CABOT CORP
Form 10-Q
August 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

or

o 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 x No o

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

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

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

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

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

As of August 1, 2016 the Company had 62,377,934 shares of Common Stock, par value $1.00 per share, outstanding.

CABOT CORPORATION

INDEX

Part I.	Financial Information		
	Item 1.	Financial Statements (unaudited)	
		Consolidated Statements of Operations for the Three and Nine Months Ended June 30, 2016 and 2015	3
		Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended June 30, 2016 and 2015	4
		Consolidated Balance Sheets as of June 30, 2016 and September 30, 2015	5
		Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2016 and 2015	7
		Notes to Consolidated Financial Statements	8
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	28
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	42
	Item 4.	Controls and Procedures	43
Part II.	Other Information		
	Item 1.	Legal Proceedings	44
	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	44
	Item 6.	Exhibits	45

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,	
	2016	2015	2016	2015
	(In millions, except per share amounts)			
Net sales and other operating revenues	$621	$694	$1,792	$2,200
Cost of sales	461	544	1,383	1,754
Gross profit	160	150	409	446
Selling and administrative expenses	64	67	197	216
Research and technical expenses	13	15	40	44
Purification Solutions long-lived assets impairment charge (Note B)	—	209	—	209
Purification Solutions goodwill impairment charge (Note B)	—	353	—	353
Income (loss) from operations	83	(494)	172	(376)
Interest and dividend income	1	1	4	3
Interest expense	(13)	(13)	(40)	(40)
Other income (expense)	3	(3)	(8)	(6)
Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies	74	(509)	128	(419)
(Provision) benefit for income taxes	(15)	64	(21)	47
Equity in earnings of affiliated companies, net of tax	1	1	2	4
Income (loss) from continuing operations	60	(444)	109	(368)
Income from discontinued operations, net of tax	—	1	—	1
Net income (loss)	60	(443)	109	(367)
Net income attributable to noncontrolling interests, net of tax	4	2	12	7
Net income (loss) attributable to Cabot Corporation	56	(445)	97	(374)
Weighted-average common shares outstanding:				
Basic	62.4	63.3	62.4	63.7
Diluted	62.9	63.3	62.9	63.7
Income (loss) per common share:				
Basic:				
Income (loss) from continuing operations attributable to	$0.90	$(7.05)	$1.55	$(5.89)

Cabot Corporation				
Income from discontinued operations	—	0.01	—	0.01
Net income (loss) attributable to Cabot Corporation	$0.90	$(7.04)	$1.55	$(5.88)
Diluted:				
Income (loss) from continuing operations attributable to Cabot Corporation	$0.88	$(7.05)	$1.53	$(5.89)
Income from discontinued operations	—	0.01	—	0.01
Net income (loss) attributable to Cabot Corporation	$0.88	$(7.04)	$1.53	$(5.88)
Dividends per common share	$0.30	$0.22	$0.74	$0.66

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

CABOT CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

UNAUDITED

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
	(In millions)			
Net income (loss)	$60	$(443)	$109	$(367)
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustment (net of tax benefit of $-, $-, $- and $1)	(13)	18	5	(216)
Pension and other postretirement benefit liability adjustments				
Pension and other postretirement benefit liability adjustments arising during the period, net of tax	—	—	(1)	21
Amortization of net loss and prior service credit included in net periodic pension cost, net of tax	(1)	—	—	1
Other comprehensive (loss) income	(14)	18	4	(194)
Comprehensive income (loss)	46	(425)	113	(561)
Net income attributable to noncontrolling interests	4	2	12	7
Noncontrolling interests foreign currency translation adjustment, net of tax	(3)	—	(5)	(3)
Comprehensive income attributable to noncontrolling interests, net of tax	1	2	7	4
Comprehensive income (loss) attributable to Cabot Corporation	$45	$(427)	$106	$(565)

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

CABOT CORPORATION

CONSOLIDATED BALANCE SHEETS

ASSETS

UNAUDITED

	June 30, 2016	September 30, 2015
	(In millions)	
Current assets:		
Cash and cash equivalents	$222	$ 77
Accounts and notes receivable, net of reserve for doubtful accounts of $8 and $7	434	477
Inventories:		
Raw materials	67	69
Work in process	3	1
Finished goods	223	287
Other	37	40
Total inventories	330	397
Prepaid expenses and other current assets	44	54
Deferred income taxes	49	43
Total current assets	1,079	1,048
Property, plant and equipment, net	1,297	1,383
Goodwill	152	154
Equity affiliates	55	57
Intangible assets, net	142	153
Assets held for rent	95	86
Deferred income taxes	172	152
Other assets	41	42
Total assets	$3,033	$ 3,075

