CABOT CORP
Form 10-K
November 29, 2010
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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended September 30, 2010**

**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, Suite 1300 Boston, Massachusetts** | **02210** |
| *(Address of Principal Executive Offices)* | *(Zip Code)* |

**(617) 345-0100**

*(Registrant s telephone number, including area code)*

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common stock, $1.00 par value per share | New York Stock Exchange |

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 ¨

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 ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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.

Large accelerated filer x Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a 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 x

As of the last business day of the Registrant s most recently completed second fiscal quarter (March 31, 2010), the aggregate market value of the Registrant s common stock held by non-affiliates was approximately $1,968,027,630. As of November 16, 2010, there were 65,388,164 shares of the Registrant s common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant s definitive proxy statement for its 2011 Annual Meeting of Shareholders are incorporated by reference in Part III of this annual report on Form 10-K.

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**Information Relating to Forward-Looking Statements**

This annual report on Form 10-K contains forward-looking statements under the Federal securities laws. These forward-looking statements include statements relating to our future business performance and overall prospects; demand for our products; the benefits we expect to receive and costs we expect to incur from our restructuring activities; when we expect commissioning of the expanded fumed silica manufacturing operations in Jiangxi Province, China to occur; when we expect additional capacity at our rubber blacks operations in Merak, Indonesia to become available; the adequacy of our supply of tantalum ore; our expectations for generating revenue in our Specialty Fluids Business from operations outside of the North Sea; the life of our pollucite ore reserves; our ability to generate revenue from our new business development efforts; the anticipated effect of the time lag in price adjustments that remain in certain of our carbon black supply contracts; the sufficiency of our cash on hand, cash provided from operations and cash available under our credit facilities to fund our cash requirements; anticipated capital spending, including environmental-related capital expenditures; cash requirements and uses of available cash, including future cash outlays associated with long-term contractual obligations, restructurings, contributions to employee benefit plans, environmental remediation costs and future respirator liabilities; exposure to interest rate and foreign exchange risk; future benefit plan payments we expect to make; our expected tax rate for fiscal 2011; our ability to recover deferred tax assets; and the possible outcome of legal 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 based on our current expectations, assumptions, estimates and projections about Cabot s businesses and strategies, market trends and conditions, economic conditions and other factors. These 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 and difficult to predict. If known or unknown risks materialize, or should underlying assumptions prove inaccurate, our actual results could differ materially from past results and from those expressed in the forward-looking statements. Important factors that could cause our actual results to differ materially from those expressed in our forward-looking statements are described in Item 1A in this report.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. Investors are advised, however, to consult any further disclosures we make on related subjects in our 10-Q and 8-K reports filed with the Securities and Exchange Commission (the SEC ).

**PART I**

**Item 1.** ***Business***

**General**

Cabot is a global specialty chemicals and performance materials company headquartered in Boston, Massachusetts. Our principal products are rubber and specialty grade carbon blacks, fumed metal oxides, tantalum and related products, inkjet colorants, aerogels and cesium formate drilling fluids. Cabot and its affiliates have manufacturing facilities and operations in the United States and approximately 20 other countries. Cabot s business was founded in 1882 and incorporated in the State of Delaware in 1960. The terms Cabot , Company , we , and our as used in t report refer to Cabot Corporation and its consolidated subsidiaries.

Our strategy is to deliver earnings growth through leadership in performance materials. We intend to achieve this goal by focusing on margin improvement, capacity expansion and emerging market growth, developing new products and businesses and actively managing our portfolio of businesses.

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Our products are generally based on technical expertise and innovation in one or more of our three core competencies: making and handling very fine particles; modifying the surfaces of very fine particles to alter their functionality; and designing particles to impart specific properties to a composite. We focus on creating particles with the composition, morphology, surface functionalities and formulations to support our customers existing and emerging applications.

We are organized into four business segments: the Core Segment, which is further disaggregated for financial reporting purposes into the Rubber Blacks and the Supermetals Businesses; the Performance Segment; the New Business Segment and the Specialty Fluids Segment. For operational purposes, we are also organized into three geographic regions: The Americas; Europe, Middle East and Africa; and Asia Pacific. The business segments are discussed in more detail later in this section. Financial information about our business segments appears in Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 below ( MD&A ) and in Note U of the Notes to our Consolidated Financial Statements in Item 8 below ( Note U ). Financial information about our sales and long-lived assets in certain geographic areas appears in Note U.

Our internet address is *www.cabot-corp.com.* We make available free of charge on or through our internet website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the SEC.

**Core Segment**

The Core Segment is comprised of the Rubber Blacks Business and the Supermetals Business. A discussion of each of these Businesses follows.

**Rubber Blacks Business**

***Products***

Carbon black is a form of elemental carbon that is manufactured in a highly controlled process to produce particles and aggregates of varied structure and surface chemistry, resulting in many different performance characteristics for a wide variety of applications. Rubber grade carbon blacks are used to enhance the physical properties of the systems and applications in which they are incorporated.

Our rubber blacks products are used in tires and industrial products. Rubber blacks have traditionally been used in the tire industry as a rubber reinforcing agent and are also used as a performance additive. In industrial products such as hoses, belts, extruded profiles and molded goods, rubber blacks are used to improve the physical performance of the product. In addition to the carbon black we make using conventional carbon black manufacturing methods, we have developed elastomer composite products (referred to as Cabot Elastomer Composites or CEC ) that are compounds of natural rubber and carbon black made by a patented liquid phase process. Our CEC products are currently targeted primarily for tire applications because we believe these compounds improve wear resistance, reduce fatigue and reduce rolling resistance compared to natural rubber/carbon black compounds made by conventional methods.

***Sales and Customers***

Sales of rubber blacks products are made by Cabot employees and through distributors and sales representatives. Sales to three major tire customers represent a material portion of the Rubber Blacks Business s total net sales and operating revenues. The loss of any of these customers could have a material adverse effect on the Rubber Blacks Business. In fiscal 2010, sales to The Goodyear Tire and Rubber Company and its affiliates amounted to approximately 11% of Cabot s consolidated revenues. We did not have sales during the fiscal year to any other customer in an amount equal to or greater than 10% of our consolidated revenues for the year.

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Under appropriate circumstances, we have entered into supply contracts with certain customers, many of which have durations of at least one year. Many of these contracts provide for sales price adjustments to account for changes in relevant feedstock indices and, in some cases, changes in other relevant costs (such as the cost of natural gas). In fiscal 2010, approximately half of our rubber blacks volume was sold under supply contracts in effect during the fiscal year. The majority of the volumes sold under these contracts are sold to customers in North America and Western Europe.

Much of the rubber blacks we sell is used in automotive products and, therefore, our financial results may be affected by the cyclical nature of the automotive industry. However, a large portion of the market for our products is in replacement tires that historically have been less subject to automotive industry cycles.

