CABOT CORP
Form 10-Q
August 07, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 1-5667

Cabot Corporation

(Exact name of registrant as specified in its charter)

Delaware	04-2271897
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Two Seaport Lane

Boston, Massachusetts	02210-2019
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The Company had 62,229,151 shares of common stock, $1.00 par value per share, outstanding as of August 3, 2017.

CABOT CORPORATION

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Part I. Financial Information

Item 1. Financial Statements

CABOT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

UNAUDITED

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(In millions, except per share amounts)			
Net sales and other operating revenues	$705	$621	$1,994	$1,792
Cost of sales	546	461	1,509	1,383
Gross profit	159	160	485	409
Selling and administrative expenses	63	64	191	197
Research and technical expenses	14	13	40	40
Income (loss) from operations	82	83	254	172
Interest and dividend income	3	1	7	4
Interest expense	(13)	(13)	(39)	(40)
Other income (expense)	(6)	3	(5)	(8)
Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies	66	74	217	128
(Provision) benefit for income taxes	(16)	(15)	(32)	(21)
Equity in earnings of affiliated companies, net of tax	3	1	6	2
Net income (loss)	53	60	191	109
Net income (loss) attributable to noncontrolling interests, net of tax	8	4	18	12
Net income (loss) attributable to Cabot Corporation	$45	$56	$173	$97
Weighted-average common shares outstanding:				
Basic	62.4	62.4	62.3	62.4
Diluted	62.7	62.9	62.8	62.9
Earnings per common share:				
Basic	$0.71	$0.90	$2.75	$1.55
Diluted	$0.71	$0.88	$2.74	$1.53
Dividends per common share	$0.315	$0.30	$0.915	$0.74

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

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CABOT CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

UNAUDITED

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Net income (loss)	$53	$60	$191	$109
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustment, net of tax provision (benefit) of $(4), $—, $(1) and $—	54	(13)	(15)	5
Pension and other postretirement benefit liability adjustments				
Pension and other postretirement benefit liability adjustments arising during the period, net of tax	—	—	—	(1)
Amortization of net loss and prior service credit included in net periodic benefit cost, net of tax	—	(1)	2	—
Other comprehensive income (loss)	54	(14)	(13)	4
Comprehensive income (loss)	107	46	178	113
Net income (loss) attributable to noncontrolling interests, net of tax	8	4	18	12
Foreign currency translation adjustment attributable to noncontrolling interests, net of tax	3	(3)	—	(5)
Comprehensive income (loss) attributable to noncontrolling interests, net of tax	11	1	18	7
Comprehensive income (loss) attributable to Cabot Corporation	$96	$45	$160	$106

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

CABOT CORPORATION

CONSOLIDATED BALANCE SHEETS

ASSETS

UNAUDITED

	June 30, 2017	September 30, 2016
	(In millions)	
Current assets:		
Cash and cash equivalents	$198	$ 200
Accounts and notes receivable, net of reserve for doubtful accounts of $9 and $8	517	456
Inventories:		
Raw materials	83	66
Work in process	2	1
Finished goods	272	237
Other	41	38
Total inventories	398	342
Prepaid expenses and other current assets	51	49
Total current assets	1,164	1,047
Property, plant and equipment, net	1,267	1,290
Goodwill	153	152
Equity affiliates	55	53
Intangible assets, net	137	140
Assets held for rent	103	97
Deferred income taxes	254	216
Other assets	45	40
Total assets	$3,178	$ 3,035

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

CABOT CORPORATION

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

UNAUDITED

	June 30, 2017	September 30, 2016
	(In millions, except share and per share amounts)	
Current liabilities:		
Notes payable	$ 7	$ 7
Accounts payable and accrued liabilities	394	364
Income taxes payable	27	25
Current portion of long-term debt	251	1
Total current liabilities	679	397
Long-term debt	665	914
Deferred income taxes	47	41
Other liabilities	283	285
Redeemable preferred stock	27	26
Commitments and contingencies (Note G)		
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: 62,433,746 and 62,449,425 shares		
Outstanding: 62,229,151 and 62,210,711 shares	62	62
Less cost of 204,595 and 238,714 shares of common treasury stock	(6)	(7)
Additional paid-in capital	—	—
Retained earnings	1,655	1,544
Accumulated other comprehensive income (loss)	(338)	(325)
Total Cabot Corporation stockholders' equity	1,373	1,274
Noncontrolling interests	104	98
Total stockholders' equity	1,477	1,372
Total liabilities and stockholders' equity	$ 3,178	$ 3,035

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

CABOT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

	Nine Months Ended June 30,	
	2017	2016
	(In millions)	
Cash Flows from Operating Activities:		
Net income (loss)	$ 191	$ 109
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	115	122
Long-lived asset impairment charge	—	23
Deferred tax benefit	(26)	(13)
Equity in net income of affiliated companies	(6)	(2)
Non-cash compensation	10	13
Tax benefit from stock based compensation awards	(8)	(2)
Other non-cash (income) expense	(2)	3
Changes in assets and liabilities:		
Accounts and notes receivable	(64)	42
Inventories	(57)	61
Prepaid expenses and other current assets	(7)	9
Accounts payable and accrued liabilities	34	(56)
Income taxes payable	3	(8)
Other liabilities	(9)	(14)
Cash dividends received from equity affiliates	9	8
Cash provided by operating activities	183	295
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(86)	(80)
Proceeds from the sale of land	—	16
Change in assets held for rent	(5)	(6)
Other	2	—
Cash used in investing activities	(89)	(70)
Cash Flows from Financing Activities:		
Repayments under financing arrangements	(3)	(3)
Increase in notes payable, net	2	—
Proceeds from (repayments of) issuance of commercial paper, net	—	(11)
Repayments of long-term debt	(1)	(1)
Purchases of common stock	(43)	(27)
Proceeds from sales of common stock	21	6
Tax benefit from stock based compensation awards	8	2

Cash dividends paid to noncontrolling interests	(13)	(16)
Cash dividends paid to common stockholders	(57)	(47)
Cash used in financing activities	(86)	(97)
Effects of exchange rate changes on cash	(10)	17
Increase (decrease) in cash and cash equivalents	(2)	145
Cash and cash equivalents at beginning of period	200	77
Cash and cash equivalents at end of period	$198	$222

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

CABOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

UNAUDITED

A. Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting policies generally accepted in the United States (U.S.) and 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. 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, 2016 ("2016 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 June 30, 2017 and 2016. 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.

Effective October 1, 2016, the Company adopted a new accounting standard simplifying the presentation of debt issuance costs by presenting debt issuance costs as a reduction of the corresponding debt liability. In addition, the Company early adopted a new accounting standard that simplifies the presentation of deferred income taxes by classifying all deferred taxes as noncurrent assets or liabilities. These new standards were applied retrospectively. The retrospective application of the standard that simplifies the presentation of debt issuance costs resulted in the reclassification of $1 million and $3 million of unamortized debt issuance costs from Prepaid expenses and other current assets and Other assets, respectively, to Long-term debt within the Consolidated Balance Sheets as of September 30, 2016. The retrospective application of the standard that simplifies the presentation of deferred income taxes resulted in the reclassification of $41 million of current deferred tax assets and $1 million of current deferred tax liabilities to noncurrent deferred tax accounts within the Consolidated Balance Sheets as of September 30, 2016.

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. Taxes collected on sales to customers are excluded from revenues.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Reinforcement Materials	54%	46 %	53 %	48 %
Performance Chemicals	34%	38 %	35 %	38 %
Purification Solutions	10%	13 %	11 %	12 %
Specialty Fluids	2 %	3 %	1 %	2 %

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

For major activated carbon injection systems projects in Purification Solutions, revenue is recognized using the percentage-of-completion method.

Revenue in Specialty Fluids arises primarily 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 the sale of fine cesium chemicals in which revenue is recognized upon delivery of the product.

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 were no material changes in the allowance for any of the periods presented. There is no material off-balance sheet credit exposure related to customer receivable balances.

Intangible Assets and Goodwill Impairment

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 reporting units with goodwill balances are Reinforcement Materials, Purification Solutions, and Fumed Metal Oxides. The separate businesses included within Performance Chemicals are considered separate reporting units. As such, the goodwill balance relative to Performance Chemicals is recorded in the Fumed Metal Oxides reporting unit.

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. 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, a goodwill impairment loss would result. The goodwill impairment loss would be the amount by which the carrying value of the reporting unit, including goodwill, exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit. 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.

Based on the Company’s most recent annual goodwill impairment test performed as of May 31, 2017, the fair values of the Reinforcement Materials and Fumed Metal Oxides reporting units were substantially in excess of their carrying values. The fair value of the Purification Solutions reporting unit exceeded its carrying amount by 13%. The fair value of the Purification Solutions reporting unit includes certain growth assumptions that are primarily dependent on: (1) growth in demand for Cabot’s existing portfolio of activated carbon products and new products developed for environmental and specialty applications; and (2) stable demand in the mercury removal related portion of the business, which is largely dependent on the amount of coal-based power generation used in the United States and the continued regulation of those utilities under the U.S. Mercury and Air Toxics Standards regulation (“MATS”). In April 2017, the U.S. Environmental Protection Agency (EPA) indicated that it intends to review the cost benefit analysis previously prepared by the EPA in support of MATS to determine if the EPA should reconsider MATS or some part of it.