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

CABOT CORPORATION

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

UNAUDITED

	June 30, 2016	September 30, 2015
	(In millions, except share and per share amounts)	
Current liabilities:		
Notes payable	$ 7	$ 22
Accounts payable and accrued liabilities	332	389
Income taxes payable	20	28
Deferred income taxes	1	1
Current portion of long-term debt	301	1
Total current liabilities	661	441
Long-term debt	669	970
Deferred income taxes	67	59
Other liabilities	226	240
Redeemable preferred stock	27	27
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: 62,530,702 and 62,704,966 shares		
Outstanding: 62,288,963 and 62,458,396 shares	63	63
Less cost of 241,739 and 246,570 shares of common treasury stock	(8)	(8)
Additional paid-in capital	—	—
Retained earnings	1,523	1,478
Accumulated other comprehensive loss	(290)	(299)
Total Cabot Corporation stockholders' equity	1,288	1,234
Noncontrolling interests	95	104
Total stockholders' equity	1,383	1,338
Total liabilities and stockholders' equity	$ 3,033	$ 3,075

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

6

CABOT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

	Nine Months Ended June 30,	
	2016	2015
Cash Flows from Operating Activities:		
Net income (loss)	$109	$(367)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	122	140
Long-lived asset impairment charge	23	209
Goodwill impairment charge	—	353
Deferred tax benefit	(13)	(75)
Employee benefit plan settlement	—	18
Equity in net income of affiliated companies	(2)	(4)
Non-cash compensation	13	9
Other non-cash expense (income)	3	(3)
Changes in assets and liabilities:		
Accounts and notes receivable	42	80
Inventories	61	33
Prepaid expenses and other current assets	9	4
Accounts payable and accrued liabilities	(56)	(84)
Income taxes payable	(10)	(22)
Other liabilities	(16)	(27)
Cash dividends received from equity affiliates	8	10
Other	2	4
Cash provided by operating activities	$295	$278
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(80)	(103)
Proceeds from the sale of land	16	—
Change in assets held for rent	(6)	(8)
Cash used in investing activities	$(70)	$(111)
Cash Flows from Financing Activities:		
Repayments under financing arrangements	(3)	(4)
Increase in notes payable, net	—	1
(Repayments of) proceeds from issuance of commercial paper, net	(11)	111
Repayments of long-term debt	(1)	(57)
Purchases of common stock	(27)	(85)
Proceeds from sales of common stock	8	6
Cash dividends paid to noncontrolling interests	(16)	(16)
Cash dividends paid to common stockholders	(47)	(42)

Cash used in financing activities	$(97)	$(86)
Effects of exchange rate changes on cash	17	(64)
Increase in cash and cash equivalents	145	17
Cash and cash equivalents at beginning of period	77	67
Cash and cash equivalents at end of period	$222	$84

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

CABOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

UNAUDITED

A. Basis of Presentation

The consolidated financial statements include the accounts of Cabot Corporation ("Cabot" or the "Company") and its wholly owned subsidiaries and majority-owned and controlled U.S. and non-U.S. subsidiaries. Additionally, Cabot considers consolidation of entities over which control is achieved through means other than voting rights. 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, 2015 ("2015 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, 2016 and 2015. 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.

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,	
	2016	2015	2016	2015
Reinforcement Materials	46%	52 %	48%	55 %
Performance Chemicals	38%	35 %	38%	33 %
Purification Solutions	13%	11 %	12%	10 %
Specialty Fluids	3 %	2 %	2 %	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 revenue is recognized upon delivery of the fluid.

Cabot maintains allowances for doubtful accounts based on an assessment of the collectability of specific customer accounts, the aging of accounts receivable and other economic information on both a historical and prospective basis. Customer account balances are charged against the allowance when it is probable the receivable will not be recovered. There were no material changes in the allowance for any of the years 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 under the two-step impairment test. Alternatively, the Company may elect to proceed directly to the quantitative goodwill impairment test. If based on the quantitative evaluation the fair value of the reporting unit is less than its carrying amount, the Company performs an analysis of the fair value of all assets and liabilities of the reporting unit. If the implied fair value of the reporting unit's goodwill is determined to be less than its carrying amount, an impairment is recognized for the difference. The fair value of a reporting unit is based on discounted estimated future cash flows. The fair value is also benchmarked against a market approach using the guideline public companies method. The assumptions used to estimate fair value include management's best estimates of future growth rates, operating cash flows, capital expenditures and discount rates over an estimate of the remaining operating period at the reporting unit level. Should the fair value of any of the Company's reporting units decline below its carrying amount because of reduced operating performance, market declines, changes in the discount rate, or other conditions, charges for impairment may be necessary.

When the Company performed its annual goodwill impairment test in the third quarter of fiscal 2015, the fair value of the Purification Solutions reporting unit was less than its carrying amount and the Company recorded impairment charges as a result. A discussion of this assessment and the charges recorded is included under "Purification Solutions Goodwill and Long-Lived Assets Impairment Charges".