***Competition***

We are one of the leading manufacturers of carbon black in the world. We compete in the manufacture of carbon black primarily with four companies with a global presence and a significant number of other companies which have a regional presence. Competition for products within the Rubber Blacks Business is based on product performance, quality, reliability, service, technical innovation, price, and logistics. We believe our technological leadership, global manufacturing presence, operations and logistics excellence and customer service provide us a competitive advantage.

***Raw Materials***

The principal raw material used in the manufacture of carbon black is a portion of the residual heavy oils derived from petroleum refining operations and from the distillation of coal tars and the production of ethylene throughout the world. Natural gas is also used in the production of carbon black. Raw material costs generally are influenced by the availability of various types of carbon black feedstock and natural gas, and related transportation costs. Importantly, movements in the market price for crude oil typically affect carbon black feedstock costs.

***Operations***

We own, or have a controlling interest in, and operate plants that produce rubber blacks in Argentina, Brazil, Canada, China, Colombia, the Czech Republic, France, Indonesia, Italy, Japan, Malaysia, The Netherlands, and the United States. Our equity affiliates operate carbon black plants in Mexico and Venezuela. The following table shows our ownership interest as of September 30, 2010 in rubber blacks operations in which we own less than 100%:

| Location | Percentage Interest |
|---|---|
| Shanghai, China | 70% (consolidated subsidiary) |
| Tianjin, China | 70% (consolidated subsidiary) |
| Valasske Mezirici (Valmez), Czech Republic | 52% (consolidated subsidiary) |
| Cilegon and Merak, Indonesia | 84.8% (consolidated subsidiary) |
| Port Dickson, Malaysia | 51% (consolidated subsidiary) |
| Tampico, Mexico | 40% (equity affiliate) |
| Valencia, Venezuela | 47.5% (equity affiliate) |

We continue to expand the manufacturing capacity of our Rubber Blacks Business in emerging markets. In fiscal 2009, we completed construction of and began operating two additional rubber blacks production units at our carbon black plant in Tianjin, China, increasing our capacity at that facility by 150,000 metric tons. In addition, we recently began a debottleneck project at our rubber blacks facility in Merak, Indonesia to increase our capacity in Indonesia by 20%, and expect commissioning of this additional capacity in mid-2011.

As part of our 2009 global restructuring plan, over the course of fiscal 2009 and 2010 we closed our manufacturing operations in Stanlow, U.K., and in Berre, France. In fiscal 2010, we also closed our manufacturing operations in Thane, India.

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**Supermetals Business**

***Products***

We produce tantalum, niobium (columbium) and their alloys. Tantalum, which accounts for substantially all of this Business s sales, is produced in various forms. Electronics is the largest application for tantalum powder, which is used to make capacitors for computers, networking devices, wireless phones, electronics for automobiles and other devices. Tantalum, niobium and their alloys are also produced in wrought form for applications such as the production of superalloys and chemical process equipment and for various other industrial and aerospace applications, including fiber optic filters, sodium vapor lamps, turbine blades and aerospace propulsion systems. In addition, the Supermetals Business sells the starting metals (high-purity grade tantalum powders, plates and ingots) used to manufacture finished tantalum sputtering targets used in thin film applications, including semiconductors, inkjet heads, magnetics and flat panel displays.

***Sales and Customers***

Sales are made primarily through Cabot employees. In fiscal 2010, sales to four capacitor materials customers represented a material portion of the total net sales and operating revenues of the Supermetals Business. The loss of any of these customers could have a material adverse effect on the Supermetals Business.

Many of our tantalum products are used in products for the electronics industry, which is cyclical in nature.

***Competition***

We are a leading producer of electronic grade tantalum powder products. Competition in the tantalum business is based on technical innovation, product performance, quality, reliability, service and price. We compete principally with three other producers of tantalum powder and believe our technological leadership in high capacitance tantalum powder provides us with a competitive advantage.

***Raw Materials***

Tantalum ore is the principal raw material used in this business. Until calendar 2009, we obtained a large portion of our raw materials under long-term supply contracts with third-parties and from a mine we own in Manitoba, Canada. During fiscal 2009 we suspended our tantalum mining operations. With our current ore inventory levels and other currently available sources of ore, we believe we have an adequate supply of raw material for this Business for the foreseeable future. We also are evaluating other supply options to meet future, long-term raw material needs.

We have not purchased or sourced any material containing tantalum, including coltan, from the Democratic Republic of the Congo.

***Operations***

We operate manufacturing facilities for this business in Boyertown, Pennsylvania and Kawahigashi-machi, Japan. We have a license from the Department of Environmental Protection for the receipt, storage and processing of tantalum containing Class 7 ores at our Boyertown facility, and transport this material under a license from the U.S. Nuclear Regulatory Commission.

**Performance Segment**

The Performance Segment is comprised of two product lines: specialty grades of carbon black and thermoplastic concentrates (referred to together as performance products ); and fumed silica, fumed

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alumina and dispersions thereof (referred to together as fumed metal oxides ). In each product line, we design, manufacture and sell materials that deliver performance in a broad range of customer applications across the automotive, construction and infrastructure, and electronics and consumer products sectors.

***Products***

Carbon black is a form of elemental carbon that is manufactured in a highly controlled process to produce particles and aggregates of varied structure and surface chemistry, resulting in many different performance characteristics for a wide variety of applications. Our specialty grades of carbon black are used to impart color, provide rheology control, enhance conductivity and static charge control, provide UV protection, enhance mechanical properties, and provide chemical flexibility through surface treatment. These products are used in a wide variety of applications, such as inks, coatings, cables, pipes, toners and electronics. In addition, we manufacture and source thermoplastic concentrates and compounds that are marketed to the plastics industry.

Fumed silica is an ultra-fine, high-purity particle used as a reinforcing, thickening, abrasive, thixotropic, suspending or anti-caking agent in a wide variety of products produced for the automotive, construction, microelectronics, and consumer products industries. These products include adhesives, sealants, cosmetics, inks, toners, silicone rubber, coatings, polishing slurries and pharmaceuticals. Fumed alumina, also an ultra-fine, high-purity particle, is used as an abrasive, absorbent or barrier agent in a variety of products, such as inkjet media, lighting, coatings, cosmetics and polishing slurries.

***Sales and Customers***

Sales of these products are made by Cabot employees and through distributors and sales representatives. Under appropriate circumstances, we have entered into long-term supply arrangements (those with an initial term longer than one year) with certain customers for sales of our products. In fiscal 2010, sales under these contracts accounted for approximately 25% of the Performance Segment s revenue. For the performance products line of business, these contracts are with a broad number of customers. In contrast, sales under long-term contracts with two customers account for a substantial portion of the revenue of the fumed metal oxides line of business. The majority of volume sold under long-term contracts in the Performance Segment is sold to customers located in North America and Western Europe.