Realizing the Company's growth assumptions in the Purification Solutions reporting unit is generally driven by macroeconomic conditions, environmental regulations, technology advances, and global and regional competition. Failure to achieve the Company's projected growth in environmental and/or specialty applications and/or actions taken by the EPA related to MATS that decrease demand for the Company's products for mercury removal, could have a negative impact on the financial results and fair value of the Purification Solutions reporting unit, which may lead to impairment.

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 trademarks, 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.

Long-lived Assets Impairment

The Company's long-lived assets primarily include property, plant and equipment, intangible assets, 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.

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.

An asset impairment is recognized when the carrying value of the asset is not recoverable based on the analysis described above, in which case the asset is written down to its 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. 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.

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.

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 $31 million and $27 million higher as of June 30, 2017 and September 30, 2016, respectively. The cost of Specialty Fluids inventories that are classified as assets held for rent is determined using the average cost method. The cost of other U.S. and non-U.S. inventories is determined using the first-in, first-out ("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 net realizable 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 (loss), 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 (loss) is adjusted as these amounts are later recognized in income as components of net periodic benefit cost.

Accumulated Other Comprehensive Income (Loss)

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard, "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, 2017 and for interim periods within those years, and early adoption is permitted for the fiscal years beginning after December 15, 2016. The Company expects to adopt this standard on October 1, 2018. The Company is currently evaluating the impact the adoption of this standard may have on its consolidated financial statements.

In February 2016, the FASB issued a new standard for the accounting for leases. This new standard requires lessees to recognize assets and liabilities for most leases, but recognize expenses on their income statements in a manner that is similar to the current accounting treatment for leases. The standard is applicable for fiscal years beginning after December 15, 2018 and for interim periods within those years, and early adoption is permitted. The Company expects to adopt the standard on October 1, 2019. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

In March 2016, the FASB issued a new standard that amends the accounting standard for stock compensation by simplifying several aspects of the accounting for employee share-based payment transactions, including the related accounting for income taxes, forfeitures, and the withholding of shares to satisfy the employer's tax withholding requirements, as well as classification in the statements of cash flows. The new standard is effective for fiscal years beginning after December 15, 2016, including interim periods within those years, and early adoption is permitted. The Company expects to adopt the standard on October 1, 2017. The adoption of this standard is not expected to materially impact the Company's consolidated financial statements.

In August 2016, the FASB issued final amendments to clarify how entities should classify certain cash receipts and cash payments on the statement of cash flows such as distributions received from equity method investees, proceeds from settlement of insurance claims, and proceeds from the settlement of corporate-owned life insurance policies. The new standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those years, and early adoption is permitted. The Company is evaluating this standard and the timing of its adoption. The adoption of this standard is not expected to materially impact the Company's consolidated financial statements.

In January 2017, the FASB issued a new standard that amends and simplifies the accounting standard for goodwill impairment. The new standard removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit. The new standard is effective for annual and any interim impairment tests for periods beginning after December 15, 2019, and early adoption is permitted for any impairment tests performed after January 1, 2017. The Company adopted this standard on January 1, 2017. The adoption of this standard had no impact on the Company's consolidated financial statements.

In March 2017, the FASB issued a new standard that amends the requirements on the presentation of net periodic pension and postretirement benefit cost. Currently, net benefit costs are reported as employee costs within operating income. The new standard requires the service cost component to be presented with other employee compensation costs. The other components will be reported separately outside of operations. The new standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those years, and early adoption is permitted as of the beginning of any annual period for which an entity's financial statements (interim or annual) have not been issued. The Company is evaluating this standard and the timing of its adoption. The adoption of this standard is not expected to materially impact the Company's consolidated financial statements.

C. Employee Benefit Plans

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

	Three Months Ended June 30,							
	2017		2016		2017		2016	
	Pension Benefits				Postretirement Benefits			
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
	(In millions)							
Service cost	$1	$ 2	$1	$ 2	$—	$ —	$—	$ —
Interest cost	1	1	1	2	1	—	1	—
Expected return on plan assets	(3)	(3)	(2)	(3)	—	—	—	—
Amortization of prior service credit	—	—	—	—	(1)	—	(1)	—
Amortization of actuarial loss	—	1	—	—	—	—	—	—
Settlement and curtailment cost (credit)	—	—	—	—	—	—	—	—
Net periodic benefit (credit) cost	$(1)	$ 1	$—	$ 1	$—	$ —	$—	$ —

Nine Months Ended June 30,

	2017		2016		2017		2016	
	Pension Benefits				Postretirement Benefits			
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
	(In millions)							
Service cost	$1	$ 7	$1	$ 6	$—	$ —	$—	$ —
Interest cost	3	4	4	6	1	—	1	—
Expected return on plan assets	(8)	(10)	(8)	(10)	—	—	—	—
Amortization of prior service credit	—	—	—	—	(2)	—	(3)	—
Amortization of actuarial loss	—	4	—	2	—	—	—	—
Settlement and curtailment cost (credit)	—	—	—	—	—	—	(1)	—
Net periodic benefit (credit) cost	$(4)	$ 5	$(3)	$ 4	$(1)	$ —	$(3)	$ —

D. Goodwill and Intangible Assets

Cabot had goodwill balances of $153 million and $152 million at June 30, 2017 and September 30, 2016, respectively. The carrying amount of goodwill attributable to each reportable segment with goodwill balances and the changes in those balances during the nine month period ended June 30, 2017 are as follows:

	Reinforcement Materials	Performance Chemicals	Purification Solutions	Total
	(In millions)			
Balance at September 30, 2016	$52	$ 9	$ 91	$152
Foreign currency impact	1	—	—	1
Balance at June 30, 2017	$53	$ 9	$ 91	$153

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

	June 30, 2017			September 30, 2016		
	Gross Carrying Value	Accumulated Amortization	Net Intangible Assets	Gross Carrying Value	Accumulated Amortization	Net Intangible Assets
	(In millions)					
Intangible assets with finite lives						
Developed technologies	$48	$ (6)	$ 42	$48	$ (4)	$ 44
Trademarks	16	(1)	15	16	(1)	15
Customer relationships	93	(13)	80	90	(9)	81
Total intangible assets	$157	$ (20)	$ 137	$154	$ (14)	$ 140

Intangible assets are amortized over their estimated useful lives, which range from fourteen to twenty-five years, with a weighted average amortization period of approximately nineteen years. Amortization expense for the three month periods ended June 30, 2017 and 2016 was $2 million and $1 million, respectively, and is included in Cost of sales and Selling and administrative expenses in the Consolidated Statements of Operations. Amortization expense for the nine month periods ended June 30, 2017 and 2016 was $6 million and $5 million, respectively, and is included in the Cost of sales and Selling and administrative expenses in the Consolidated Statements of Operations. Total amortization expense is estimated to be approximately $7 million each year for the next five fiscal years.

E. Stockholders’ Equity

In January 2015, the Board of Directors authorized Cabot to repurchase up to five million shares of its common stock in the open market or in privately negotiated transactions. Cabot has repurchased 2,934,176 shares of its common stock under this authorization. As of June 30, 2017, 2,065,824 shares remain available for repurchase under the current authorization. The Company retired the repurchased shares and recorded the excess of the purchase price over par value to additional paid-in capital until such amount was reduced to zero and then charged the remainder against retained earnings.

During the first nine months of fiscal 2017 and 2016, Cabot paid cash dividends in the aggregate amount of $0.915 and $0.74, respectively, per share of common stock, with a total cost of $57 million and $47 million, respectively.

Noncontrolling interest

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

	2017	2016
	(In millions)	
Balance at September 30	$98	$104
Net income (loss) attributable to noncontrolling interests	18	12
Foreign currency translation adjustment attributable to noncontrolling interests, net of tax	—	(5)
Dividends declared to noncontrolling interests	(14)	(16)
Contribution from noncontrolling interest	2	—
Balance at June 30	$104	$95

During the nine months ended June 30, 2017, $14 million of dividends were declared to noncontrolling interests, $13 million of which were paid during the period. During the nine months ended June 30, 2016, $16 million of dividends were declared to noncontrolling interests, all of which were paid during the period.

F. Accumulated Other Comprehensive Income (Loss)

Comprehensive income combines net income (loss) 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, were as follows:

	Currency Translation Adjustment	Unrealized Gains on Investments	Pension and Other Postretirement Benefit Liability Adjustments	Total
	(In millions)			
Balance at September 30, 2016, attributable to Cabot Corporation	$(227)	$ 2	$ (100)	$(325)
Other comprehensive income (loss)	(125)	—	1	(124)
Less: Other comprehensive income (loss) attributable to noncontrolling interests	(4)	—	—	(4)
Balance at December 31, 2016, attributable to Cabot Corporation	(348)	2	(99)	(445)

Other comprehensive income (loss)	56	—	1	57
Less: Other comprehensive income (loss) attributable to noncontrolling interests	1	—	—	1
Balance at March 31, 2017, attributable to Cabot Corporation	(293)	2	(98)	(389)
Other comprehensive income (loss)	54	—	—	54
Less: Other comprehensive income (loss) attributable to noncontrolling interests	3	—	—	3
Balance at June 30, 2017, attributable to Cabot Corporation	$(242)	$ 2	$ (98)	$(338)

The amounts reclassified out of AOCI and into the Consolidated Statements of Operations in the three and nine months ended June 30, 2017 and 2016 were as follows:

	Affected Line Item in the Consolidated Statements of Operations	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Nine Months Ended June 30, 2017	Nine Months Ended June 30, 2016
		(In millions)			
Pension and other postretirement benefit liability adjustment					
Amortization of actuarial losses	Net Periodic Benefit Cost - see Note C for details	$1	$ —	$4	$ 2
Amortization of prior service credit	Net Periodic Benefit Cost - see Note C for details	(1)	(1)	(2)	(3)
Settlement and curtailment (credit) cost	Net Periodic Benefit Cost - see Note C for details	—	—	—	(1)
Total before tax		—	(1)	2	(2)
Tax impact	Provision (benefit) for income taxes	—	—	—	1
Total after tax		$—	$ (1)	$2	$ (1)

G. 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 June 30, 2017.

	Payments Due by Fiscal Year						
	Remainder of Fiscal 2017	2018	2019	2020	2021	Thereafter	Total
	(In millions)						
Reinforcement Materials	$59	$213	$209	$135	$102	$ 1,458	$2,176
Performance Chemicals	10	36	35	30	28	201	340

Purification Solutions	3	9	7	6	—	—	25
Total	$72	$258	$251	$171	$130	$ 1,659	$2,541

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.