Based on the Company's most recent annual goodwill impairment test performed as of May 31, 2016, 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 9%. The future growth of the Purification Solutions reporting unit is dependent on achieving the expected volumes and margins,

which are generally driven by the macroeconomic environment, environmental regulations, and global and regional competition, and are highly impacted by the activated carbon based mercury removal business. The expected demand for mercury removal products significantly depends upon: (1) the volumes of activated carbon used in coal-fired energy units for the removal of pollutants and the utilization of these units for electricity generation and (2) other factors, such as environmental laws and regulations, particularly those that require U.S. based coal-fired electric utilities to reduce the quantity of air pollutants they release, including mercury, to comply with the Mercury and Air Toxics Standards ("MATS") issued by the U.S. Environmental Protection Agency ("EPA") continuing to be in effect and enforced.

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. The Company recognized an impairment on intangible assets associated with the Purification Solutions business in the third fiscal quarter of 2015 and no events have been subsequently identified that would require an additional impairment evaluation.

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.

Purification Solutions Goodwill and Long-Lived Assets Impairment Charges

During the third quarter of fiscal 2015 and as a result of the impairment tests performed on goodwill and long-lived assets of the Purification Solutions reporting unit, the Company recorded impairment charges and an associated tax benefit in the Consolidated Statements of Operations as follows:

	June 30, 2015
	(Dollars in millions)
Goodwill impairment charge	$353
Long-lived assets impairment charge	209
Provision (benefit) for income taxes	(80)
Impairment charges, after tax	$482

In determining the fair value of the Purification Solutions reporting unit, the Company used an income approach (a discounted cash flow analysis) which incorporated significant estimates and assumptions related to future periods, including the timing of MATS implementation and its legal enforcement, the anticipated size of the mercury removal industry, and growth rates and pricing assumptions of activated carbon, among others. In addition, an estimate of the reporting unit's weighted average cost of capital ("WACC") was used to discount future estimated cash flows to their

present value. The WACC was based upon externally available data considering market participants' cost of equity and debt, optimal capital structure and risk factors specific to the Purification Solutions reporting unit. Based on these estimates and as part of step one of the annual impairment test, the Company determined that the estimated fair value of the Purification Solutions reporting unit was lower than the reporting unit's carrying value. As such, the reporting unit failed step one of the goodwill impairment test. The Company then proceeded to step two.

Step two of the goodwill impairment test requires the Company to perform a theoretical purchase price allocation for the reporting unit to determine the implied fair value of goodwill and to compare the implied fair value of goodwill to the recorded amount of goodwill. The estimate of fair value is complex and requires significant judgment. Accounting guidance provides that a company should recognize an estimated impairment charge to the extent that it determines that it is probable that an impairment loss has occurred and such impairment can be reasonably estimated. Based on its best estimate as of June 30, 2015, the Company recorded a pre-tax goodwill impairment charge of $353 million. The Company completed the step two analysis in the fourth quarter of fiscal 2015, which resulted in recording a credit of $1 million to the pre-tax goodwill impairment charge.

Based on the same factors leading to the goodwill impairment, the Company also considered whether the reporting unit's carrying values of definite-lived intangible assets and property, plant and equipment may not be recoverable or whether the carrying value of certain indefinite-lived intangible assets were impaired. The Company used the income approach to determine the fair value of the indefinite-lived intangible assets, which are the trademarks of Purification Solutions, and determined that the fair value of these intangible assets was lower than their carrying value. As such, an impairment loss was recorded in the amount of $39 million. Subsequent to this impairment analysis, the Company concluded that such assets no longer had an indefinite life and began amortizing these assets over their estimated useful life. The Company also performed an impairment analysis to assess if definite-lived intangible assets and property, plant and equipment were recoverable based on the estimated undiscounted cash flows of the reporting unit, and determined that these cash flows were not sufficient to recover the carrying value of the long-lived assets over their remaining useful lives. Accordingly, an impairment charge was recorded based on the lower of the carrying amount or fair value of the long-lived assets. The Company used the income approach to determine the fair value of the definite-lived intangible assets and a combination of the cost and market approaches to fair value its property, plant and equipment. The Company recorded impairment charges of $119 million and $51 million, to its definite-lived intangible assets and property, plant and equipment, respectively, in the quarter ended June 30, 2015.

In connection with the long-lived assets impairment charges, the Company recorded a deferred tax benefit of $80 million to its income tax provision.

In the Consolidated Statements of Operations for the quarter ended June 30, 2015, the Purification Solutions long-lived assets and goodwill impairment charges were separately presented below the subtotal for income from operations. These charges should have been included in the subtotal for income from operations. The Company has corrected the presentation of these charges in the accompanying Consolidated Statements of Operations. These charges were correctly presented in the Consolidated Statements of Operations for the year ended September 30, 2015.

