

CABOT CORP  
Form 10-Q  
August 06, 2014  
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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 June 30, 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 July 31, 2014 the Company had 64,580,369 shares of Common Stock, par value \$1.00 per share, outstanding.**



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**Table of Contents****Part I. Financial Information****Item 1. Financial Statements****CABOT CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS****UNAUDITED**

|   | <b>Three Months Ended June 30</b>                        |             | <b>Nine Months Ended June 30</b> |             |
|---|--|-------------|----------------------------------|-------------|
|   | <b>2014</b>  | <b>2013</b> | <b>2014</b>                      | <b>2013</b> |
|   | <b>(In millions, except share and per share amounts)</b> |             |                                  |             |
| Net sales and other operating revenues  | \$ 940   | \$ 901      | \$ 2,736                         | \$ 2,560    |
| Cost of sales   | 756  | 725         | 2,197                            | 2,094       |
| Gross profit  | 184  | 176         | 539                              | 466         |
| Selling and administrative expenses   | 76   | 72          | 245                              | 222         |
| Research and technical expenses   | 15   | 17          | 46                               | 50          |
| Income from operations  | 93   | 87          | 248                              | 194         |
| Interest and dividend income  | 1  | 2           | 3                                | 4           |
| Interest expense  | (14)   | (15)        | (41)                             | (47)        |
| Other income  |  |             | 27                               | 3           |
| Income from continuing operations before income taxes and equity in (loss) earnings of affiliated companies | 80   | 74          | 237                              | 154         |
| Provision for income taxes  | (20)   | (16)        | (51)                             | (52)        |
| Equity in (loss) earnings of affiliated companies, net of tax   | (2)  | 3           | (2)                              | 9           |
| Income from continuing operations   | 58   | 61          | 184                              | 111         |
| (Loss) income from discontinued operations, net of tax  | (1)  | 1           | (2)                              | (2)         |
| Net income  | 57   | 62          | 182                              | 109         |
| Net income attributable to noncontrolling interests, net of tax   | 5  | 3           | 14                               | 3           |
| Net income attributable to Cabot Corporation  | \$ 52  | \$ 59       | \$ 168                           | \$ 106      |
| Weighted-average common shares outstanding, in millions:  |  |             |                                  |             |
| Basic   | 64.5   | 63.8        | 64.3                             | 63.6        |
| Diluted   | 65.2   | 64.5        | 65.0                             | 64.3        |
| Income per common share:  |  |             |                                  |             |

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Basic:

|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Income from continuing operations attributable to Cabot Corporation | \$ 0.80 | \$ 0.88 | \$ 2.61 | \$ 1.66 |
| (Loss) income from discontinued operations                          | (0.01)  | 0.04    | (0.03)  | (0.01)  |
| Net income attributable to Cabot Corporation                        | \$ 0.79 | \$ 0.92 | \$ 2.58 | \$ 1.65 |

Diluted:

|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Income from continuing operations attributable to Cabot Corporation | \$ 0.79 | \$ 0.87 | \$ 2.58 | \$ 1.64 |
| (Loss) income from discontinued operations                          | (0.01)  | 0.03    | (0.03)  | (0.01)  |
| Net income attributable to Cabot Corporation                        | \$ 0.78 | \$ 0.90 | \$ 2.55 | \$ 1.63 |
| Dividends per common share  | \$ 0.22 | \$ 0.20 | \$ 0.62 | \$ 0.60 |

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

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**CABOT CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**UNAUDITED**

|   | <b>Three Months Ended June 30</b> |             | <b>The Months Ended June 30</b> |             |
|---|-----------------------------------|-------------|---------------------------------|-------------|
|   | <b>2014</b>                       | <b>2013</b> | <b>2014</b>                     | <b>2013</b> |
|   | (In millions)                     |             |                                 |             |
| Net income  | \$ 57                             | \$ 62       | \$ 182                          | \$ 109      |
| Other comprehensive income (loss), net of tax   |                                   |             |                                 |             |
| Foreign currency translation adjustment (net of tax provision (benefit) of \$-, \$2, \$1, and \$(12))                                     | 11                                | (16)        | (18)                            | (38)        |
| Unrealized holding gains arising during the period (net of tax provision of \$1, \$-, \$1, and \$-)                                       | 2                                 | 1           | 2                               | 1           |
| Pension and other postretirement benefit liability adjustments arising during the period (net of tax provision of \$-, \$6, \$-, and \$6) |                                   | 13          |                                 | 15          |
| Amortization of net loss and prior service credit included in net periodic pension cost (net of tax provision of \$-, \$-, \$-, and \$2)  |                                   |             | 1                               | 1           |
| Other comprehensive income (loss)   | 13                                | (2)         | (15)                            | (21)        |
| Comprehensive income  | 70                                | 60          | 167                             | 88          |
| Net income attributable to noncontrolling interests   | 5                                 | 3           | 14                              | 3           |
| Noncontrolling interests foreign currency translation adjustment, net of tax  |                                   | 2           | (2)                             | 1           |
| Comprehensive income attributable to noncontrolling interests, net of tax   | 5                                 | 5           | 12                              | 4           |
| Comprehensive income attributable to Cabot Corporation  | \$ 65                             | \$ 55       | \$ 155                          | \$ 84       |