Environmental Matters

As of June 30, 2017 and September 30, 2016, Cabot had $12 million and $14 million, respectively, reserved for environmental matters. These environmental matters mainly relate to former operations. 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 $2 million in the first nine months of both fiscal 2017 and fiscal 2016. 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 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 2016 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. Neither Cabot, nor its past or present subsidiaries, at any time manufactured asbestos or asbestos-containing products. At no time did this respiratory product line represent a significant portion of the respirator market.

As of June 30, 2017 and September 30, 2016, there were approximately 37,000 and 38,000 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 June 30, 2017 and September 30, 2016, the reserve was $18 million and $21 million, respectively. Cash payments related to this liability were approximately $3 million in the first nine months of both fiscal 2017 and fiscal 2016.

Cabot’s current estimate of the cost of its share of existing and future respirator liability claims is based on facts and circumstances existing at this time. Developments that could affect the Company’s 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 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 certain of the other parties which contribute to the settlement of respirator claims, or the indemnity provided by a former owner of the business, (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 Cabot's share of liability are no longer reasonable. The Company cannot determine the impact of these potential developments on its current estimate of its share of liability for existing and future claims. Accordingly, the actual amount of these liabilities for existing and future claims could be different than the reserved amount.

Other

The Company has various other lawsuits, claims and contingent liabilities arising in the ordinary course of its business and with respect to the Company's divested businesses. The Company does not believe that any of these matters will have a material adverse effect on its financial position; however, litigation is inherently unpredictable. Cabot could incur judgments, enter into settlements or revise its expectations regarding the outcome of certain matters, and such developments could have a material impact on its results of operations in the period in which the amounts are accrued or its cash flows in the period in which the amounts are paid.

H. Income Tax

Effective Tax Rate

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
Provision (benefit) for income taxes	$ 16	$ 15	$ 32	$ 21
Effective tax rate	22 %	21 %	14 %	17 %

During the three and nine months ended June 30, 2017, the Company recorded tax provisions of $16 million and $32 million, respectively, resulting in effective tax rates of 22% and 14%, respectively. For the three and nine months ended June 30, 2017, these amounts included a net discrete tax expense of $5 million and a net discrete tax benefit of $15 million, respectively, primarily comprised of a tax expense associated with various return to provision adjustments related to tax return filings and a tax benefit associated with the generation of excess foreign tax credits upon repatriation of previously taxed foreign earnings. During the three and nine months ended June 30, 2016, the Company recorded tax provisions of $15 million and $21 million, respectively, resulting in effective tax rates of 21% and 17%, respectively. For the three and nine months ended June 30, 2016, these amounts included a net discrete tax expense of $3 million and a net discrete tax benefit of $2 million, respectively, primarily comprised of net tax expenses associated with various return to provision adjustments related to tax return filings and nontaxable foreign exchange gains and losses in certain jurisdictions, partially offset by benefits from the renewal of the U.S. Research and Experimentation credit and releases of reserves for uncertain tax positions.

Uncertainties

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

Cabot files U.S. federal and state and non-U.S. income tax returns in jurisdictions with varying statutes of limitations. The 2012 through 2015 tax years generally remain subject to examination by the United States Internal Revenue Service and various tax years from 2005 through 2015 remain subject to examination by the respective state tax authorities. In significant non-U.S. jurisdictions, various tax years from 2002 through 2015 remain subject to examination by their respective tax authorities. As of June 30, 2017, Cabot’s significant non-U.S. jurisdictions include Canada, China, France, Germany, Italy, Japan, and the Netherlands.

During the three and nine months ended June 30, 2017, Cabot released uncertain tax positions of less than $1 million and $3 million, respectively, due to the expirations of statutes of limitations in various jurisdictions. During the three and nine months ended June 30, 2016, Cabot released uncertain tax positions of less than $1 million and $3 million, respectively, due to the expirations of statutes of limitations in various jurisdictions.

I. Earnings Per Share

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(In millions, except per share amounts)			
Basic EPS:				
Net income (loss) attributable to Cabot Corporation	$45	$56	$173	$97
Less: Undistributed earnings allocated to participating securities[1]	—	—	1	—
Earnings (loss) allocated to common shareholders (numerator)	$45	$56	$172	$97
Weighted average common shares and participating securities outstanding	62.9	62.9	62.8	62.9
Less: Participating securities[1]	0.5	0.5	0.5	0.5
Adjusted weighted average common shares (denominator)	62.4	62.4	62.3	62.4
Earnings per common share - basic:	$0.71	$0.90	$2.75	$1.55
Diluted EPS:				
Earnings (loss) allocated to common shareholders	$45	$56	$172	$97
Plus: Earnings (loss) allocated to participating securities	—	—	1	—
Less: Adjusted earnings allocated to participating securities[2]	—	—	1	1
Earnings (loss) allocated to common shareholders (numerator)	$45	$56	$172	$96

Adjusted weighted average common shares outstanding	62.4	62.4	62.3	62.4
Effect of dilutive securities:				
Common shares issuable[(3)]	0.3	0.5	0.5	0.5
Adjusted weighted average common shares (denominator)	62.7	62.9	62.8	62.9
Earnings per common share - diluted:	$0.71	$0.88	$2.74	$1.53

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

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:

	Three Months Ended June 30, 2017	2016	Nine Months Ended June 30, 2017	2016
	(In millions)			
Calculation of undistributed earnings (loss):				
Net income (loss) attributable to Cabot Corporation	$45	$ 56	$173	$ 97
Less: Dividends declared on common stock	19	19	57	47
Undistributed earnings (loss)	$26	$ 37	$116	$ 50
Allocation of undistributed earnings (loss):				
Undistributed earnings (loss) allocated to common shareholders	$26	$ 37	$115	$ 50
Undistributed earnings (loss) allocated to participating shareholders	—	—	1	—
Undistributed earnings (loss)	$26	$ 37	$116	$ 50

(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 Supplemental 401(K) 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 and nine months ended June 30, 2017, 191,616 and 172,969 incremental shares of common stock, respectively, were excluded from the calculation of diluted earnings per share because the inclusion of these shares would have been antidilutive. For the three and nine months ended June 30, 2016, 338,854 and 726,589 incremental shares of common stock, respectively, were excluded from the calculation of diluted earnings per share because the inclusion of these shares would have been antidilutive.

J. Restructuring

Cabot’s restructuring activities were recorded in the Consolidated Statements of Operations in the three and nine months ended June 30, 2017 and 2016 as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Cost of sales	$ 1	$ 1	$ 2	$ 32
Selling and administrative expenses	—	1	1	8
Research and technical expenses	—	—	—	5
Total	$ 1	$ 2	$ 3	$ 45

Details of all restructuring activities and the related reserves during the three months ended June 30, 2017 were as follows:

	Severance and Employee Benefits	Environmental Remediation	Other	Total
	(In millions)			
Reserve at March 31, 2017	$ 2	$ 2	$ —	$ 4
Charges	—	—	1	1
Cash paid	(1)	—	(1)	(2)
Reserve at June 30, 2017	$ 1	$ 2	$ —	$ 3

Details of all restructuring activities during the nine months ended June 30, 2017 were as follows:

	Severance and Employee Benefits	Environmental Remediation	Other	Total
	(In millions)			
Reserve at September 30, 2016	$ 3	$ 2	$ —	$ 5
Charges	1	—	2	3
Cash paid	(3)	—	(2)	(5)
Reserve at June 30, 2017	$ 1	$ 2	$ —	$ 3

2016 Plan

In October 2015, in response to challenging macroeconomic conditions, the Company announced its intention to restructure its operations subject to local consultation requirements and processes in certain locations. Cabot’s plan resulted in the termination of employment for approximately 300 employees across the Company’s global locations.

Total charges related to these actions are expected to be $30 million, of which approximately $29 million was recorded in fiscal 2016. The Company recorded pre-tax charges of approximately $1 million in the first nine months of fiscal 2017, and expects to record less than $1 million through the rest of fiscal 2017 related to these actions. The Company recorded pre-tax charges of approximately $28 million in the first nine months of fiscal 2016, and pre-tax charges of $2 million for the three months ended June 30, 2016 related to these actions. The charges recorded and anticipated are comprised of severance, employee benefits and other transition costs.