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 $28 million and $30 million higher as of June 30, 2016 and September 30, 2015, respectively. The cost of Specialty Fluids inventories, which 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, net of tax, the actuarial gains/losses and prior service costs/credits that arise but were not previously required to be recognized as components of net periodic benefit cost. Other comprehensive income is adjusted as these amounts are later recognized in income as components of net periodic benefit cost.

Accumulated Other Comprehensive (Loss) Income

Accumulated other comprehensive (loss) income, 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 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 April 2015, the FASB issued a new standard simplifying the presentation of debt issuance costs by requiring debt issuance costs to be presented as a reduction of the corresponding debt liability. This will make the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. This standard is applicable for fiscal years beginning after December 15, 2015 and for interim periods within those years and early adoption is permitted. The Company expects to adopt this standard on October 1, 2016. The adoption of this standard is not expected to materially impact the Company's consolidated financial statements.

In November 2015, the FASB issued a new standard that amends the existing accounting standard for income taxes and simplifies the presentation of deferred income taxes. This will require that deferred income tax assets and liabilities be classified as noncurrent on the balance sheet. This standard is applicable for fiscal years beginning after December 15, 2016 and for 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 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 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,							
	2016		2015		2016		2015	
	Pension Benefits				Postretirement Benefits			
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
	(Dollars in millions)							
Service cost	$1	$ 2	$—	$ 2	$—	$ —	$—	$ —
Interest cost	1	2	2	3	1	—	—	1
Expected return on plan assets	(2)	(3)	(3)	(4)	—	—	—	—
Amortization of prior service credit	—	—	—	—	(1)	—	(1)	—
Amortization of actuarial loss	—	—	—	1	—	—	—	—
Net periodic (credit) benefit cost	$—	$ 1	$(1)	$ 2	$—	$ —	$(1)	$ 1

	Nine Months Ended June 30,							
	2016		2015		2016		2015	
	Pension Benefits				Postretirement Benefits			
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
	(Dollars in millions)							
Service cost	$1	$ 6	$—	$ 7	$—	$ —	$—	$ —
Interest cost	4	6	5	9	1	—	1	1
Expected return on plan assets	(8)	(10)	(8)	(12)	—	—	—	—
Amortization of prior service credit	—	—	—	—	(3)	—	(2)	—
Amortization of actuarial loss	—	2	—	3	—	—	—	—
Settlement and curtailment cost (credit)	—	—	—	18	(1)	—	—	—
Net periodic (credit) benefit cost	$(3)	$ 4	$(3)	$ 25	$(3)	$ —	$(1)	$ 1

Settlement of employee benefit plan

Effective October 1, 2014, the Company transferred the defined benefit obligations and pension plan assets in one of its foreign defined benefit plans to a multi-employer plan. As a result of the transfer, a pre-tax charge of $18 million was recorded in the nine months ended June 30, 2015 as reflected in Settlement costs in the table above. The pre-tax charge consists of $27 million released from Accumulated other comprehensive (loss) income (“AOCI”) and $2 million of employer contributions at the time of the settlement, partially offset by an $11 million release of the pension liability. The settlement charge was recorded primarily in Cost of sales in the Consolidated Statements of Operations.

D. Goodwill and Intangible Assets

Cabot had goodwill balances of $152 million and $154 million at June 30, 2016 and September 30, 2015, 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, 2016 are as follows:

	Reinforcement Materials	Performance Chemicals	Purification Solutions	Total
	(Dollars in millions)			
Balance at September 30, 2015	$55	$ 9	$ 90	$154
Foreign currency impact	(2)	—	—	(2)
Balance at June 30, 2016	$53	$ 9	$ 90	$152

13

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

	June 30, 2016			September 30, 2015		
	Gross Carrying Value	Accumulated Amortization	Net Intangible Assets	Gross Carrying Value	Accumulated Amortization	Net Intangible Assets
	(Dollars in millions)					
Intangible assets with finite lives						
Developed technologies	$47	$ (3)	$ 44	$48	$ (1)	$ 47
Trademarks	16	(1)	15	16	—	16
Customer relationships	91	(8)	83	96	(6)	90
Total intangible assets	$154	$ (12)	$ 142	$160	$ (7)	$ 153

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 months ended June 30, 2016 and 2015 was $1 million and $3 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 months ended June 30, 2016 and 2015 was $5 million and $12 million, respectively, and is included in Cost of sales and Selling and administrative expenses in the Consolidated Statements of Operations. Total amortization expense is estimated to be approximately $9 million each year for the next five fiscal years.