***Competition***

We are one of the leading manufacturers of carbon black in the world. We compete in the manufacture of carbon black primarily with four companies with a global presence and a significant number of other companies which have a regional presence. We are also a leading producer of thermoplastic concentrates in Europe, the Middle East and Asia. We are a leading producer and seller of fumed silica and compete primarily with three companies with a global presence and at least four other companies which have a regional presence.

Competition for these products is based on product performance, quality, reliability, service, technical innovation and price. We believe our technological leadership, global manufacturing presence, operations excellence and customer service provide us with a competitive advantage.

***Raw Materials***

The principal raw material used in the manufacture of carbon black is a portion of the residual heavy oils derived from petroleum refining operations and from the distillation of coal tars and the production of ethylene throughout the world. Natural gas is also used in the production of carbon black. Raw material costs generally are influenced by the availability of various types of carbon black feedstock and natural gas, and related transportation costs. Importantly, movements in the market price for crude oil typically affect carbon black feedstock costs.

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Other than carbon black feedstock, the primary materials used for thermoplastic concentrates are thermoplastic resins and mineral fillers. Raw materials for these concentrates are, in general, readily available.

Raw materials for the production of fumed silica are various chlorosilane feedstocks. We purchase feedstocks and for some customers convert their feedstock to product on a fee-basis (so called toll conversion ). We also purchase aluminum chloride as feedstock for the production of fumed alumina. We have long-term procurement contracts or arrangements in place for the purchase of fumed silica feedstock, which we believe will enable us to meet our raw material requirements for the foreseeable future. In addition, we buy some raw materials in the spot market to help ensure flexibility and minimize costs.

***Operations***

We own, or have a controlling interest in, and operate plants that produce specialty grades of carbon black in China, The Netherlands and the United States. Our thermoplastic concentrates and compounds are produced in facilities in Belgium, Italy, China (Hong Kong) and Dubai, UAE. We also own, or have a controlling interest in, manufacturing plants that produce fumed metal oxides in the United States, China, the United Kingdom, and Germany. An equity affiliate operates a fumed metal oxides plant in Mettur Dam, India. The following table shows our ownership interest as of September 30, 2010 in these segment operations in which we own less than 100%:

| Location | Percentage Interest |
|---|---|
| Tianjin, China (performance products) | 90% (consolidated subsidiary) |
| Jiangxi Province, China (fumed metal oxides) | 90% (consolidated subsidiary) |
| Mettur Dam, India (fumed metal oxides) | 50% (equity affiliate) |

We continue to expand the manufacturing capacity of our Performance Products and Fumed Metal Oxides Businesses in emerging markets. During fiscal 2007, we commissioned a specialty carbon black manufacturing unit at our plant in Tianjin with an annual nameplate capacity of approximately 20,000 metric tons. We also continue to expand our fumed silica capacity in China and at the end of fiscal 2010 construction began on the expansion of our joint venture s fumed silica manufacturing facility in Jiangxi Province. In the first phase of this expansion, capacity will increase to 15,000 metric tons, with commissioning expected in the second half of calendar 2011. In addition, in fiscal 2009 we purchased a facility in Dubai for the manufacture of thermoplastic concentrates to serve increasing plastics demand in the Middle East and commenced manufacturing operations at that facility in fiscal 2010.

As part of our 2009 global restructuring plan, over the course of fiscal 2009 and 2010 we closed our performance products manufacturing operations in Dukinfield, U.K. and our carbon black manufacturing operations in Stanlow, U.K. and in Berre, France. In October 2010, we announced our intention to cease manufacturing thermoplastic concentrates and compounds at our facility in Grigno, Italy in the first quarter of calendar 2011.

**New Business Segment**

Our New Business Segment includes the Inkjet Colorants and Aerogel Businesses and the business development activities of Cabot Superior Micropowders. A discussion of each of these Businesses follows.

**Inkjet Colorants**

***Products***

We produce and sell aqueous inkjet colorants primarily to the inkjet printing market. Our inkjet colorants are high-quality pigment-based black and other colorant dispersions we manufacture by surface

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treating specialty grades of carbon black and other pigments. The dispersions are used in aqueous inkjet inks to impart color (optical density or chroma) with improved durability (waterfastness, lightfastness and rub resistance) while maintaining high printhead reliability. Our inkjet colorants are produced for various inkjet printing applications, including small office and home office, corporate office, and commercial and industrial printing, as well as for other niche applications that require a high level of dispersibility and colloidal stability.

***Sales and Customers***

Sales of inkjet colorants are made by Cabot employees to inkjet printer manufacturers and to suppliers of inkjet inks in the inkjet cartridge aftermarket. Many of our commercialized products have been developed through joint research and development initiatives with inkjet printer manufacturers. These initiatives have led to the development of exclusive differentiated products for these inkjet customers.

***Competition***

Our inkjet colorants are designed to replace traditional pigment dispersions and dyes used in inkjet printing applications. Competitive products for inkjet colorants are organic dyes and other dispersed pigments manufactured and marketed by large chemical companies and small independent producers. Competition is based on product performance, technical innovation, quality, reliability, service and price. We believe our commercial strengths include technical innovation, product performance and service.

***Raw Materials***

Raw materials for inkjet colorants include carbon black sourced from our carbon black plants, organic pigments and other treating agents available from various sources. We believe that all raw materials to produce inkjet colorants are in adequate supply.

***Operations***

Our inkjet colorants are manufactured at our facility in Haverhill, Massachusetts.

**Aerogel Business**

***Products***

Cabot s aerogel is a hydrophobic, silica-based particle with a high surface area that is used in a variety of thermal insulation and specialty chemical applications. In the construction industry, the product is used in insulative composite building products and translucent skylight, window, wall and roof systems for insulating eco-daylighting applications. In the oil and gas industry, aerogel is used to insulate subsea pipelines. In the specialty chemicals industry, the product is used to provide matte finishing, insulating and thickening properties for use in a variety of applications. We continue to focus on application and market development activities for use of aerogel in these and other new applications.

***Sales and Customers***

Sales of aerogel products are made principally by Cabot employees. A large portion of our product sales are made to engineering procurement and installation companies for use in subsea pipe-in-pipe insulation applications in both the Gulf of Mexico and North Sea, and to regional building and construction companies and distributors for construction, eco-daylighting and specialty chemical applications.

***Competition***

Although the manufacturing processes used are different, in premium insulation applications, our aerogel products compete principally with aerogel products manufactured by Aspen Aerogel, Inc. and non-aerogel insulation products manufactured by primarily regional companies throughout the world.

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Competition is based on product performance, price, quality, reliability and service. We believe our commercial strengths include technical innovation, product performance, quality and service.

***Raw Materials***

The principal raw materials for the production of aerogels are silica sol and/or sodium silicate, which we believe are in adequate supply.