Cumulative net cash outlays related to these actions are expected to be approximately $30 million, comprised of severance, employee benefits and other transition costs. Through June 30, 2017, the Company has made $29 million in cash payments related to this plan, of which $27 million was paid in fiscal 2016. The Company expects to make $1 million in cash payments through the remainder of fiscal 2017.

As of June 30, 2017, Cabot has less than $1 million of accrued severance charges in the Consolidated Balance Sheet related to these actions.

Additionally, in fiscal 2016 Cabot closed its carbon black manufacturing facility in Merak, Indonesia to consolidate production in Asia using the Company's Cilegon, Indonesia and other Asian and global carbon black production sites to meet regional demand. The decision was driven by the financial performance at the Merak facility in the years preceding the closure. Manufacturing operations ceased at the end of January 2016.

Total charges related to the Merak closure are expected to be $27 million, of which $25 million was recorded in fiscal 2016. The Company has recorded net charges of less than $1 million in the nine months ended June 30, 2017 and charges of $25 million in the nine months ended June 30, 2016 related to this closure. The charges in the first nine months of fiscal 2016 were comprised of $22 million of non-cash asset impairments and accelerated depreciation and $3 million of severance and employee benefits. Pre-tax charges related to this plan were less than $1 million in the three month periods ended June 30, 2017 and 2016.

Future anticipated site closure costs for the Merak facility, comprised mainly of site demolition, clearing and environmental remediation charges, and other miscellaneous costs, are expected to total approximately $2 million in the remainder of fiscal 2017 and thereafter.

Total net cash outlays related to this closure are expected to be approximately $6 million, comprised of $3 million of severance payments, and $3 million of site demolition, clearing, environmental and other costs. Through June 30, 2017, the Company has made $3 million in cash payments related to this plan, mainly for severance, and expects to pay approximately $3 million through the remainder of fiscal 2017 and thereafter for site demolition, clearing, environmental remediation, and severance costs.

As of June 30, 2017, Cabot has approximately $1 million of accrued severance costs in the Consolidated Balance Sheet related to the Merak facility closure.

Other Actions

Cabot has recorded approximately $1 million of severance charges in the nine months ended June 30, 2017, nearly all of which has been paid.

Additionally, in previous years, the Company has entered into other various restructuring actions that have been substantially completed, other than the sale of assets from certain closed sites that remain to be completed. The Company has recorded a total net charge of less than $1 million related to these plans in the nine months ended June 30, 2017 and a net benefit of $7 million in the nine months ended June 30, 2016, driven by gains from the sale of certain assets. Pre-tax charges related to these actions were less than $1 million in the three month periods ended both June 30, 2017 and 2016.

Cabot expects to pay $2 million related to these actions in the remainder of fiscal 2017 and thereafter mainly for accrued environmental and other closure related costs. As of June 30, 2017, Cabot has approximately $2 million of accrued environmental costs in the Consolidated Balance Sheets related to these activities.

K. 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 and there were no Level 3 investments during the first nine months of either fiscal 2017 or 2016.

At June 30, 2017 and September 30, 2016, Cabot had derivatives relating to foreign currency risks carried at fair value. At June 30, 2017, the fair value of these derivatives was a net liability of $3 million and was included in Accounts payable and accrued liabilities, Other liabilities, and Prepaid expenses and other current assets on the Consolidated Balance Sheets. At September 30, 2016, the fair value of these derivatives was a net asset of $1 million and was included in Prepaid expenses and other current assets and Other assets on the Consolidated Balance Sheets. These derivatives are classified as Level 2 instruments within the fair value hierarchy as the fair value determination was based on observable inputs.

At both June 30, 2017 and September 30, 2016, the fair value of guaranteed investment contracts, included in Other assets on the Consolidated Balance Sheets, was $12 million. Guaranteed investment contracts were classified as Level 2 instruments within the fair value hierarchy as the fair value determination was based on other observable inputs.

At June 30, 2017 and September 30, 2016, 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 were \$0.91 billion and \$0.94 billion, respectively, as of June 30, 2017 and \$0.91 billion and \$0.98 billion, respectively, as of September 30, 2016. The fair values of Cabot's fixed rate long-term debt 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.

L. Derivatives

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 Euro denominated principal and interest payments.

Additionally, the Company has foreign currency exposure arising from its net investments in foreign operations. Cabot may enter 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 June 30, 2017 and September 30, 2016 to manage foreign currency risk.

		Notional Amount		Hedge
Description	Borrowing	June 30, 2017	September 30, 2016	Designation
Cross Currency Swaps	3.4% Notes	USD 250 million swapped to EUR 223 million	USD 250 million swapped to EUR 223 million	Net investment
Forward Foreign Currency Contracts (1)	N/A	USD 5 million	USD 4 million	No designation

(1) Cabot’s forward foreign exchange contracts are denominated primarily in the Indonesian rupiah and Czech koruna.

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 Cabot or 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 and are adjusted for credit risk. 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 Accumulated other comprehensive income (loss) 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.

Net Investment Hedge

For net investment hedges, changes in the fair value of the effective portion of the derivatives' gains or losses are reported as foreign currency translation gains or losses in AOCI while changes in the ineffective portion are reported in earnings. Effectiveness is assessed based on the hypothetical derivative method. There was no ineffectiveness for the nine months ended June 30, 2017. The gains or losses on derivative instruments reported in AOCI are reclassified to earnings in the period in which earnings are affected by the underlying item, such as a disposal or substantial liquidations of the entities being hedged.

During the fourth quarter of fiscal 2016, the Company entered into cross currency swaps with a notional amount of $250 million, which are designated as hedges of its net investments in certain Euro denominated subsidiaries. Cash settlements periodically occur for fixed rate interest payments and a cash exchange of the notional currency amount will occur at the end of the term in 2026 under these cross currency swaps. During the nine month period ended June 30, 2017, the Company received net cash interest of $2 million. During the three and nine months ended June 30, 2017, the Company recognized a loss of $10 million and $2 million, respectively, related to these swaps through Foreign currency translation adjustment in other comprehensive income (loss). As of June 30, 2017, the fair value of these swaps was a net liability of $3 million and was included in Prepaid expenses and other current assets and Other liabilities and the cumulative loss of $1 million was included in AOCI on the Consolidated Balance Sheets. As of September 30, 2016, the fair value of these swaps was a net asset of $1 million and was included in Other assets and the cumulative gain of $1 million was included in AOCI on the Consolidated Balance Sheets. There were no gains or losses reclassified from AOCI into earnings during the first nine months of fiscal 2017 or fiscal 2016.

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 may 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.

At both June 30, 2017 and September 30, 2016, the fair value of derivative instruments not designated as hedges were immaterial and were presented in Prepaid expenses and other current assets and Accounts payable and accrued liabilities on the Consolidated Balance Sheets.

M. 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 June 30, 2017, these subsidiaries carried the operating affiliate investment of $15 million.

During the nine month periods ended June 30, 2017 and 2016, the Company received dividends in the amounts of $3 million and $2 million, respectively, which were paid in U.S. dollars.

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. During the third quarter of fiscal 2017, the exchange rate that was made available to the Company when converting these dollars to bolivars was changed from 709 bolivars to the U.S. dollar to 2,640 bolivars to the U.S. dollar. The operating affiliate remeasured its bolivar denominated monetary accounts to reflect the new rate. The impact of the exchange rate devaluation on the operating affiliate's results was a net gain of $1 million during the third quarter of fiscal 2017.

The operating entity has generally been profitable. The Company continues to closely monitor developments in Venezuela and their potential impact on the recoverability of its equity affiliate investment. 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.

N. 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"), who is Cabot's President and Chief Executive Officer, 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 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 into a reportable segment 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.

The Company has four reportable segments: Reinforcement Materials, Performance Chemicals, Purification Solutions and Specialty Fluids.

The Reinforcement Materials segment represents 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 net sales from each of these businesses for the three and nine months ended June 30, 2017 and 2016 were as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Specialty Carbons and Formulations	$154	$152	$454	$437
Metal Oxides	75	76	208	214
Total Performance Chemicals	$229	$228	$662	$651

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

Income (loss) from continuing operations before income taxes ("Segment EBIT") is presented for each reportable segment in the table below. Segment EBIT excludes certain items, meaning items management does not consider representative of on-going operating 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.

Financial information by reportable segment is as follows:

	Reinforcement Materials	Performance Chemicals	Purification Solutions	Specialty Fluids	Segment Total	Unallocated and Other[1]	Consolidated Total
	(In millions)						
Three Months Ended June 30, 2017							
Revenues from external customers[2]	$367	$ 229	$ 71	$ 12	$ 679	$ 26	$ 705
Income (loss) from continuing operations before income taxes[3]	$51	$ 46	$ (2)	$ 4	$ 99	$ (33)	$ 66
Three Months Ended June 30, 2016							
Revenues from external customers[2]	$270	$ 228	$ 77	$ 19	$ 594	$ 27	$ 621
Income (loss) from continuing operations before income taxes[3]	$35	$ 59	$ —	$ 10	$ 104	$ (30)	$ 74
Nine Months Ended June 30, 2017							
Revenues from external customers[2]	$1,014	$ 662	$ 207	$ 30	$ 1,913	$ 81	$ 1,994
Income (loss) from continuing operations before income taxes[3]	$145	$ 146	$ 4	$ 6	$ 301	$ (84)	$ 217
Nine Months Ended June 30, 2016							
Revenues from external customers[2]	$819	$ 651	$ 210	$ 32	$ 1,712	$ 80	$ 1,792
Income (loss) from continuing operations before income taxes[3]	$95	$ 167	$ (7)	$ 8	$ 263	$ (135)	$ 128

(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 CODM.