E. Stockholders' Equity

In fiscal 2007, the Board of Directors authorized Cabot to repurchase up to ten million shares of Cabot's common stock in the open market or in privately negotiated transactions. This authorization did not have a set expiration date. During the first nine months of fiscal 2015, Cabot repurchased 925,700 shares of its common stock under this authorization.

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 and cancelled the previous authorization. Cabot has repurchased 1,875,676 shares of its common stock under this authorization. As of June 30, 2016, 3,124,324 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 2016 and 2015, Cabot paid cash dividends in the aggregate amount of $0.74 and $0.66, respectively, per share of common stock, with a total cost of $47 million and $42 million, respectively.

Noncontrolling interest

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

	2016	2015
	(Dollars in millions)	
Balance at September 30	$104	$122
Net income attributable to noncontrolling interests	12	7
Noncontrolling interest foreign currency translation adjustment	(5)	(3)
Noncontrolling interest dividends declared	(16)	(22)
Balance at June 30	$95	$104

During the nine months ended June 30, 2016, $16 million of dividends were declared to noncontrolling interests, all of which were paid in cash during that time. During the nine months ended June 30, 2015, $22 million of dividends were declared to noncontrolling interests, $16 million of which were paid during that time with the remaining $6 million paid later in the fiscal year.

F. Accumulated Other Comprehensive Loss

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

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

	Currency Translation Adjustment	Unrealized Gains on Investments	Pension and Other Postretirement Benefit Liability Adjustments	Total
	(Dollars in millions)			
Balance at September 30, 2015, attributable to Cabot Corporation	$(239)	$ 2	$ (62)	$(299)
Other comprehensive loss before reclassifications	(47)	—	—	(47)
Amounts reclassified from accumulated other comprehensive loss	—	—	(1)	(1)
Net other comprehensive items	(286)	2	(63)	(347)
Less: Noncontrolling interest	(3)	—	—	(3)
Balance at December 31, 2015, attributable to Cabot Corporation	$(283)	$ 2	$ (63)	$(344)
Other comprehensive income before reclassifications	65	—	—	65
Amounts reclassified from accumulated other comprehensive loss	—	—	1	1
Net other comprehensive items	(218)	2	(62)	(278)
Less: Noncontrolling interest	1	—	—	1
Balance at March 31, 2016, attributable to Cabot Corporation	$(219)	$ 2	$ (62)	$(279)
Other comprehensive loss before reclassifications	(13)	—	—	(13)
Amounts reclassified from accumulated other comprehensive loss	—	—	(1)	(1)
Net other comprehensive items	(232)	2	(63)	(293)
Less: Noncontrolling interest	(3)	—	—	(3)
Balance at June 30, 2016, attributable to Cabot Corporation	$(229)	$ 2	$ (63)	$(290)

The amounts reclassified out of AOCI and into the Consolidated Statements of Operations in the three months and nine months ended June 30, 2016 and 2015 are as follows:

	Affected Line Item in the Consolidated Statements of Operations	Three Months Ended June 30, 2016	2015	Nine Months Ended June 30, 2016	2015
		(Dollars in millions)			
Pension and other postretirement benefit liability adjustment					
Amortization of actuarial losses	Net Periodic Benefit Cost - see Note C for details	$—	$ 1	$2	$ 3
Amortization of prior service credit	Net Periodic Benefit Cost - see Note C for details	(1)	(1)	(3)	(2)
Settlement and curtailment (credit) cost	Net Periodic Benefit Cost - see Note C for details	—	—	(1)	27
Total before tax		(1)	—	(2)	28
Tax impact	Provision (benefit) for income taxes	—	—	1	(6)
Total after tax		$(1)	$ —	$(1)	$ 22

15

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, 2016.

	Payments Due by Fiscal Year						
	Remainder of Fiscal 2016	2017	2018	2019	2020	Thereafter	Total
	(Dollars in millions)						
Reinforcement Materials	$40	$134	$125	$122	$86	$ 1,260	$1,767
Performance Chemicals	14	52	38	33	30	153	320
Purification Solutions	3	9	3	—	—	—	15
Total	$57	$195	$166	$155	$116	$ 1,413	$2,102

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, 2016 and September 30, 2015, Cabot had $14 million and $16 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 and $1 million in the first nine months of fiscal 2016 and 2015, respectively. 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 2015 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, 2016 and September 30, 2015, 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, 2016 and September 30, 2015, the reserve was $8 million and $11 million, respectively. Cash payments related to this liability were $3 million in the first nine months of fiscal 2016 and $2 million in the first nine months of fiscal 2015.