***Operations***

We manufacture our aerogel products at our facility in Frankfurt, Germany using a unique and patented manufacturing process. Finished products for use in the oil and gas industry are fabricated at a facility in Billerica, Massachusetts.

**Cabot Superior MicroPowders ( CSMP )**

CSMP is a research and development enterprise with multiple technology platforms and core competencies in advanced particle manufacturing across a wide range of materials and the related materials chemistries. Its principal areas of commercial focus are in developing advanced materials for anti-counterfeiting security applications, energy storage and discharge in battery applications, solar energy applications, and for other performance material applications. We expect the CSMP platforms to support the development of new technologies that complement existing applications and provide opportunities for new business growth. These activities are conducted primarily at our facilities in Albuquerque, New Mexico; Billerica, Massachusetts; and Mountain View, California.

**Specialty Fluids Segment**

***Products***

Our Specialty Fluids Segment produces and markets cesium formate as a drilling and completion fluid for use primarily in high pressure and high temperature oil and gas well construction. Cesium formate products are solids-free, high-density fluids that have a low viscosity, enabling safe and efficient well construction and workover operations. The fluid is resistant to high temperatures, minimizes damage to producing reservoirs and is readily biodegradable in accordance with the testing guidelines set by the Organization for Economic Cooperation and Development. In a majority of applications, cesium formate is blended with other formates or products.

***Sales, Rental and Customers***

Sales of our cesium formate products are made to oil and gas operating companies directly by Cabot employees and sales representatives and indirectly through oil field service companies. We generally rent cesium formate to our customers for use in drilling operations on a short-term basis. After completion of a job, the customer returns the fluid to Cabot and it is reprocessed for use in subsequent well operations. Any fluid that is lost during use and not returned to Cabot is paid for by the customer. On occasion we also make sales of cesium formate outside of a rental process.

A large portion of our fluids have been used for drilling and completion of wells in the North Sea, where we have been supplying cesium formate-based fluids for both reservoir drilling and completion activities on large gas and condensate field projects in the Norwegian Continental Shelf. Although we have expanded the use of our fluids to drilling operations outside of the North Sea, an important portion of our business continues to be with a limited number of customers for drilling and completion operations in the North Sea.

***Competition***

Formate fluids, which were introduced to the market in the mid-1990s, are a relatively small but growing part of the drilling and completion fluids market and compete mainly with traditional drilling fluid

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technologies. Competition in the well fluids business is based on product performance, quality, reliability, service, technical innovation and price, and proximity of inventory to customers drilling operations. We believe our commercial strengths include our unique product offerings and their performance, and our customer service.

***Raw Materials***

The principal raw material used in this business is pollucite (cesium ore), which we obtain from our mine in Manitoba, Canada. We own a substantial portion of the world s known pollucite reserves, ensuring us an adequate supply of our principal raw material. Considering our current production rates, our current estimate of reserve levels in the mine and inventory on hand, we expect our supply to last at least 10 years. The process of estimating mineral reserves is inherently uncertain and requires making subjective engineering, geological, geophysical and economic assumptions. Accordingly, there is likely to be variability in the estimated reserve life of the ore body over time. In addition, we have identified technical projects to recover cesium from low grade ore not currently in our reserve estimates. These proposed technical projects may require different, although well-established, recovery techniques than we currently use.

Most jobs for which cesium formate is used require a large volume of the product. Accordingly, the Specialty Fluids Segment maintains a large inventory of fluid.

***Operations***

We have a mine and a cesium formate manufacturing facility in Manitoba, Canada, as well as fluid blending and reclamation facilities in Aberdeen, Scotland and in Bergen and Kristiansund, Norway. In addition, fluid is warehoused at various locations around the world to support existing and potential operations.

**Patents and Trademarks**

We own and are a licensee of various patents, which expire at different times, covering many of our products as well as processes and product uses. Although the products made and sold under these patents and licenses are important to Cabot, the loss of any particular patent or license would not materially affect our business, taken as a whole. We sell our products under a variety of trademarks, the loss of any one of which would not materially affect our business, taken as a whole.

**Seasonality**

Our businesses are generally not seasonal in nature, although we typically experience some decline in European and North American sales in the fourth fiscal quarter due to summer plant shutdowns and in Asia Pacific sales in the second fiscal quarter because of the New Year holidays in that region.

**Backlog**

We do not consider backlog to be a significant indicator of the level of future sales activity. In general, we do not manufacture our products against a backlog of orders. Production and inventory levels are based on the level of incoming orders as well as projections of future demand. Therefore, we believe that backlog information is not material to understanding our overall business and is not a reliable indicator of our ability to achieve any particular level of revenue or financial performance.

**Employees**

As of September 30, 2010, we had approximately 3,900 employees. Some of our employees in the United States and abroad are covered by collective bargaining or similar agreements. We believe that our relations with our employees are generally satisfactory.

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**Research and Development**

Cabot develops new and improved products and higher efficiency processes through Company-sponsored research and technical service activities, including those initiated in response to customer requests. Our expenditures for such activities generally are spread among our businesses and are shown in the consolidated statements of operations. Further discussion of our research and technical expenses incurred in each of our last three fiscal years appears in MD&A below.

**Safety, Health and Environment ( SH&E )**

Cabot has been named as a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (the Superfund law ) and comparable state statutes with respect to several sites primarily associated with our divested businesses. (See Legal Proceedings below.) During the next several years, as remediation of various environmental sites is carried out, we expect to spend against our $7 million environmental reserve for costs associated with such remediation. Adjustments are made to the reserve based on our continuing analysis of our share of costs likely to be incurred at each site. Inherent uncertainties exist in these estimates due to unknown conditions at the various sites, changing governmental regulations and legal standards regarding liability, and changing technologies for handling site investigation and remediation. While the reserve represents our best estimate of the costs we expect to incur, the actual costs to investigate and remediate these sites may exceed the amounts accrued in the environmental reserve. While it is always possible that an unusual event may occur with respect to a given site and have a material adverse effect on our results of operations in a particular period, we do not believe that the costs relating to these sites, in the aggregate, are likely to have a material adverse effect on our financial position. Furthermore, it is possible that we may also incur future costs relating to environmental liabilities not currently known to us or as to which it is currently not possible to make an estimate.

Our ongoing operations are subject to extensive federal, state, local, and foreign laws, regulations, rules, and ordinances relating to safety, health, and environmental matters ( SH&E Requirements ). These SH&E Requirements include requirements to obtain and comply with various environmental-related permits for constructing any new facilities and operating all of our existing facilities. We have expended and will continue to expend considerable sums to construct, maintain, operate, and improve facilities for safety, health and environmental protection and to comply with SH&E Requirements. We spent approximately $18 million in environmental-related capital expenditures at existing facilities in fiscal 2010 and anticipate spending approximately $38 million for such matters in fiscal 2011, including $13 million for an environmental-related project at one of our facilities in China.