(2) Consolidated Total Revenues from external customers reconciles to Net sales and other operating revenues on the Consolidated Statement of Operations. Revenues from external customers that are categorized as Unallocated and Other reflects royalties, other operating revenues, external shipping and handling fees, 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 June 30, 2017	2016	Nine Months Ended June 30, 2017	2016
	(In millions)			
Royalties, 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)	$ —	$(6)	$ —
Shipping and handling fees	30	27	87	80
Total	$26	$ 27	$81	$ 80

(3) Consolidated Total Income (loss) from continuing operations before income taxes reconciles to Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies on the Consolidated Statement of Operations. Income (loss) from continuing operations before income taxes that are categorized as Unallocated and Other includes:

	Three Months Ended June 30, 2017	2016	Nine Months Ended June 30, 2017	2016
	(In millions)			
Interest expense	$(13)	$(13)	$(39)	$(40)
Certain Items:[a]				
Global restructuring activities	(1)	(2)	(3)	(45)
Non-recurring gains (losses) on foreign exchange	(1)	—	(1)	(11)
Legal and environmental matters and reserves	—	(1)	2	(4)
Executive transition costs	—	(3)	—	(3)
Total certain items, pre-tax	(2)	(6)	(2)	(63)
Unallocated corporate costs[b]	(11)	(11)	(37)	(36)
General unallocated income (expense)[c]	(4)	1	—	6
Less: Equity in earnings of affiliated companies, net of tax[d]	3	1	6	2
Total	$(33)	$(30)	$(84)	$(135)

[a] Certain items are items of expense and income that management does not consider representative of the Company's fundamental on-going segment results and they are, therefore, excluded from Segment EBIT.

[b] Unallocated corporate costs are costs that are not controlled by the segments and primarily benefit corporate interests.

[c] General unallocated income (expense) 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.

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

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

The preparation of our financial statements is in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of our 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 estimates and the application of our policies. 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. Our critical accounting policies have not substantially changed from those described in the 2016 Form 10-K. We have updated the discussion of the Intangible Asset and Goodwill Impairment policy included below to reflect recent events.

Intangible Assets and Goodwill Impairment

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 reporting units with goodwill balances are Reinforcement Materials, Purification Solutions, and Fumed Metal Oxides. The separate businesses included within Performance Chemicals are considered separate reporting units. As such, the goodwill balance relative to Performance Chemicals is recorded in the Fumed Metal Oxides reporting unit.

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. 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, a goodwill impairment loss would result. The goodwill impairment loss would be the amount by which the carrying value of the reporting unit, including goodwill, exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit. 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 our 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.

Based on our most recent annual goodwill impairment test performed as of May 31, 2017, the fair values of the Reinforcement Materials and Fumed Metal Oxides reporting units were substantially in excess of their carrying values. The fair value of the Purification Solutions reporting unit exceeded its carrying amount by 13%. The fair value of the Purification Solutions reporting unit includes certain growth assumptions that are primarily dependent on: (1) growth in demand for our existing portfolio of activated carbon products and new products developed for environmental and specialty applications; and (2) stable demand in the mercury removal related portion of the business, which is largely dependent on the amount of coal-based power generation used in the United States and the continued regulation of those utilities under the U.S. Mercury and Air Toxics Standards regulation (“MATS”). In April 2017, the U.S. Environmental Protection Agency (EPA) indicated that it intends to review the cost benefit analysis previously prepared by the EPA in support of MATS to determine if the EPA should reconsider MATS or some part of it.

Realizing our growth assumptions in the Purification Solutions reporting unit is generally driven by macroeconomic conditions, environmental regulations, technology advances, and global and regional competition. Failure to achieve our projected growth in environmental and/or specialty applications and/or actions taken by the EPA related to MATS that decrease demand for our products for mercury removal, could have a negative impact on the financial results and fair value of the Purification Solutions reporting unit, which may lead to impairment.

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 trademarks, 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.

Results of Operations

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. The discussions of our results of operations for the periods presented reflect these structures.

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

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”).

Our discussion under the heading “Provision (Benefit) 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 or establishment 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 this 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 to understand what our tax rate on current operations would be without the impact of these items.

Our discussion under the heading “Third Quarter and First Nine Months of Fiscal 2017 versus Third Quarter and First Nine Months of Fiscal 2016—By Business Segment” includes a discussion of Total segment EBIT, which is a non-GAAP financial measure defined as Income (loss) from continuing operations before income taxes and equity in earnings from affiliated companies less certain items and other unallocated items. Our Chief Operating Decision Maker, who is our President and Chief Executive Officer, uses segment EBIT to evaluate the operating results of each segment and to allocate resources to the segments. We believe Total segment EBIT, which reflects the sum of EBIT from our four reportable segments, provides useful supplemental information for our investors as it is an important indicator of the Company’s operational strength and performance, allows investors to see our results through the eyes of management, and provides context for our discussion of individual business segment performance. Total segment EBIT should not be considered an alternative for Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies, which is the most directly comparable GAAP financial measure. A reconciliation of Total segment

EBIT to Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies is provided under the heading "Third Quarter and First Nine Months of Fiscal 2017 versus Third Quarter and First Nine Months of Fiscal 2016—By Business Segment". 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.

In calculating Total segment EBIT, we exclude from our Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies (i) items of expense and income that management does not consider representative of our fundamental on-going segment results, which we refer to as "certain items", and (ii) items that, because they are not controlled by the business segments and primarily benefit corporate objectives, are not allocated to our business segments, such as interest expense and other corporate costs, which include unallocated corporate overhead expenses such as certain corporate salaries and headquarter expenses, plus costs related to special projects and initiatives, which we refer to as "other unallocated items". Management believes excluding the items identified as certain items facilitates operating performance comparisons from period to period by eliminating differences caused by the existence and timing of certain expense and income items that would not otherwise be apparent on a GAAP basis and also facilitates an evaluation of the Company's operating performance without the impact of these costs or benefits. The items of income and expense that we have excluded from Total segment EBIT, as applicable, but that are included in our GAAP Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies, as applicable, are described below.

- Global restructuring activities, which include costs or benefits associated with cost reduction initiatives or plant closures and are primarily related to (i) employee termination costs, (ii) asset impairment charges associated with restructuring actions, (iii) costs to close facilities, including environmental costs and contract termination penalties and (iv) gains realized on the sale of land or equipment associated with restructured plants or locations.
- Non-recurring gains (losses) on foreign exchange, which primarily relate to the impact of controlled currency devaluations on our net monetary assets denominated in that currency.
- Legal and environmental reserves and matters, which consist of costs or benefits for matters typically related to former businesses or that are otherwise incurred outside of the ordinary course of business.
- Executive transition costs, which include incremental charges, including stock compensation charges, associated with the retirement or termination of employment of senior executives of the Company.
- Asset impairment charges, which primarily include charges associated with an impairment of goodwill or other long-lived assets.
- Acquisition and integration-related charges, which include transaction costs, redundant costs incurred during the period of integration, and costs associated with transitioning certain management and business processes to Cabot's processes.

Overview

During the third quarter of fiscal 2017, Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies decreased compared to the third quarter of fiscal 2016 primarily due to lower volumes across all segments and higher fixed costs, partially offset by the favorable impact of inventory changes and favorable unit margins in the Reinforcement Materials and Specialty Fluids segments. During the first nine months of fiscal 2017, Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies increased compared to the first nine months of fiscal 2016 primarily due to higher volumes across all segments, except Specialty Fluids, and higher unit margins in Reinforcement Materials. In addition, in the first nine months of 2016, we recorded charges associated with restructuring plans, including costs associated with the closure of our facility in Merak, Indonesia, which did not reoccur in the first nine months of 2017.

Third Quarter of Fiscal 2017 versus Third Quarter of Fiscal 2016—Consolidated

Net Sales and Other Operating Revenues and Gross Profit

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Nine Months Ended June 30, 2017	Nine Months Ended June 30, 2016
	(In millions)			
Net sales and other operating revenues	$705	$621	$1,994	$1,792
Gross profit	$159	$160	$485	$409

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The $84 million increase in net sales in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016 was driven by a more favorable price and product mix (combined $113 million) primarily in Reinforcement Materials. The favorable price and product mix was partially offset by an unfavorable impact from foreign currency translation ($14 million) and lower volumes ($12 million). For the first nine months of fiscal 2017, net sales increased $202 million compared to the first nine months of fiscal 2016 primarily due to higher volumes ($57 million) and a more favorable price and product mix ($174 million). These increases were partially offset by an unfavorable impact from foreign currency translation ($28 million).

Gross profit decreased by $1 million in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016 primarily due to lower volumes and higher fixed costs, partially offset by a favorable impact from changing inventory levels. For the first nine months of fiscal 2017, gross profit increased by $76 million primarily due to higher volumes across all segments except Specialty Fluids and higher unit margins in Reinforcement Materials.

Selling and Administrative Expenses

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Selling and administrative expenses	$63	$ 64	$191	$197

Selling and administrative expenses decreased by $1 million in the third quarter of fiscal 2017 compared to the same period of fiscal 2016 primarily due to spending in fiscal 2016 related to executive transition costs that did not reoccur in fiscal 2017. For the first nine months of fiscal 2017, selling and administrative expenses decreased by $6 million compared to the first nine months of fiscal 2016 primarily due to charges recorded in fiscal 2016 for restructuring actions taken to reduce fixed costs across the Company that did not reoccur in fiscal 2017.