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

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

**ASSETS**

**UNAUDITED**

|  | <b>June 30,<br/>2014</b> | <b>September 30,<br/>2013</b> |
|--|--------------------------|-------------------------------|
|  | <b>(In millions)</b>     |                               |
| <b>Current assets:</b>   |                          |                               |
| Cash and cash equivalents  | \$ 101                   | \$ 95                         |
| Accounts and notes receivable, net of reserve for doubtful accounts of \$8 and \$8 | 724                      | 633                           |
| <b>Inventories:</b>  |                          |                               |
| Raw materials  | 119                      | 100                           |
| Work in process  | 2                        | 2                             |
| Finished goods   | 366                      | 309                           |
| Other  | 45                       | 44                            |
| <b>Total inventories</b>   | <b>532</b>               | <b>455</b>                    |
| Prepaid expenses and other current assets  | 103                      | 58                            |
| Notes receivable from sale of business   |                          | 214                           |
| Deferred income taxes  | 37                       | 36                            |
| Current assets held for sale   | 4                        | 4                             |
| <b>Total current assets</b>  | <b>1,501</b>             | <b>1,495</b>                  |
| <b>Property, plant and equipment, net</b>  | <b>1,616</b>             | <b>1,600</b>                  |
| Goodwill   | 555                      | 502                           |
| Equity affiliates  | 71                       | 119                           |
| Intangible assets, net   | 354                      | 308                           |
| Assets held for rent   | 55                       | 49                            |
| Deferred income taxes  | 80                       | 68                            |
| Other assets   | 57                       | 83                            |
| Noncurrent assets held for sale  | 9                        | 9                             |
| <b>Total assets</b>  | <b>\$ 4,298</b>          | <b>\$ 4,233</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**

|  | June 30,<br>2014                                     | September 30,<br>2013 |
|--|--|-----------------------|
|  | (In millions, except share<br>and per share amounts) |                       |
| Current liabilities:   |  |                       |
| Notes payable  | \$ 119   | \$ 264                |
| Accounts payable and accrued liabilities                         | 537  | 534                   |
| Income taxes payable   | 39   | 30                    |
| Deferred income taxes  | 2  | 2                     |
| Current portion of long-term debt                                | 18   | 14                    |
| <b>Total current liabilities</b>                                 | <b>715</b>   | <b>844</b>            |
| Long-term debt   | 1,026  | 1,020                 |
| Deferred income taxes  | 49   | 21                    |
| Other liabilities  | 273  | 265                   |
| Redeemable preferred stock                                       | 29   |                       |
| 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: 64,832,912 and 64,223,985 shares                         |  |                       |
| Outstanding: 64,580,371 and 63,970,502 shares                    | 65   | 64                    |
| Less cost of 252,541 and 253,483 shares of common treasury stock | (8)  | (8)                   |
| Additional paid-in capital                                       | 57   | 39                    |
| Retained earnings  | 1,883  | 1,755                 |
| Deferred employee benefits                                       |  | (2)                   |
| Accumulated other comprehensive income                           | 90   | 103                   |
| <b>Total Cabot Corporation stockholders' equity</b>              | <b>2,087</b>   | <b>1,951</b>          |
| Noncontrolling interests   | 119  | 132                   |
| <b>Total stockholders' equity</b>                                | <b>2,206</b>   | <b>2,083</b>          |
| <b>Total liabilities and stockholders' equity</b>                | <b>\$ 4,298</b>                                      | <b>\$ 4,233</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>Nine Months Ended</b> |             |
|---|--------------------------|-------------|
|   | <b>June 30</b>           |             |
|   | <b>2014</b>              | <b>2013</b> |
|   | <b>(In millions)</b>     |             |
| <b>Cash Flows from Operating Activities:</b>                                  |                          |             |
| Net income  | \$ 182                   | \$ 109      |
| Adjustments to reconcile net income to cash provided by operating activities: |                          |             |
| Depreciation and amortization   | 150                      | 144         |
| Impairment of assets  | 4                        | 16          |
| Deferred tax provision  | (16)                     | 7           |
| Gain on existing investment in NHUMO  | (29)                     |             |
| Equity in earnings of affiliated companies                                    | 2                        | (9)         |
| Non-cash compensation   | 11                       |             |