In recognition of the importance of compliance with SH&E Requirements to Cabot, our Board of Directors has a Safety, Health, and Environmental Affairs Committee. The Committee, which is comprised of independent directors, meets at least three times a year and provides oversight and guidance to Cabot s safety, health and environmental management programs. In particular, the Committee reviews Cabot s environmental reserve, risk assessment and management processes, environmental and safety audit reports, performance metrics, performance as benchmarked against industry peer groups, assessed fines or penalties, site security and safety issues, health and environmental training initiatives, and the SH&E budget. The Committee also consults with our outside and internal advisors regarding management of Cabot s safety, health and environmental programs.

The International Agency for Research on Cancer ( IARC ) classifies carbon black as a Group 2B substance (known animal carcinogen, possible human carcinogen). We have communicated IARC s classification of carbon black to our customers and employees and have included that information in our material safety data sheets and elsewhere, as appropriate. We continue to believe that the available evidence, taken as a whole, indicates that carbon black is not carcinogenic to humans, and does not present a health hazard when handled in accordance with good housekeeping and safe workplace practices as described in our material safety data sheets.

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The California Office of Environmental Health Hazard Assessment ( OEHHA ) published a notice adding carbon black (airborne, unbound particles of respirable size) to the California Safe Drinking Water and Toxic Enforcement Act, commonly referred to as Proposition 65, in 2003. Proposition 65 requires businesses to warn individuals before they knowingly or intentionally expose them to chemicals subject to its requirements, and it prohibits businesses from knowingly discharging or releasing the chemicals into water or onto land where they could contaminate drinking water. We worked with the International Carbon Black Association, as well as various customers and carbon black user groups, to ensure our compliance with the requirements associated with the Proposition 65 listing of carbon black, which became effective in February 2004. We have been informed that OEHHA is considering certain changes that may result in removing the airborne, unbound particles of respirable size qualifying language from its listing of carbon black. If this change is adopted by OEHHA, it would result in increased labeling and other requirements for our customers under Proposition 65.

The European Commission ( EC ) developed a new European Union ( EU ) regulatory framework for chemicals called REACH (Registration, Evaluation and Authorization of Chemicals), which became effective in June 2007. REACH applies to all existing and new chemical substances produced or imported into the EU in quantities greater than one metric ton a year. Manufacturers or importers of these chemical substances are required to submit specified health, safety, risk and use information about the substance to the European Chemical Agency. We completed the registrations under REACH for both carbon black and silica in February 2010, and for cesium formate in April 2009. We are also working with the manufacturers and importers of our raw materials, including our feedstocks, to ensure their registration prior to the applicable deadlines.

We are experiencing increased regulations by environmental agencies worldwide relating to the air emissions from our manufacturing operations. This increased regulation is resulting in more restrictive air emission limits globally, particularly as they relate to nitrogen oxide and sulphur dioxide emissions. In addition, global efforts to reduce greenhouse gas emissions impact the carbon black industry as carbon dioxide is emitted in the carbon black manufacturing process. In December 2005, the EC published a directive that includes carbon black manufacturing in the combustion sector and in Phase II of the Emissions Trading Scheme, which establishes a maximum allowable emission credit for each ton of $CO_2$ emitted, for the period 2008 to 2012. The EC is developing allowable emission credits for Phase III of the Emissions Trading Scheme, which will apply for the period 2013 to 2020. Various EU member states have included carbon black facilities in their national allocation plans and a number of our carbon black plants in Europe were required to comply with the Emission Trading Scheme beginning in calendar year 2008. We generally expect to purchase credits where necessary to respond to allocation shortfalls. There are also ongoing discussions in other regions and countries, including the U.S., Canada, China, and Brazil, regarding greenhouse gas emission reduction programs, but those programs have not yet been fully defined and their impact on us cannot be estimated at this time. Finally, Cabot s U.S. carbon black facilities will be required to report their greenhouse gas emissions under the U.S. Environmental Protection Agency s new rule for the Mandatory Reporting of Greenhouse Gases in 2011.

Since the terrorist attacks in the U.S. on September 11, 2001, various U.S. agencies and international bodies have adopted security requirements applicable to certain manufacturing and industrial facilities and marine port locations. These security-related requirements involve the preparation of security assessments and security plans in some cases, and in other cases the registration of certain facilities with specified governmental authorities. We are closely monitoring all security-related regulatory developments and believe we are in compliance with all existing requirements. Compliance with such requirements is not expected to have a material adverse effect on our operations.

**Foreign and Domestic Operations and Export Sales**

A significant portion of our revenues and operating profits is derived from overseas operations. The profitability of our segments is affected by fluctuations in the value of the U.S. dollar relative to foreign currencies. (See MD&A and the Geographic Information portion of Note U for further information relating

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to sales and long-lived assets by geographic area.) Currency fluctuations, nationalization and expropriation of assets are risks inherent in international operations. We have taken steps we deem prudent in our international operations to diversify and otherwise to protect against these risks, including the use of foreign currency financial instruments to reduce the risk associated with changes in the value of certain foreign currencies compared to the U.S. dollar. (See the risk management discussion contained in Quantitative and Qualitative Disclosures About Market Risk in Item 7A below and Note K of the Notes to the Company s Consolidated Financial Statements).

**Item 1A.** ***Risk Factors***

In addition to factors described elsewhere in this report, the following are important factors that could cause our actual results to differ materially from those expressed in our forward-looking statements. It is not possible, however, to predict or identify all such factors. Accordingly, investors should not consider the following to be a complete discussion of all potential risks or uncertainties.

**Changes in supply-demand balance in the regions and the industries in which we operate may adversely affect our financial results.**

Our key customers continue to shift their manufacturing capacity from mature markets such as North America and Western Europe to emerging regions such as Asia, South America and Eastern Europe. Although we are responding to meet these market demand conditions, we cannot be certain that we will be successful expanding capacity in emerging regions, which depends in part on economic and political conditions in these regions and, in some cases, on our ability to establish operations, construct additional manufacturing capacity or form strategic business alliances. In addition, we may not be successful in reducing capacity in mature regions commensurate with industry demand. Similarly, demand for our customers products and our competitors reactions to market conditions could affect our financial results.

In addition, our Rubber Blacks and Supermetals Businesses are sensitive to changes in industry capacity utilization. As a result, pricing tends to decrease when capacity utilization in these businesses decreases, which could affect our financial performance.