Other

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

H. Income Tax

Effective Tax Rate

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
	(Dollars in millions)		(Dollars in millions)	
Provision (benefit) for income taxes	$15	$(64)	$21	$(47)
Effective tax rate	21%	13%	17%	11%

During the three and nine months ended June 30, 2016, the Company recorded tax provisions of $15 million and $21 million, resulting in effective tax rates of 21% and 17%, respectively. These amounts included a net discrete tax

expense of $3 million and a net discrete tax benefit of $2 million, respectively, for the three and nine months ended June 30, 2016. During the three and nine months ended June 30, 2015, the Company recorded tax benefits of $64 million and $47 million, resulting in an effective tax rate of 13% and 11%, respectively. These amounts included a net discrete tax expense of $1 million and a net discrete tax benefit of $7 million, respectively, for the three and nine months ended June 30, 2015.

Uncertainties

Cabot files U.S. federal and state and non-U.S. income tax returns in jurisdictions with varying statutes of limitations. The U.S. tax returns for fiscal 2013 through fiscal 2015 remain subject to examination by the United States Internal Revenue Service ("IRS") and various state tax returns for fiscal 2005 through fiscal 2015 remain subject to examination by the respective state tax authorities. In significant non-U.S. jurisdictions, various tax returns for fiscal 2004 through fiscal 2015 remain subject to examination by their respective tax authorities. Cabot's significant non-U.S. jurisdictions include China, France, Germany, Italy, Japan, and the Netherlands.

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

During the three 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. During the three and nine months ended June 30, 2015, Cabot released uncertain tax positions of less than $1 million and $13 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 computations:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
	(Dollars and shares in millions, except per share amounts)			
Basic EPS:				
Net income (loss) attributable to Cabot Corporation	$56	$(445)	$97	$(374)
Less: Dividends and dividend equivalents to participating securities	—	—	—	—
Less: Undistributed earnings allocated to participating securities[1]	—	—	—	—
Earnings (loss) allocated to common shareholders (numerator)	$56	$(445)	$97	$(374)
Weighted average common shares and participating securities outstanding	62.9	63.8	62.9	64.2
Less: Participating securities[1]	0.5	0.5	0.5	0.5
Adjusted weighted average common shares (denominator)	62.4	63.3	62.4	63.7
Amounts per share - basic:				
Income (loss) from continuing operations attributable to Cabot Corporation	$0.90	$(7.05)	$1.55	$(5.89)
Income from discontinued operations	—	0.01	—	0.01
Net income (loss) attributable to Cabot Corporation	$0.90	$(7.04)	$1.55	$(5.88)
Diluted EPS:				
Earnings (loss) allocated to common shareholders	$56	$(445)	$97	$(374)

Plus: Earnings allocated to participating securities	—	—	—	—
Less: Adjusted earnings allocated to participating securities[2]	—	—	(1)	—
Earnings (loss) allocated to common shareholders (numerator)	$56	$(445)	$96	$(374)
Adjusted weighted average common shares outstanding	62.4	63.3	62.4	63.7
Effect of dilutive securities:				
Common shares issuable[3]	0.5	—	0.5	—
Adjusted weighted average common shares (denominator)	62.9	63.3	62.9	63.7
Amounts per share - diluted:				
Income (loss) from continuing operations attributable to Cabot Corporation	$0.88	$(7.05)	$1.53	$(5.89)
Income from discontinued operations	—	0.01	—	0.01
Net income (loss) attributable to Cabot Corporation	$0.88	$(7.04)	$1.53	$(5.88)

[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,		Nine Months Ended June 30,	
	2016	2015	2016	2015
	(Dollars in millions)			
Calculation of undistributed earnings (loss):				
Net income (loss) attributable to Cabot Corporation	$56	$(445)	$97	$(374)
Less: Dividends declared on common stock	19	14	47	42
Less: Dividends declared on participating securities	—	—	—	—
Undistributed earnings (loss)	$37	$(459)	$50	$(416)
Allocation of undistributed earnings (loss):				
Undistributed earnings (loss) allocated to common shareholders	$37	$(459)	$50	$(416)
Undistributed earnings (loss) allocated to participating shareholders	—	—	—	—
Undistributed earnings (loss)	$37	$(459)	$50	$(416)

(2) Undistributed earnings are adjusted for the assumed distribution of dividends to the dilutive securities, which are described in (3) below, and then reallocated to participating securities.

(3) Represents incremental shares of common stock from the (i) assumed exercise of stock options issued under Cabot's equity incentive plans; (ii) assumed issuance of shares to employees pursuant to the Company's Deferred Compensation and Supplemental Retirement Plan; and (iii) assumed issuance of shares under outstanding performance-based restricted stock unit awards issued under Cabot's equity incentive plans. For the three and nine months ended June 30, 2016, 338,854 and 726,589 incremental shares of common stock, respectively, were not included in the calculation of diluted earnings per share because the inclusion of these shares would have been antidilutive. For the three and nine months ended June 30, 2015, 492,172 and 508,991 incremental shares of common stock, respectively, were not included in the calculation of diluted earnings per share because the inclusion of these shares would have been antidilutive.