Research and Technical Expenses

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Research and technical expenses	$14	$ 13	$40	$ 40

Research and technical expenses increased by $1 million in the third quarter of fiscal 2017 compared to the same period of fiscal 2016 due to higher spending on growth projects across the Company. For the first nine months of fiscal 2017, research and technical expenses were flat compared to the first nine months of fiscal 2016.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Interest and dividend income	$3	$1	$7	$4
Interest expense	$(13)	$(13)	$(39)	$(40)
Other income (expense)	$(6)	$3	$(5)	$(8)

Interest and dividend income increased by $2 million in the third quarter of fiscal 2017 compared to the same period of fiscal 2016 due to interest earned on higher cash balances. For the first nine months of fiscal 2017, interest and dividend income increased by $3 million compared to the same period of fiscal 2016 due to interest earned on higher cash balances.

Interest expense was flat in the third quarter of fiscal 2017 compared to the same period in fiscal 2016. Interest expense decreased by $1 million during the first nine months of fiscal 2017 compared to the same period in fiscal 2016 primarily due to lower average borrowing rates.

Other income (expense) changed by $9 million in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016 primarily due to an unfavorable comparison of foreign currency movements. Other income (expense) changed by $3 million in the first nine months of fiscal 2017 compared to the same period of fiscal 2016 due to a favorable comparison of foreign currency movements, primarily the devaluation of the Argentine peso in fiscal 2016.

Provision (Benefit) for Income Taxes and Reconciliation of Effective Tax Rate to Operating Tax Rate

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
Provision (benefit) for income taxes	$16	$ 15	$32	$ 21
Effective tax rate	22%	21 %	14%	17 %
Impact of discrete tax items[a]:				
Unusual or infrequent items	(4)%	— %	7 %	1 %
Items related to uncertain tax positions	(2)%	— %	—%	1 %
Other discrete tax items	5 %	1 %	—%	— %
Impact of certain items	—%	2 %	—%	5 %
Operating tax rate	21%	24 %	21%	24 %

During the three and nine months ended June 30, 2017, we recorded tax provisions of $16 million and $32 million, respectively, resulting in effective tax rates of 22% and 14%, respectively. For the three and nine months ended June 30, 2017, these amounts included a net discrete tax expense of $5 million and a net discrete tax benefit of $15 million, respectively. The operating tax rate for both the three and nine months ended June 30, 2017 was 21%. During the three and nine months ended June 30, 2016, we recorded tax provisions of $15 million and $21 million, respectively, resulting in effective tax rates of 21% and 17%, respectively. For the three and nine months ended June 30, 2016, these amounts included a net discrete tax expense of less than $1 million and a net discrete tax benefit of $2 million, respectively. The operating tax rate for both the three and nine months ended June 30, 2016 was 24%.

(a) The nature of the discrete tax items for the periods ended June 30, 2017 and 2016 were as follows:

(i) Unusual or infrequent items during the three and nine months ended June 30, 2017 and 2016 included net tax impacts from nontaxable foreign exchange gains and losses in certain jurisdictions; and, the renewal of the U.S. Research and Experimentation credit and extraordinary dividends from subsidiaries (nine months ended June 30, 2016 only). Unusual or infrequent items during the three and nine months ended June 30, 2017 also included the net tax impacts from excess foreign tax credits upon repatriation of previously taxed foreign earnings and the accrual of U.S. tax on certain foreign earnings;

(ii) Items related to uncertain tax positions during the three and nine months ended June 30, 2017 and 2016 included net tax impacts from the reversal of accruals for uncertain tax positions due to the expiration of statutes of limitations and the settlement of tax audits, the accrual of interest on uncertain tax positions, and the accrual of a prior year uncertain tax position (three and nine months ended June 30, 2017 only), and;

(iii) Other discrete tax items during the three and nine months ended June 30, 2017 and 2016 included net tax impacts from various return to provision adjustments related to tax return filings and changes in tax laws.

For fiscal 2017, we expect our effective tax rate to be 16% and our operating tax rate to be 21%. Our expected operating tax rate is reconciled to our expected effective tax rate in the table below.

	Forecast 2017	
Effective tax rate	16	%
Impact of discrete tax items:		
Unusual or infrequent items	5	%
Items related to uncertain tax positions	—	%
Other discrete tax items	—	%
Impact of certain items	—	%
Operating tax rate	21	%

Cabot files U.S. federal and state and non-U.S. income tax returns in jurisdictions with varying statutes of limitations. The 2012 through 2015 tax years generally remain subject to examination by the IRS and various tax years from 2005 through 2015 remain subject to examination by the respective state tax authorities. In significant non-U.S. jurisdictions, various tax years from 2002 through 2015 remain subject to examination by their respective tax authorities. As of June 30, 2017, Cabot's significant non-U.S. jurisdictions include Canada, China, France, Germany, Italy, Japan, and the Netherlands.

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

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Nine Months Ended June 30, 2017	Nine Months Ended June 30, 2016
	(In millions)			
Equity in earnings of affiliated companies, net of tax	$3	$ 1	$6	$ 2
Net income (loss) attributable to noncontrolling interests, net of tax	$8	$ 4	$18	$ 12

Equity in earnings of affiliated companies, net of tax increased $2 million in the third quarter fiscal 2017 and increased $4 million in the first nine months of fiscal 2017 compared to the same period of fiscal 2016. The changes in both comparative periods are primarily due to higher earnings from our Venezuelan equity affiliate.

Net income (loss) attributable to noncontrolling interests, net of tax, increased $4 million in the third quarter of fiscal 2017 and $6 million in the first nine months of fiscal 2017 as compared to the same periods in fiscal 2016 primarily due to the higher profitability of our China joint ventures.

Net Income Attributable to Cabot Corporation

In the third quarter and first nine months of fiscal 2017, we reported net income (loss) attributable to Cabot Corporation of $45 million and $173 million, respectively ($0.71 and $2.74 per diluted common share, respectively). This is compared to net income (loss) attributable to Cabot Corporation of $56 million and $97 million, respectively ($0.88 and $1.53 per diluted common share, respectively) in the third quarter and first nine months of fiscal 2016.

Third Quarter and First Nine Months of Fiscal 2017 versus Third Quarter and First Nine Months of Fiscal 2016—By Business Segment

Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies, certain items, other unallocated items, and Total segment EBIT for the three and nine months ended June 30, 2017 and 2016 are set forth in the table below. The details of certain items and other unallocated items are shown below and in Note N of our consolidated financial statements.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies	$66	$74	$217	$128
Less: Certain items	(2)	(6)	(2)	(63)
Less: Other unallocated items	(31)	(24)	(82)	(72)
Total segment EBIT	$99	$104	$301	$263

In the third quarter of fiscal 2017, Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies decreased by $8 million and total segment EBIT decreased by $5 million when compared to the same period of fiscal 2016. The decreases were primarily driven by lower volumes across all segments ($11 million) and higher fixed costs ($16 million), partially offset by a favorable impact from changing inventory levels ($11 million) and higher unit margins ($12 million). Higher unit margins were primarily driven by Reinforcement Materials, partially offset by Performance Chemicals.

In the first nine months of fiscal 2017, Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies increased by $89 million and total segment EBIT increased by $38 million when compared to the same period of fiscal 2016. The increases were primarily driven by higher volumes across all segments except Specialty Fluids ($32 million), higher unit margins in Reinforcement Materials ($21 million), and a favorable impact from changing inventory levels ($23 million), partially offset by higher fixed costs ($35 million) and an unfavorable impact from foreign currency translation ($3 million). In addition, Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies increased due to lower spending on global restructuring activities ($42 million) and lower non-recurring losses on foreign exchange ($10 million) in the first nine months of 2017 compared to the first nine months of 2016.

Certain Items

Details of the certain items for the third quarter and first nine months of fiscal 2017 and 2016 are as follows:

	Three Months Ended June 30, 2017	2016	Nine Months Ended June 30, 2017	2016
	(In millions)			
Global restructuring activities	$(1)	$ (2)	$(3)	$(45)
Non-recurring gains (losses) on foreign exchange	(1)	—	(1)	(11)
Legal and environmental matters and reserves	—	(1)	2	(4)
Executive transition costs	—	(3)	—	(3)
Total certain items, pre-tax	(2)	(6)	(2)	(63)
Tax-related certain items:				
Tax impact of certain items	—	3	—	22
Discrete tax items	(5)	(1)	15	2
Total tax-related certain items	(5)	2	15	24
Total certain items, after tax	$(7)	$ (4)	$13	$(39)

Certain items for the third quarter and first nine months of fiscal 2017 were primarily comprised of discrete tax items. Details of restructuring activities are included in Note J of the consolidated financial statements.

Certain items for the third quarter and first nine months of fiscal 2016 include charges primarily related to restructuring activities, the tax impact of certain items, discrete tax items, legal and environmental matters and reserves, and a net foreign currency loss from the devaluation of the Argentine peso, partially offset by a gain on the devaluation of the Venezuelan bolivar. Details of restructuring activities are included in Note J of the consolidated financial statements.

