officer pursuant to 18 U.S.C. Section 1350.
Exhibit 101.INS*	XBRL Instance Document.
Exhibit 101.SCH*	XBRL Taxonomy Extension Schema Document.
Exhibit 101.CAL*	XBRL Taxonomy Calculation Linkbase Document.
Exhibit 101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
Exhibit 101.LAB*	XBRL Taxonomy Label Linkbase Document.
Exhibit 101.PRE*	XBRL Taxonomy Presentation Linkbase Document.

Management contract or compensatory plan or arrangement.

\* Filed herewith.

\*\* Furnished herewith.

Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Operations for the three December 31, 2014 and 2013; (ii) the Consolidated Statements of Comprehensive (Loss) Income for the three months ended December 31, 2014 and 2013; (iii) the Consolidated Balance Sheets at December 31, 2014 and September 30, 2014; (iv) the Consolidated Statements of Cash Flows for the three months ended December 31, 2014 and 2013; and (v) Notes to Consolidated Financial Statements, December 31, 2014.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

*CABOT CORPORATION*

Date: February 5, 2015

By: /s/ EDUARDO E. CORDEIRO  
Eduardo E. Cordeiro  
*Executive Vice President and Chief Financial  
Officer  
(Duly Authorized Officer)*

Date: February 5, 2015

By: /s/ JAMES P. KELLY  
James P. Kelly  
*Vice President and Controller  
  
(Chief Accounting Officer)*

**Table of Contents****Exhibit Index**

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