

CABOT CORP  
Form 10-Q  
February 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 December 31, 2013**

**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

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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, 2014 the Company had 64,374,176 shares of Common Stock, par value \$1.00 per share, outstanding.**

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**CABOT CORPORATION**

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	<b>Three Months Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
	<b>(In millions, except per share amounts)</b>	
Net sales and other operating revenues	\$ 899	\$ 820
Cost of sales	720	673
Gross profit	179	147
Selling and administrative expenses	77	73
Research and technical expenses	16	19
Income from operations	86	55
Interest and dividend income	1	1
Interest expense	(14)	(16)
Other income	35	1
Income from continuing operations before income taxes and equity in earnings of affiliated companies	108	41
Provision for income taxes	(24)	(19)
Equity in earnings of affiliated companies, net of tax	2	3
Income from continuing operations	86	25
Loss from discontinued operations, net of tax		(1)
Net income	86	24
Net income attributable to noncontrolling interests, net of tax	6	4
Net income attributable to Cabot Corporation	\$ 80	\$ 20
Weighted-average common shares outstanding, in millions:		
Basic	64.2	63.5
Diluted	64.8	64.1
Income per common share:		

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Basic:

Income from continuing operations attributable to Cabot Corporation	\$	1.24	\$	0.33
Loss from discontinued operations				(0.02)
Net income attributable to Cabot Corporation	\$	1.24	\$	0.31

Diluted:

Income from continuing operations attributable to Cabot Corporation	\$	1.23	\$	0.33
Loss from discontinued operations				(0.02)
Net income attributable to Cabot Corporation	\$	1.23	\$	0.31
Dividends per common share	\$	0.20	\$	0.20

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 December 31</b>	
	<b>2013</b>	<b>2012</b>
	<b>(In millions)</b>	
Net income	\$ 86	\$ 24
Other comprehensive (loss) income, net of tax		
Foreign currency translation adjustment (net of tax of \$- and (\$7))	(21)	14
Unrealized gain and losses on investments		
Unrealized holding gains arising during the period (net of tax of \$- and \$-)		1
Pension and other postretirement benefit liability adjustments		
Amortization of net loss and prior service benefit included in net periodic pension cost (net of tax of \$- and \$1)		1
Other comprehensive (loss) income	(21)	16
Comprehensive income	65	40
Net income attributable to noncontrolling interests, net of tax	6	4
Noncontrolling interests foreign currency translation adjustment, net of tax	(1)	1
Comprehensive income attributable to noncontrolling interests, net of tax	5	5
Comprehensive income attributable to Cabot Corporation	\$ 60	\$ 35

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>2013</b>	<b>2013</b>
	<b>(In millions)</b>	
<b>Current assets:</b>		
Cash and cash equivalents	\$ 105	\$ 95
Accounts and notes receivable, net of reserve for doubtful accounts of \$12 and \$8	696	634
<b>Inventories:</b>		
Raw materials	128	102
Work in process	2	2
Finished goods	339	310
Other	44	44
<b>Total inventories</b>	<b>513</b>	<b>458</b>
Prepaid expenses and other current assets	65	58
Notes receivable from sale of business	215	214
Deferred income taxes	21	36
<b>Total current assets</b>	<b>1,615</b>	<b>1,495</b>
Property, plant and equipment, net	1,641	1,605
Goodwill	559	504
Equity affiliates	78	119
Intangible assets, net	364	310
Assets held for rent	53	49
Deferred income taxes	62	68
Other assets	83	83
<b>Total assets</b>	<b>\$ 4,455</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**

	<b>December 31, September 30,</b>	
	<b>2013 2013</b>	
	<b>(In millions, except share and per share amounts)</b>	
Current liabilities:		
Notes payable	\$ 421	\$ 264
Accounts payable and accrued liabilities	487	534
Income taxes payable	38	30
Deferred income taxes	4	2
Current portion of long-term debt	19	14
<b>Total current liabilities</b>	<b>969</b>	<b>844</b>
Long-term debt	1,026	1,020
Deferred income taxes	32	21
Other liabilities	264	265
Redeemable preferred stock	28	
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: 64,612,793 and 64,223,985 shares		
Outstanding: 64,360,252 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	43	39
Retained earnings	1,822	1,755
Deferred employee benefits		(2)
Accumulated other comprehensive income	83	103
<b>Total Cabot Corporation stockholders' equity</b>	<b>2,005</b>	<b>1,951</b>
Noncontrolling interests	131	132
<b>Total stockholders' equity</b>	<b>2,136</b>	<b>2,083</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 4,455</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>Three months ended</b>	
	<b>December 31</b>	
	<b>2013</b>	<b>2012</b>
	<b>(In millions)</b>	
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 86	\$ 24
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and amortization	51	49
Impairment of assets	3	
Deferred tax provision	3	5
Gain on existing investment in NHUMO	(29)	
Equity in earnings of affiliated companies	(2)	(3)
Non-cash compensation	4	3
Other	2	
Changes in assets and liabilities:		
Accounts and notes receivable	(34)	62
Inventories	(39)	(55)
Prepaid expenses and other current assets	(13)	(11)
Accounts payable and accrued liabilities	(62)	(91)
Income taxes payable	4	(33)
Other liabilities	(7)	(2)
Cash dividends received from equity affiliates	17	3
Other	(2)	(2)
Cash used in operating activities	(18)	(51)
<b>Cash Flows from Investing Activities:</b>		
Additions to property, plant and equipment	(42)	(62)
Receipts from notes receivable from sale of business		19
Change in assets held for rent	(4)	(2)
Cash paid for acquisition of business, net of cash acquired of \$7	(73)	
Cash used in investing activities	(119)	(45)
<b>Cash Flows from Financing Activities:</b>		
Borrowings under financing arrangements	8	1
Repayments under financing arrangements		(6)
Proceeds from long-term debt, net of issuance costs	11	81
Repayments of long-term debt	(1)	(8)
Increase in notes payable, net		14

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Proceeds from issuance of commercial paper, net	149	
Purchases of common stock	(6)	(6)
Proceeds from sales of common stock	7	4
Cash dividends paid to common stockholders	(13)	(13)
Cash provided by financing activities	155	67
Effect of exchange rate changes on cash	(8)	
Increase (decrease) in cash and cash equivalents	10	(29)
Cash and cash equivalents at beginning of period	95	120
Cash and cash equivalents at end of period	\$ 105	\$ 91

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, 2013**

**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, of which there were none in the periods presented. Intercompany transactions have been eliminated in consolidation.

The unaudited consolidated financial statements have been prepared in accordance with the requirements of Form 10-Q and consequently do not include all disclosures required by Form 10-K. Additional information may be obtained by referring to Cabot's Annual Report on Form 10-K for the fiscal year ended September 30, 2013 ( 2013 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, 2013 and 2012. 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