The tax impact of certain items is determined by (1) starting with the current and deferred income tax expense or benefit included in Net income (loss) attributable to Cabot Corporation, and (2) subtracting the tax expense or benefit on "adjusted earnings". Adjusted earnings is defined as the pre-tax income attributable to Cabot Corporation excluding certain items. The tax expense or benefit on adjusted earnings is calculated by applying the operating tax rate, as defined under the section Definition of Terms and Non-GAAP Financial Measures, to adjusted earnings.

Other Unallocated Items

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Interest expense	$(13)	$(13)	$(39)	$(40)
Unallocated corporate costs	(11)	(11)	(37)	(36)
General unallocated income (expense)	(4)	1	—	6
Less: Equity in earnings of affiliated companies, net of tax	3	1	6	2
Total other unallocated items	$(31)	$(24)	$(82)	$(72)

A discussion of items that we refer to as "other unallocated items" can be found under the heading "Definition of Terms and Non-GAAP Financial Measures". The balances of unallocated corporate costs are primarily comprised of expenditures related to managing a public company that are not allocated to the segments and corporate business development costs related to new technology efforts. The balances of General unallocated income (expense) consist 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.

Costs from Total other unallocated items changed by $7 million in the third quarter of fiscal 2017 as compared to the same period in fiscal 2016 primarily due to an unfavorable impact from foreign currency translation.

Costs from Total other unallocated items changed by $10 million in the first nine months of fiscal 2017 as compared to the same period in fiscal 2016 primarily due to an increase in earnings from our Venezuelan equity affiliate and an unfavorable impact from foreign currency translation.

Reinforcement Materials

Sales and EBIT for Reinforcement Materials for the third quarter and first nine months of fiscal 2017 and fiscal 2016 were as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Reinforcement Materials Sales	$367	$270	$1,014	$819
Reinforcement Materials EBIT	$51	$35	$145	$95

In the third quarter of fiscal 2017, sales in Reinforcement Materials increased by $97 million when compared to the third quarter of fiscal 2016. The increase was principally driven by a more favorable price and product mix (combined $106 million). The favorable price and product mix impact was primarily due to higher selling prices in the quarter from price adjustments to customers for increases in raw material costs and higher contract and spot prices. The increases were partially offset by an unfavorable impact from foreign currency translation ($7 million) and lower volumes ($2 million).

In the first nine months of fiscal 2017, sales in Reinforcement Materials increased by $195 million when compared to the first nine months of fiscal 2016. The increase was principally driven by a more favorable price and product mix (combined $194 million) and higher volumes ($15 million), partially offset by an unfavorable impact of foreign currency translation ($13 million). The more favorable price and product mix impact was primarily due to higher selling prices in the period from price adjustments to customers for increases in raw material costs and higher contract and spot prices.

EBIT in Reinforcement Materials increased by $16 million in the third quarter of fiscal 2017 compared to the same period of fiscal 2016. The increase was principally driven by higher unit margins ($22 million), partially offset by higher fixed costs ($7 million). Higher unit margins were driven by price improvements in calendar year 2017 customer agreements, a more favorable product mix, and spot pricing in Asia.

EBIT in Reinforcement Materials increased by $50 million in the first nine months of fiscal 2017 compared to the same period of fiscal 2016. The increase was principally driven by higher unit margins ($53 million), higher volumes ($7 million) and a favorable impact from changing inventory levels ($8 million), partially offset by higher fixed costs ($14 million) and an unfavorable impact from foreign currency translation ($3 million). Higher unit margins were driven by price improvements in calendar year 2017 customer agreements and spot pricing in Asia. Higher fixed costs were primarily driven by increased maintenance activities.

Performance Chemicals

Sales and EBIT for Performance Chemicals for the third quarter and first nine months of fiscal 2017 and fiscal 2016 were as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Specialty Carbons and Formulations Sales	$154	$152	$454	$437
Metal Oxides Sales	75	76	208	214
Performance Chemicals Sales	$229	$228	$662	$651
Performance Chemicals EBIT	$46	$59	$146	$167

In the third quarter of fiscal 2017, sales in Performance Chemicals increased by $1 million when compared to the third quarter of fiscal 2016. The increase was due to a more favorable price and product mix (combined $7 million), partially offset by an unfavorable impact from foreign currency translation ($6 million). The favorable price and product mix impact was primarily due to higher selling prices in the quarter from price adjustments to customers for increases in raw material costs.

In the first nine months of fiscal 2017, sales in Performance Chemicals increased by $11 million when compared to the same period of fiscal 2016. The increase was primarily due to higher volumes ($31 million), partially offset by a less favorable price and product mix (combined $6 million) and an unfavorable impact from foreign currency translation ($13 million). Higher volumes were primarily related to the Specialty Carbons and Formulations business in both Europe and China.

EBIT in Performance Chemicals decreased by $13 million in the third quarter of fiscal 2017 when compared to the same quarter of fiscal 2016 principally due to lower unit margins ($10 million), higher fixed costs ($6 million) and an unfavorable impact from foreign currency translation ($1 million), partially offset by a favorable impact from changing inventory levels ($4 million). Lower unit margins were primarily due to higher raw material costs in Specialty Carbons and Formulations. Higher fixed costs were primarily driven by unplanned plant downtime in Specialty Carbons and Formulations.

EBIT in Performance Chemicals decreased by $21 million in the first nine months of fiscal 2017 when compared to the same period of fiscal 2016 principally due to lower unit margins ($26 million), higher fixed costs ($17 million) and an unfavorable impact from foreign currency translation ($2 million), partially offset by higher volumes ($19 million) and a favorable impact from changing inventory levels ($4 million). Lower unit margins were primarily due to higher raw material costs in Specialty Carbons and Formulations. Higher fixed costs were primarily due to increased maintenance costs from plant turnarounds and unplanned plant downtime in Specialty Carbons and Formulations.

Purification Solutions

Sales and EBIT for Purification Solutions for the third quarter and the first nine months of fiscal 2017 and fiscal 2016 were as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Purification Solutions Sales	$71	$77	$207	$210
Purification Solutions EBIT	$(2)	$—	$4	$(7)

Sales in Purification Solutions decreased by $6 million in the third quarter of fiscal 2017 compared to the same period of fiscal 2016 due to lower volumes ($2 million), a less favorable price and product mix (combined $2 million) and an unfavorable impact from foreign currency translation ($1 million).

Sales in Purification Solutions decreased by $3 million in the first nine months of fiscal 2017 when compared to the same period of fiscal 2016 due to a less favorable price and product mix (combined $13 million) and an unfavorable impact from foreign currency translation ($2 million), partially offset by higher volumes ($12 million). The less favorable price and product mix was driven by an increase in mercury removal volumes.

EBIT in Purification Solutions decreased by $2 million in the third quarter of fiscal 2017 when compared to the same quarter of fiscal 2016 due to lower volumes ($2 million), lower unit margins ($2 million) and higher fixed costs ($3 million), partially offset by a favorable impact from changing inventory levels ($4 million). Higher fixed costs were driven by costs associated with a temporary plant disruption. EBIT in Purification Solutions increased by $11 million in the first nine months of fiscal 2017 when compared to the same period of fiscal 2016 due to higher volumes ($7 million), a favorable impact from changing inventory levels ($11 million) and a favorable impact from foreign currency translation ($2 million), partially offset by lower unit margins ($5 million) and higher fixed costs ($5 million). Higher volumes were driven by higher sales to mercury removal customers.

Specialty Fluids

Sales and EBIT for Specialty Fluids for the third quarter and the first nine months of fiscal 2017 and 2016 were as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Specialty Fluids Sales	$ 12	$ 19	$ 30	$ 32
Specialty Fluid EBIT	$ 4	$ 10	$ 6	$ 8

Sales in Specialty Fluids decreased by $7 million in the third quarter of fiscal 2017 when compared to the same period of fiscal 2016, primarily due to lower volumes ($10 million), partially offset by a more favorable price and product mix (combined $3 million). Sales in Specialty Fluids decreased by $2 million in the first nine months of fiscal 2017 when compared to the same period of fiscal 2016 primarily due to lower volumes ($2 million). The decrease in volumes for both comparative periods was driven by lower project activity, partially offset by stronger demand for fine cesium chemicals.

EBIT in Specialty Fluids decreased by $6 million in the third quarter of fiscal 2017 compared to the same period of fiscal 2016. The decrease was due to lower volumes ($8 million), partially offset by higher unit margins ($2 million). EBIT in Specialty Fluids decreased by $2 million in the first nine months of fiscal 2017 when compared to the same period of fiscal 2016 due to lower volumes ($1 million) and lower unit margins and higher fixed costs (combined $1 million).

Outlook

During the fourth quarter, we anticipate that Reinforcement Materials will continue to benefit from overall favorable market conditions, although we expect to see modestly higher fixed costs in the quarter. Demand in our Performance Chemicals end markets remains robust, and we expect the segment’s volumes and product mix in the fourth quarter to improve with the resolution of the unplanned plant downtime that impacted the segment’s results in the third quarter. Purification Solutions is expected to benefit from seasonal volume growth and lower fixed costs in the fourth quarter.

Cash Flows and Liquidity

Overview

Our liquidity position, as measured by cash and cash equivalents plus borrowing availability, decreased by $2 million during the first nine months of fiscal 2017 which was attributable to a lower cash balance at June 30, 2017. As of June 30, 2017, we had cash and cash equivalents of $198 million and borrowing availability under our revolving credit agreement of $1 billion. Borrowings under our revolving credit agreement may be used for working capital, letters of credit and other general corporate purposes. There was no outstanding balance of commercial paper as of June 30, 2017. At June 30, 2017, we were in compliance with all covenants under our revolving credit facility, including the total consolidated debt to consolidated EBITDA (earnings before interest, taxes, depreciation and amortization) 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. The vast majority of our cash and cash equivalent holdings tend to be held outside the U.S., as excess cash balances in the U.S. are generally used to repay commercial paper issued during the period.