**Volatility in the price of raw materials or their reduced availability could decrease our margins.**

Our manufacturing processes consume significant amounts of energy and raw materials, the costs of which are subject to worldwide supply and demand as well as other factors beyond our control. Dramatic increases in such costs or decreases in the availability of raw materials at acceptable costs could have an adverse effect on our results of operations. For example, movements in the market price for crude oil typically affect carbon black feedstock costs. Significant movements in the market price for crude oil tend to create volatility in our carbon black feedstock costs, which can affect our working capital and results of operations. Certain of our carbon black supply contracts contain provisions that adjust prices to account for changes in a relevant feedstock price index. We attempt to offset the effects of increases in raw material costs through selling price increases in our non-contract sales, productivity improvements and cost reduction efforts. Success in offsetting increased raw material costs with price increases is largely influenced by competitive and economic conditions and could vary significantly depending on the segment served. Such increases may not be accepted by our customers, may not be sufficient to compensate for increased raw material and energy costs or may decrease demand for our products and our volume of sales. If we are not able to fully offset the effects of increased raw material or energy costs, it could have a significant impact on our financial results.

**We depend on a group of key customers for a significant portion of our sales. A significant adverse change in a customer relationship or in a customer s performance or financial position could harm our business and financial condition.**

Our success in strengthening relationships and growing business with our largest customers and retaining their business over extended time periods could affect our future results. We have a group of key

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customers across our businesses that together represent a significant portion of our total net sales and operating revenues. In fiscal 2010, sales to The Goodyear Tire and Rubber Company by our Rubber Blacks Business accounted for approximately 11% of our consolidated revenues. The loss of any of our important customers, or a reduction in volumes sold to them because of a work stoppage or other disruption, could adversely affect our results of operations until such business is replaced or the disruption ends. Any deterioration in the financial condition of any of our customers or the industries they serve that impairs our customers ability to make payments to us also could increase our uncollectible receivables and could affect our future results and financial condition.

**As a chemical manufacturing company, our operations have the potential to cause environmental or other damage as well as personal injury. In addition, our operations are subject to extensive safety, health and environmental requirements, which could increase our costs and/or reduce our profit.**

Our ongoing operations are subject to extensive federal, state, local and foreign laws, regulations, rules and ordinances relating to safety, health and environmental matters ( SH&E Requirements ), many of which provide for substantial monetary fines and criminal sanctions for violations. These SH&E Requirements include requirements to obtain and comply with various environmental-related permits for constructing any new facilities and operating all of our existing facilities. In June 2009, we received an information request from the U.S. Environmental Protection Agency ( EPA ) as part of an EPA national initiative focused on the U.S. carbon black manufacturing sector. The information request relates to our Pampa, Texas facility s compliance with certain regulatory and permitting requirements under the Clean Air Act, including the New Source Review ( NSR ) construction permitting requirements. We responded to EPA s information request in August 2009 and are in discussions with EPA. Based on how EPA has handled similar NSR initiatives with other industrial sectors, it is possible that EPA could require us to employ additional technology control devices or approaches with respect to emissions at certain facilities and/or seek a civil penalty from us.

The operation of a chemical manufacturing business as well as the sale and distribution of chemical products involve safety, health and environmental risks. For example, the production and/or processing of carbon black, fumed metal oxides, tantalum, niobium, aerogel and other chemicals involve the handling, transportation, manufacture or use of certain substances or components that may be considered toxic or hazardous within the meaning of applicable SH&E Requirements. The processing of tantalum ore also involves radioactive substances. The transportation of chemical products and other activities associated with our manufacturing processes have the potential to cause environmental or other damage as well as injury or death to employees or third parties. We could incur significant expenditures in connection with such operational risks. We believe that our ongoing operations comply with current SH&E Requirements in a manner that should not materially adversely affect our earnings or cash flow. We cannot be certain, however, that significant costs or liabilities will not be incurred with respect to SH&E Requirements and our operations. Moreover, we are not able to predict whether future changes or developments in SH&E Requirements will affect our earnings or cash flow in a materially adverse manner.

**Plant capacity expansions may be delayed and not achieve the expected benefits.**

Our ability to complete capacity expansions as planned may be delayed or interrupted by the need to obtain environmental and other regulatory approvals, availability of labor and materials, unforeseen hazards such as weather conditions, and other risks customarily associated with construction projects. Moreover, the cost of expanding capacity in our Rubber Blacks, Performance Products and Fumed Metal Oxides Businesses could have a negative impact on the financial performance of these businesses until capacity utilization is sufficient to absorb the incremental costs associated with the expansion.

**Our restructuring activities and cost saving initiatives may not achieve the results we anticipate.**

We have undertaken and will continue to undertake cost reduction initiatives and organizational restructurings to optimize our asset base, improve operating efficiencies and generate cost savings. We

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cannot be certain that we will be able to complete these initiatives as planned or that the estimated operating efficiencies or cost savings from such activities will be fully realized or maintained over time. In addition, when we close manufacturing facilities, we may not be successful in migrating our customers from those closed facilities to our other facilities.

**Fluctuations in foreign currency exchange and interest rates could affect our financial results.**

We earn revenues, pay expenses, own assets and incur liabilities in countries using currencies other than the U.S. dollar. In fiscal 2010, we derived a majority of our revenues from sales outside the United States. Because our consolidated financial statements are presented in U.S. dollars, we must translate revenues, income and expenses as well as assets and liabilities into U.S. dollars at exchange rates in effect during or at the end of each reporting period. Therefore, increases or decreases in the value of the U.S. dollar against other currencies in countries where we operate will affect our results of operations and the value of balance sheet items denominated in foreign currencies. These risks are non-cash exposures, and because of the geographic diversity of our operations, weaknesses in some currencies might be offset by strengths in others over time. In addition, we are exposed to adverse changes in interest rates. We manage both these risks through normal operating and financing activities and, when deemed appropriate, through the use of derivative instruments as well as foreign currency debt. We cannot be certain, however, that we will be successful in reducing the risks inherent in exposures to foreign currency and interest rate fluctuations.

There are also instances where we have direct current exposures to foreign currency movements because settlement back into a different currency is intended. These situations can have a direct impact on our cash flows. Our most significant exposure relates to balances currently held in Venezuela at our holding companies.

**We are exposed to political or country risk inherent in doing business in some countries.**

Sales outside of the U.S. constituted a majority of our revenues in fiscal 2010. Our operations in some countries may be subject to the following risks: changes in the rate of economic growth; unsettled political or economic conditions; possible expropriation or other governmental actions; social unrest, war, terrorist activities or other armed conflict; confiscatory taxation or other adverse tax policies; deprivation of contract rights; trade regulations affecting production, pricing and marketing of products; reduced protection of intellectual property rights; restrictions on the repatriation of income or capital; exchange controls; inflation; currency fluctuations and devaluation; the effect of global health, safety and environmental matters on economic conditions and market opportunities; and changes in financial policy and availability of credit. We have an equity method investment in Venezuela, a country that has established very rigid controls over the ability of foreign companies to repatriate cash. Such exchange controls could potentially impact our ability, in both the short and long term, to recover both the cost of our investment and earnings from that investment.