J. Restructuring

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
	(Dollars in millions)			
Cost of sales	$ 1	$ 1	$ 32	$ 4
Selling and administrative expenses	1	1	8	10
Research and technical expenses	—	—	5	—
Total	$ 2	$ 2	$ 45	$ 14

Details of all restructuring activities and the related reserves during the three months ended June 30, 2016 are as follows:

	Severance and Employee Benefits	Environmental Remediation	Asset Sales	Asset Impairment and Accelerated Depreciation	Other	Total
	(Dollars in millions)					
Reserve at March 31, 2016	$ 11	$ 2	$ —	$ —	$ —	$ 13
Charges	—	1	—	—	1	2
Costs charged against assets	—	—	—	—	—	—
Cash paid	(7)	(1)	—	—	(1)	(9)
Reserve at June 30, 2016	$ 4	$ 2	$ —	$ —	$ —	$ 6

Details of all restructuring activities and the related reserves during the nine months ended June 30, 2016 are as follows:

	Severance and Employee Benefits	Environmental Remediation	Asset Sales	Asset Impairment and Accelerated Depreciation	Other	Total
	(Dollars in millions)					
Reserve at September 30, 2015	$ 5	$ 2	$ —	$ —	$ 2	$ 9
Charges (credit)	26	1	(9)	23	4	45
Costs charged against assets	—	—	(7)	(23)	—	(30)
Cash (paid) received	(27)	(1)	16	—	(6)	(18)
Reserve at June 30, 2016	$ 4	$ 2	$ —	$ —	$ —	$ 6

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 has resulted in a reduction of approximately 300 positions across the Company's global locations. These actions are

intended to result in a more competitive cost structure.

The Company has recorded pre-tax charges of approximately $2 million for the three months ended June 30, 2016 and $28 million for the first nine months of fiscal 2016 related to this plan. The Company expects to record less than $1 million through the rest of fiscal 2016 and approximately $1 million thereafter 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 $29 million, comprised of severance, employee benefits and other transition costs. Through June 30, 2016, the Company has made $25 million in cash payments related to this plan and expects to make $2 million in cash payments through the remainder of fiscal 2016 and $2 million thereafter.

As of June 30, 2016, Cabot has $3 million of accrued restructuring costs in the Consolidated Balance Sheet related to these actions, which is mainly comprised of accrued severance charges.

Additionally, in November 2015, Cabot announced that it had committed to closing its carbon black manufacturing facility in Merak, Indonesia. The decision to close this plant and to consolidate production in Asia using the Company's Cilegon, Indonesia and other Asian and global carbon black production sites to meet regional demand was driven by the financial performance at the Merak facility in the past several years. Manufacturing operations ceased at the end of January 2016 and approximately 50 employees were affected.

The Company has recorded pre-tax charges of less than $1 million in the three months ended June 30, 2016, and approximately $25 million in the first nine months of fiscal 2016 related to this closure, comprised of $22 million of asset impairments and accelerated depreciation and $3 million of severance and employee benefits.

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 less than $1 million in the remainder of fiscal 2016 and approximately $4 million in fiscal 2017.

Net cash outlays related to this closure are expected to be approximately $7 million, comprised of $4 million of site demolition, clearing and environmental remediation costs, $3 million of severance payments, and less than $1 million for other charges. Through June 30, 2016, the Company has made $2 million in cash payments related to this plan, mainly for severance and other miscellaneous charges and expects to pay $1 million through the remainder of fiscal 2016 mainly for severance and other charges, and expects to pay an additional $4 million in fiscal 2017 mainly for site demolition, clearing and environmental remediation costs.

As of June 30, 2016, Cabot has approximately $1 million of accrued severance costs in the Consolidated Balance Sheet related to the Merak facility closure.

Details of the 2016 restructuring activities, including the Merak facility closure, during the three and nine months ended June 30, 2016 are as follows:

	Severance and Employee Benefits	Asset Impairment and Accelerated Depreciation	Other	Total
	(Dollars in millions)			
Reserve at September 30, 2015	$—	$ —	$ —	$—
Charges	25	22	1	48
Costs charged against liabilities / (assets)	1	(22)	—	(21)
Cash paid	(10)	—	(1)	(11)
Reserve at December 31, 2015	$16	$ —	$ —	$16
Charges	—	1	2	3
Costs charged against assets / liabilities	—	(1)	—	(1)
Cash paid	(7)	—	(2)	(9)
Reserve at March 31, 2016	$9	$ —	$ —	$9
Charges	1	—	1	2
Costs charged against liabilities / (assets)	—	—	—	—
Cash paid	(6)	—	(1)	(7)
Reserve at June 30, 2016	$4	$ —	$ —	$4

Business Service Center Transition

In January 2014, the Company announced its intention to open a new Europe, Middle East and Africa ("EMEA") business service center in Riga, Latvia, and to close its Leuven, Belgium site, subject to the Belgian information and consultation process, which was successfully completed in June 2014. These actions were developed following an

extensive evaluation of the Company's business service capabilities in the EMEA region and a determination that the future EMEA business service center will enable the Company to provide the highest quality of service at the most competitive cost.