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. The liquidity we derive 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.

We issued $250 million of 2.55% fixed rate debt in fiscal 2012 that matures on January 15, 2018. Our intention is to refinance these securities prior to their maturity.

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 and changes in certain other balance sheet accounts, totaled $183 million in the first nine months of fiscal 2017 compared to $295 million during the same period of fiscal 2016.

Cash provided by operating activities in the first nine months of fiscal 2017 was driven primarily by net income, excluding the non-cash impact of depreciation and amortization of $115 million. In addition, there was an increase in accounts payable and accrued liabilities. Partially offsetting these cash inflows was an increase in accounts and notes receivable, inventories, and deferred tax benefits.

Cash provided by operating activities in the first nine months of fiscal 2016 was driven primarily by net income, excluding the non-cash impact of certain long-lived asset write-offs of $23 million and depreciation and amortization of $122 million. In addition, there was a decrease in accounts receivable and inventories, largely driven by lower raw material costs and associated price reductions as well as overall lower volumes. Partially offsetting these cash inflows were lower accounts payable and accrued liabilities.

Cash Flows from Investing Activities

In the nine months ended June 30, 2017, investing activities consumed $89 million of cash, which was primarily driven by capital expenditures of $86 million. These capital expenditures were primarily for sustaining and compliance capital projects at our operating facilities. In the nine months ended June 30, 2016, investing activities consumed $70 million of cash, which was primarily driven by capital expenditures of $80 million, offset by $16 million of proceeds from the sale of land.

Capital expenditures for fiscal 2017 are expected to be approximately $150 million. Our planned capital spending program for fiscal 2017 is primarily for sustaining, compliance, and improvement capital projects at our operating facilities.

Cash Flows from Financing Activities

Financing activities consumed $86 million of cash in the first nine months of fiscal 2017 compared to $97 million of cash consumed in the first nine months of fiscal 2016. In the first nine months of fiscal 2017, we used our cash for share repurchases and dividend distributions. In the first nine months of fiscal 2016, we used our cash for share repurchases, dividend distributions and to repay debt.

Purchase Commitments

We have 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 June 30, 2017.

	Payments Due by Fiscal Year						
	Remainder of Fiscal 2017	2018	2019	2020	2021	Thereafter	Total
	(In millions)						
Reinforcement Materials	$59	$213	$209	$135	$102	$ 1,458	$2,176
Performance Chemicals	10	36	35	30	28	201	340
Purification Solutions	3	9	7	6	—	—	25
Total	$72	$258	$251	$171	$130	$ 1,659	$2,541

Off-balance sheet arrangements

We have 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 our expectations for future financial performance; demand for our products; 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; our plans to refinance our 2.55% fixed rate debt prior to its maturity; uses of available cash including anticipated capital spending and future cash outlays associated with long-term contractual obligations; our expected tax rate for fiscal 2017; 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 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, our actual results could differ materially from those expressed in the forward-looking statements.

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; changes in environmental requirements in the U.S.; the loss of one or more of our important customers; our inability to complete capacity expansions or other development projects; 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; unanticipated disruptions or delays in plant operations or development projects; 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 2016 10-K.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued a new standard, 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, 2017 and for interim periods within those years, and early adoption is permitted for the fiscal years beginning after December 15, 2016. We expect to adopt this standard on October 1, 2018. We are currently evaluating the impact the adoption of this standard may have on our consolidated financial statements.

In February 2016, the FASB issued a new standard for the accounting for leases. This new standard requires lessees to recognize assets and liabilities for most leases, but recognize expenses on their income statements in a manner that is similar to the current accounting treatment for leases. The standard is applicable for fiscal years beginning after December 15, 2018 and for interim periods within those years, and early adoption is permitted. We expect to adopt the standard on October 1, 2019. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

In March 2016, the FASB issued a new standard that amends the accounting standard for stock compensation by simplifying several aspects of the accounting for employee share-based payment transactions, including the related accounting for income taxes, forfeitures, and the withholding of shares to satisfy the employer's tax withholding requirements, as well as classification in the statements of cash flows. The new standard is effective for fiscal years beginning after December 15, 2016, including interim periods within those years, and early adoption is permitted. We expect to adopt the standard on October 1, 2017. The adoption of this standard is not expected to materially impact our consolidated financial statements.

In August 2016, the FASB issued final amendments to clarify how entities should classify certain cash receipts and cash payments on the statement of cash flows such as distributions received from equity method investees, proceeds from settlement of insurance claims, and proceeds from the settlement of corporate-owned life insurance policies. The new standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those years, and early adoption is permitted. We are evaluating this standard and the timing of its adoption. The adoption of this standard is not expected to materially impact our consolidated financial statements.

In January 2017, the FASB issued a new standard that amends and simplifies the accounting standard for goodwill impairment. The new standard removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit. The new standard is effective for annual and any interim impairment tests for periods beginning after December 15, 2019, and early adoption is permitted for any impairment tests performed after January 1, 2017. We adopted this standard on January 1, 2017. The adoption of this standard had no impact on our consolidated financial statements.

In March 2017, the FASB issued a new standard that amends the requirements on the presentation of net periodic pension and postretirement benefit cost. Currently, net benefit costs are reported as employee costs within operating income. The new standard requires the service cost component to be presented with other employee compensation costs. The other components will be reported separately outside of operations. The new standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those years, and early adoption is permitted as of the beginning of any annual period for which an entity's financial statements (interim or annual) have not been issued. We are evaluating this standard and the timing of its adoption. The adoption of this standard is not expected to materially impact our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information about market risks for the period ended June 30, 2017 does not differ materially from that discussed under Item 7A of our 2016 10-K.

Item 4. Controls and Procedures

As of June 30, 2017, we carried out an evaluation, under the supervision and with the participation of our management, including our Principal 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 Principal 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 June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 2016 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. Neither Cabot, nor its past or present subsidiaries, at any time manufactured asbestos or asbestos-containing products. At no time did this respiratory product line represent a significant portion of the respirator market.

As of June 30, 2017 and September 30, 2016, there were approximately 37,000 and 38,000 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 June 30, 2017 and September 30, 2016, the reserve was $18 million and $21 million, respectively. Cash payments related to this liability were approximately $3 million in the first nine months of both fiscal 2017 and 2016.

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 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 certain of the other parties which contribute to the settlement of respirator claims, or the indemnity provided by a former owner of the business, (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 existing and future claims. Accordingly, the actual amount of these liabilities for existing and future claims could be different than the reserved amount.

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. We do not believe that any of these matters will have a material adverse effect on our financial position; however, litigation is inherently unpredictable. We could incur judgments, enter into settlements or revise our expectations regarding the outcome of certain matters, and such developments could have a material impact on our results of operations in the period in which the amounts are accrued or our cash flows in the period in which the amounts are paid.

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 June 30, 2017:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased(1)(2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(1)
April 1, 2017- April 30, 2017	—	$ —	—	2,315,824
May 1, 2017- May 31, 2017	250,000	$ 52.36	250,000	2,065,824
June 1, 2017- June 30, 2017	—	$ —	—	2,065,824
Total	250,000		250,000	

(1) On January 13, 2015, the Company announced that the Board of Directors authorized us to repurchase up to five million shares of our common stock on the open market or in privately negotiated transactions. This authorization does not have a set expiration date.

(2) Total number of shares purchased does not include 298 shares withheld to pay taxes on the vesting of equity awards made under the company's equity incentive plans or to pay the exercise price of options exercised during the period.

Item 6. Exhibits

See the "Exhibit Index" that follows the Signatures page for a list of Exhibits filed or furnished with this Form 10-Q.

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: August 7, 2017	By: /s/ Eduardo E. Cordeiro Eduardo E. Cordeiro Executive Vice President and Chief Financial Officer (Duly Authorized Officer)
Date: August 7, 2017	By: /s/ James P. Kelly James P. Kelly Vice President and Controller (Chief Accounting Officer)

Exhibit Index

Exhibit No.	Description
Exhibit 3.1	Restated Certificate of Incorporation of Cabot Corporation effective January 9, 2009 (incorporated herein by reference to Exhibit 3.1 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2008, file reference 1-5667, filed with the SEC on February 9, 2009).
Exhibit 3.2	The By-laws of Cabot Corporation as amended January 8, 2016 (incorporated herein by reference to Exhibit 3.1 of Cabot Corporation's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2015, file reference 1-5667, filed with the SEC on February 5, 2016).
Exhibit 10.1*†	Form of Performance-Based Restricted Stock Unit Award Certificate under the Cabot Corporation 2017 Long-Term Incentive Plan.
Exhibit 10.2*†	Form of Time-Based Restricted Stock Unit Award Certificate under the Cabot Corporation 2017 Long-Term Incentive Plan.
Exhibit 10.3*†	Form of Stock Option Award Certificate under the Cabot Corporation 2017 Long-Term Incentive Plan.
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 Extension Calculation Linkbase Document.
Exhibit 101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
Exhibit 101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
Exhibit 101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith.
** Furnished herewith.

†Management contract or compensatory plan or arrangement.