

CABOT CORP
Form 10-Q
May 06, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 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 March 31, 2016

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 (I.R.S. Employer
incorporation or organization) 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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if smaller reporting company) Smaller reporting company ☐

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

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

As of May 4, 2016 the Company had 62,398,860 shares of Common Stock, par value \$1.00 per share, outstanding.

CABOT CORPORATION

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Part I. Financial Information

Item 1. Financial Statements

CABOT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

UNAUDITED

	Three Months Ended March 31, 2016		Six Months Ended March 31, 2015	
	2016	2015	2016	2015
	(In millions, except per share amounts)			
Net sales and other operating revenues	\$568	\$694	\$1,171	\$1,506
Cost of sales	418	555	922	1,210
Gross profit	150	139	249	296
Selling and administrative expenses	62	71	133	149
Research and technical expenses	11	14	27	29
Income from operations	77	54	89	118
Interest and dividend income	2	1	3	2
Interest expense	(14)	(14)	(27)	(27)
Other expense	(3)	(2)	(11)	(3)
Income from continuing operations	62	39	54	90
Provision for income taxes	(11)	(14)	(6)	(17)
Equity in earnings of affiliated companies, net of tax	1	2	1	3
Net income	52	27	49	76
Net income attributable to noncontrolling interests,				
net of tax	4	1	8	5
Net income attributable to Cabot Corporation	48	26	41	71
Weighted-average common shares outstanding:				
Basic	62.4	63.6	62.4	63.9
Diluted	62.8	64.1	62.9	64.4
Income per common share:				
Basic:				
Net income attributable to Cabot Corporation	\$0.76	\$0.41	\$0.65	\$1.11
Diluted:				
Net income attributable to Cabot Corporation	\$0.76	\$0.41	\$0.65	\$1.10
Dividends per common share	\$0.22	\$0.22	\$0.44	\$0.44

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

CABOT CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

UNAUDITED

	Three Months Ended March 31, 2016 2015 (In millions)		Six Months Ended March 31, 2016 2015	
Net income	\$52	\$27	\$49	\$76
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustment (net of tax benefit of				
\$-, \$-, \$- and \$1)	65	(131)	18	(234)
Pension and other postretirement benefit liability adjustments				
Pension and other postretirement benefit liability adjustments				
arising during the period (net of tax provision of \$-, \$-, \$- and				
\$6)	—	—	(1)	21
Amortization of net loss and prior service credit included in net				
periodic pension cost (net of tax benefit of \$1, \$-, \$1, and \$-)	1	1	1	1
Other comprehensive income (loss)	66	(130)	18	(212)
Comprehensive income (loss)	118	(103)	67	(136)
Net income attributable to noncontrolling interests	4	1	8	5
Noncontrolling interests foreign currency translation				
adjustment, net of tax	1	(1)	(2)	(3)
Comprehensive income attributable to noncontrolling interests,				
net of tax	5	—	6	2
Comprehensive income (loss) attributable to Cabot Corporation	\$113	\$(103)	\$61	\$(138)

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

CABOT CORPORATION

CONSOLIDATED BALANCE SHEETS

ASSETS

UNAUDITED

	March 31, 2016	September 30, 2015
	(In millions)	
Current assets:		
Cash and cash equivalents	\$ 178	\$ 77
Accounts and notes receivable, net of reserve for doubtful accounts of \$8 and \$7	407	477
Inventories:		
Raw materials	58	69
Work in process	3	1
Finished goods	245	287
Other	38	40
Total inventories	344	397
Prepaid expenses and other current assets	55	54
Deferred income taxes	44	43
Total current assets	1,028	1,048
Property, plant and equipment, net	1,318	1,383
Goodwill	155	154
Equity affiliates	57	57
Intangible assets, net	149	153
Assets held for rent	94	86
Deferred income taxes	156	152
Other assets	41	42
Total assets	\$2,998	\$ 3,075

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

CABOT CORPORATION

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

UNAUDITED

	March 31, 2016	September 30, 2015
(In millions, except share and per share amounts)		
Current liabilities:		
Notes payable	\$ 7	\$ 22
Accounts payable and accrued liabilities	336	389
Income taxes payable	10	28
Deferred income taxes	1	1
Current portion of long-term debt	301	1
Total current liabilities	655	441
Long-term debt	669	970
Deferred income taxes	61	59
Other liabilities	233	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: 62,590,343 and 62,704,966 shares		
Outstanding: 62,348,401 and 62,458,396 shares	63	63
Less cost of 241,942 and 246,570 shares of common treasury stock	(8)	(8)
Additional paid-in capital	—	—
Retained earnings	1,483	1,478
Accumulated other comprehensive loss	(279)	(299)
Total Cabot Corporation stockholders' equity	1,259	1,234
Noncontrolling interests	94	104
Total stockholders' equity	1,353	1,338
Total liabilities and stockholders' equity	\$ 2,998	\$ 3,075

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

CABOT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

	Six Months Ended March 31, 2016 2015	
Cash Flows from Operating Activities:		
Net income	\$49	\$76
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	82	92
Long-lived asset impairment charge (Note J)	23	—
Deferred tax benefit	(3)	(2)
Employee benefit plan settlement	—	18
Equity in net income of affiliated companies	(1)	(3)
Non-cash compensation	6	6
Other non-cash expense (income)	3	(4)
Changes in assets and liabilities:		
Accounts and notes receivable	71	71
Inventories	49	55
Prepaid expenses and other current assets	(3)	—
Accounts payable and accrued liabilities	(52)	(85)
Income taxes payable	(19)	(13)
Other liabilities	(22)	(18)
Cash dividends received from equity affiliates	5	7
Other	—	5
Cash provided by operating activities	\$188	\$205
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(52)	(70)
Proceeds from the sale of land	16	—
Change in assets held for rent	(5)	(7)
Cash used in investing activities	\$(41)	\$(77)
Cash Flows from Financing Activities:		
Repayments under financing arrangements	(3)	(3)
Decrease in notes payable, net	—	(1)
(Repayments of) proceeds from issuance of commercial paper, net	(11)	94
Repayments of long-term debt	(1)	(32)
Purchases of common stock	(19)	(61)
Proceeds from sales of common stock	4	5
Cash dividends paid to noncontrolling interests	(3)	(11)
Cash dividends paid to common stockholders	(28)	(28)
Cash used in financing activities	\$(61)	\$(37)

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Effects of exchange rate changes on cash	15	(64)
Increase in cash and cash equivalents	101	27
Cash and cash equivalents at beginning of period	77	67
Cash and cash equivalents at end of period	\$178	\$94

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

CABOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 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 March 31, 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.