The actions related to the transition of the business service center have been completed and have resulted in total charges of approximately $24 million, comprised of $16 million of severance charges and $8 million of other transition costs including training costs and redundant salaries. There were no charges related to this plan recorded in the first nine months of fiscal 2016 and $5 million was recorded related to this plan in the first nine months of fiscal 2015 comprised of severance charges of $1 million and $4 million of other transition costs including training costs and redundant salaries.

Through June 30, 2016, the Company has made $21 million in cash payments related to this plan, comprised of $14 million of severance payments and $7 million of other transition related costs, and expects to make cash payments of less than $1 million, comprised mainly of severance, in the remainder of fiscal 2016. The difference between the initial accrual and subsequent cash payments was due to changes in foreign exchange rates.

As of June 30, 2016, Cabot has less than $1 million of accrued severance charges in the Consolidated Balance Sheet related to this transaction.

Closure of Port Dickson, Malaysia Manufacturing Facility

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

Through June 30, 2016, the Company recorded cumulative net pre-tax restructuring charges related to this plan of $19 million, comprised mainly of accelerated depreciation and asset write-offs of $16 million, severance charges of $2 million, site demolition, clearing and environmental remediation charges of $2 million, and other closure related charges of $1 million, partially offset by the gain from the sale of land of $2 million in the first quarter of fiscal 2016. CMSB's net income or loss is attributable to Cabot Corporation and to the noncontrolling interest in the joint venture.

The Company has recorded a net pre-tax charge of less than $1 million in both of the three month periods ended June 30, 2016 and 2015, and a net pre-tax gain of approximately $1 million and a net pre-tax charge of less than $1 million in the nine month periods ended June 30, 2016 and 2015, respectively. The portion of the charges that are allocable to the noncontrolling interest in CMSB (49.9%) are recorded within Net income attributable to noncontrolling interests, net of tax, in the Consolidated Statements of Operations. The majority of actions related to closure of the plant were completed in fiscal 2014.

Cumulative net cash received related to this plan is $3 million, comprised of $7 million received from the sale of land, partially offset by approximately $2 million paid for severance, $1 million paid for site demolition, clearing and environmental remediation, and $1 million paid for other closure related charges.

CMSB expects to make cash payments of less than $1 million during the remainder of fiscal 2016 and fiscal 2017 mainly for site demolition, clearing and environmental remediation costs.

As of June 30, 2016, Cabot has less than $1 million of accrued restructuring costs in the Consolidated Balance Sheets related to this closure, which is mainly for accrued environmental charges.

Other Activities

The Company has recorded other pre-tax restructuring charges of less than $1 million and charges of $1 million during the three month periods ended June 30, 2016 and 2015, respectively, and approximately $1 million and $6 million during the nine month periods ended June 30, 2016 and 2015, respectively. Fiscal 2016 activity is comprised mainly of accelerated depreciation and severance adjustments whereas fiscal 2015 charges are comprised of severance costs. No future charges related to these actions are expected.

As of June 30, 2016, Cabot has less than $1 million of accrued severance and other closure related costs in the Consolidated Balance Sheets related to these activities which are expected to be paid through early fiscal 2017.

Previous Actions and Sites Pending Sale

Beginning in fiscal 2009, the Company entered into several different restructuring plans which have been substantially completed, pending the sale of a former manufacturing site in Thane, India. The Company has incurred total cumulative pre-tax charges of approximately $158 million related to these plans through June 30, 2016, comprised of

$67 million for severance charges, $66 million for accelerated depreciation and asset impairments, $10 million for environmental, demolition and site clearing costs, and $23 million of other closure related charges, partially offset by gains on asset sales of $8 million.

Pre-tax restructuring charges were less than $1 million in the three month periods ended June 30, 2016 and 2015 related to these actions.

The net pre-tax restructuring gain related to these plans was $7 million for the nine months ended June 30, 2016 driven by the sale of land, whereas charges of $2 million were recorded during the nine months ended June 30, 2015. Since fiscal 2009, Cabot has

made net cash payments of $79 million related to these plans comprised of $63 million for severance payments, $10 million for environmental, demolition and site clearing costs, and $25 million for other closure related charges, partially offset by cash proceeds from asset sales of $19 million. The Company expects to pay approximately $2 million for environmental and other closure related costs in the remainder of fiscal 2016 and thereafter.

As of June 30, 2016, Cabot has approximately $2 million of accrued environmental and other closure related costs in the Consolidated