**Our failure to successfully develop new products and technologies that address our customers changing requirements or competitive challenges may have a negative effect on our business results.**

The end markets into which we sell our products are subject to periodic technological change, ongoing product improvements and changes in customer requirements. Increased competition from existing or newly developed products offered by our competitors or companies whose products offer a similar functionality as our products may negatively affect demand for our products. We work to identify, develop and market innovative products on a timely basis to meet our customers changing requirements and competitive challenges. If we fail to develop new products or keep pace with technological developments, our sales may be negatively impacted and our business results could be adversely effected.

**The money we spend developing new businesses and technologies may not result in a proportional increase in our revenues or profits.**

We cannot be certain that the costs we incur investing in new businesses and technologies will result in a proportional increase in revenues or profits. In addition, the timely commercialization of products that we are developing may be disrupted or delayed by manufacturing or other technical difficulties, market

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acceptance or insufficient market size to support a new product, competitors new products, and difficulties in moving from the experimental stage to the production stage. These disruptions or delays could affect our future business results.

**Any failure to realize benefits from joint ventures, acquisitions or alliances could adversely affect future financial results.**

As part of our strategies for growth and improved profitability, we have made and may continue to make acquisitions and investments and enter into joint ventures. The success of acquisitions of new technologies, companies and products, or arrangements with third parties is not always predictable and we may not be successful in realizing our objectives as anticipated.

**Negative or uncertain worldwide economic conditions may adversely impact our business.**

Our operations and performance are materially affected by worldwide economic conditions. In periods with significant market turmoil and tightened credit availability, we may experience difficulty in collecting accounts receivable, pricing pressure on products and services and reduced global business activity. A global economic downturn may reduce demand for our products, which would decrease our revenues and could have a material adverse effect on our financial condition and cash flows.

**We may be required to impair or write off certain assets if our assumptions about future sales and profitability prove incorrect.**

In analyzing the value of our inventory, property, plant and equipment, investments and intangible assets, we have made assumptions about future sales (pricing and volume), costs and cash generation. These assumptions are based on management s best estimates and if the actual results differ significantly from these assumptions, we may not be able to realize the value of the assets recorded as of September 30, 2010, which could lead to an impairment or write-off of certain of these assets in the future.

**Our tax rate is dependent both upon the jurisdiction where our earnings arise and the tax laws in those jurisdictions.**

Our future tax rates may be adversely affected by a number of factors, including the enactment of tax legislation currently proposed in the U.S.; other changes in tax laws or the interpretation of such tax laws; changes in the estimated realization of our net deferred tax assets; the jurisdictions in which profits are determined to be earned and taxed; the repatriation of non-U.S. earnings for which we have not previously provided for U.S. income and non-U.S. withholding taxes; adjustments to estimated taxes upon finalization of various tax returns; increases in expenses that are not deductible for tax purposes, including write-offs of acquired in-process research and development and impairment of goodwill in connection with acquisitions; changes in available tax credits; changes in share-based compensation expense and the resolution of issues arising from tax audits with various tax authorities. Losses for which no tax benefits can be recorded could materially impact our tax rate and its volatility from one quarter to another. Any significant change in our jurisdictional earnings mix or in the tax laws in those jurisdictions could increase our future tax rates and reduce net income in those periods.

**Regulations requiring a reduction of greenhouse gas emissions will likely impact the carbon black industry, including our carbon black operations.**

Carbon dioxide is emitted in the carbon black manufacturing process. In December 2005, the European Commission ( EC ) published a new directive that includes carbon black manufacturing in the combustion sector and in Phase II of the Emissions Trading Scheme for the period 2008 to 2012. The EC is developing allowable emission credits for Phase III of the Emissions Trading Scheme, which will apply for the period 2013 to 2020. Various European Union member states have included carbon black facilities in their national

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allocation plans and we have taken actions to comply with applicable $CO_2$ emission requirements. However, there can be no assurance that we will be able to purchase emissions credits if our carbon black operations generate more $CO_2$ than our allocations permit or that the cost of such credits will be acceptable to us. There are also ongoing discussions in other regions and countries, including the U.S., Canada, China and Brazil, regarding greenhouse gas emission reduction programs, but those programs have not yet been defined and their potential impact on our manufacturing operations or financial results cannot be estimated at this time.

**Litigation or legal proceedings could expose us to significant liabilities and thus negatively affect our financial results.**

As more fully described in Item 3 Legal Proceedings , we are a party to or the subject of lawsuits, claims, and proceedings, including those involving contract, environmental, and health and safety matters as well as product liability and personal injury claims relating to asbestosis, silicosis, coal worker s pneumoconiosis and berylliosis, and exposure to various chemicals. We are also a potentially responsible party in various environmental proceedings and remediation matters wherein substantial amounts are at issue. Adverse rulings, judgments or settlements in pending or future litigation (including contract litigation and liabilities associated with respirator claims) or in connection with environmental remediation activities could cause our results to differ materially from those expressed or forecasted in any forward-looking statements.

**On occasion we enter into derivative contracts with financial counterparties. The effectiveness of these contracts is dependent on the ability of these financial counterparties to perform their obligations and their nonperformance could harm our financial condition.**

We have entered into interest rate swap contracts, foreign currency derivatives and forward commodity contracts as part of our financial strategy. The effectiveness of our hedging programs using these instruments is dependent, in part, upon the counterparties to these contracts honoring their financial obligations. If any of our counterparties are unable to perform their obligations in the future, we could be exposed to increased earnings and cash flow volatility due to an instrument s failure to hedge a financial risk.

**We may be subject to information technology systems failures, network disruptions and breaches of data security.**

Information technology systems failures, including risks associated with upgrading our systems, network disruptions and breaches of data security could disrupt our operations by impeding our processing of transactions, our ability to protect customer or company information and our financial reporting. Our computer systems, including our back-up systems, could be damaged or interrupted by power outages, computer and telecommunications failures, computer viruses, internal or external security breaches, events such as fires, earthquakes, floods, tornadoes and hurricanes, and/or errors by our employees. Although we have taken steps to address these concerns by implementing sophisticated network security and internal control measures, there can be no assurance that a system failure or data security breach will not have a material adverse effect on our financial condition and results of operations.

**The continued protection of our patents and other proprietary intellectual property rights are important to our success.**

Our patent and other intellectual property rights are important to our success and competitive position. We own various patents and other intellectual property rights in the U.S. and other countries covering many of our products, as well as processes and product uses. In addition, we are a licensee of various patents and intellectual property rights belonging to others in the U.S. and other countries. Because the laws and enforcement mechanisms of some countries may not allow us to protect our proprietary rights to the same extent as we are able to in the U.S., the strength of our intellectual property rights will vary from country to country.

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Irrespective of our proprietary intellectual property rights, we may be subject to claims that our products, processes or product uses infringe the intellectual property rights of others. These claims, even if they are without merit, could be expensive and time consuming to defend and if we were to lose such claims, we could be subject to injunctions and/or damages, or be required to enter into licensing agreements requiring royalty payments and/or use restrictions. Licensing agreements may not be available to us, and if available, may not be available on acceptable terms.

**Natural disasters could affect our operations and financial results.**

We operate facilities in areas of the world that are exposed to natural hazards, such as hurricanes and earthquakes. Such events could disrupt our supply of raw materials or otherwise affect production, transportation and delivery of our products or affect demand for our products.

**Item 1B.** ***Unresolved Staff Comments***

None.

**Item 2.** ***Properties***

Cabot s corporate headquarters are in leased office space in Boston, Massachusetts. We also own or lease office, manufacturing, storage, distribution, marketing and research and development facilities in the United States and in foreign countries. The locations of our principal manufacturing and/or administrative facilities are set forth in the table below. Unless otherwise indicated, all the properties are owned.

| | Core Segment | | | | |
|---|---|---|---|---|---|
| **Location by Region** | **Rubber Blacks Business** | **Supermetals Business** | **Performance Segment** | **New Business Segment** | **Specialty Fluids Segment** |
| **Americas Region** | | | | | |
| Mountain View, CA* | | | | X | |
| Alpharetta, GA[(1)]* | X | X | X | X | X |
| Tuscola, IL | | | X | | |
| Canal, LA | X | | X | | |
| Ville Platte, LA | X | | | | |
| Billerica, MA | X | X | X | X | |
| Billerica, MA (plant)* | | | | X | |
| Haverhill, MA | | | | X | |
| Midland, MI | | | X | | |
| Albuquerque, NM (2 plants)* | | | | X | |
| Boyertown, PA | | X | | | |
| Pampa, TX | X | | X | | |
| The Woodlands, TX* | | | | | X |
| Campana, Argentina | X | | | | |
| Maua, Brazil | X | | X | | |
| Sao Paulo, Brazil*[(1)] | X | X | X | X | X |
| Cartagena, Colombia | X | | | | |
| Lac du Bonnet, Manitoba** | | | | | X |
| Sarnia, Ontario | X | | X | | |

(1) Regional Shared Service Center
* Leased premises
** Building(s) owned by Cabot on leased land

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| | Core Segment | | | | |
|---|---|---|---|---|---|
| Location by Region | Rubber Blacks Business | Supermetals Business | Performance Segment | New Business Segment | Specialty Fluids Segment |
| **EMEA Region** | | | | | |
| Loncin, Belgium | | | X | | |
| Leuven, Belgium*[(1)] | X | X | X | X | X |
| Pepinster, Belgium | | | X | | |
| Valasske Mezirici (Valmez), Czech Republic** | X | | | | |
| Port Jerome, France** | X | | | | |
| Frankfurt, Germany* | | | | X | |
| Rheinfelden, Germany | | | X | | |
| Grigno, Italy | | | X | | |
| Ravenna, Italy | X | | | | |
| Bergen, Norway* | | | | | X |
| Kristiansund, Norway* | | | | | X |
| Aberdeen, Scotland* | | | | | X |
| Schaffhausen, Switzerland* | X | X | X | X | X |
| Botlek, The Netherlands** | X | | X | | |
| Dubai, United Arab Emirates* | | | X | | |
| Barry, Wales** | | | X | | |
| **Asia Pacific Region** | | | | | |
| Hong Kong, China** | | | X | | |
| Jiangxi Province, China** | | | X | | |
| Tianjin, China** | X | | X | | |
| Shanghai, China*[(1)] | X | X | X | X | X |
| Shanghai, China** (plant) | X | | | | |
| Mumbai, India* | X | | X | | |
| Cilegon, Indonesia** | X | | | | |
| Jakarta, Indonesia* | X | | X | | |
| Merak, Indonesia | X | | | | |
| Kawahigashi-machi, Japan** | | X | | | |
| Ichihara, Japan | X | | | | |
| Shimonoseki, Japan** | X | | X | | |
| Tokyo, Japan* | X | X | X | X | |
| Port Dickson, Malaysia** | X | | | | |

(1) Regional Shared Service Center

* Leased premises

** Building(s) owned by Cabot on leased land

We conduct research and development for our various businesses primarily at facilities in Billerica, MA; Albuquerque, NM; Mountain View, CA; Pampa, TX; Pepinster, Belgium; Frankfurt and Rheinfelden, Germany; Kawahigashi-machi, Japan; and Port Dickson, Malaysia.

Our existing manufacturing plants, together with announced capacity expansion plans, will generally have sufficient production capacity to meet current requirements and expected near-term growth. These plants are generally well maintained, in good operating condition and suitable and adequate for their intended use. Our administrative offices and other facilities are generally suitable and adequate for their intended purposes.

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**Item 3.** ***Legal Proceedings***

Cabot is a party in various lawsuits and environmental proceedings wherein substantial amounts are claimed. The following is a description of the significant proceedings pending on September 30, 2010, unless otherwise specified.

**Environmental Proceedings**

Cabot was one of three defendants named in Parsons et al. v. Koppers, Inc., et al., an environmental lawsuit filed in United States District Court for the Northern District of Florida, Gainesville Division, on April 20, 2010. The other two defendants are Koppers Inc. ( Koppers ) and Beazer East, Inc. ( Beazer ). The case was filed on behalf of certain residents living near the location of a now inactive manufacturing facility currently owned by Beazer, which was owned and operated by Koppers until late 2009, in Gainesville, Florida, and an adjacent property at which Cabot formerly conducted manufacturing operations which ceased in 1966. The plaintiffs allege that the defendants are responsible for contamination on the plaintiffs property. They seek designation of a class of residents living within an approximately two-mile radius of the site, and creation of a community property remediation program and a medical monitoring program. The plaintiffs also seek compensatory and punitive damages in an unspecified amount in excess of the court s minimum jurisdictional limit of $5 million. The plaintiffs voluntarily dismissed Cabot from the litigation in September 2010 and the court entered an order dismissing Cabot without prejudice. The plaintiffs also amended their complaint to remove references to Cabot and its former operations in October 2010.

In June 2009, Cabot received an information request from the United States Environmental Protection Agency ( EPA ) regarding Cabot s carbon black manufacturing facility in Pampa, Texas. The information request relates to the Pampa facility s compliance with certain regulatory and permitting requirements under the Clean Air Act, including the New Source Review ( NSR ) construction permitting requirements. EPA has indicated that this information request is part of an EPA national initiative focused on the U.S. carbon black manufacturing sector. Cabot responded to EPA s information request in August 2009 and is in discussions with EPA. Based upon how EPA has handled similar NSR initiatives with other industrial sectors, it is possible that EPA could require Cabot to employ additional technology control devices or approaches with respect to emissions at certain facilities and/or seek a civil penalty from Cabot.

Cabot is one of fourteen companies, collectively the Ashtabula River Cooperating Group II ( ARCG II ), which participated in the remediation of the Ashtabula River in Ohio. Our liability at this site is associated with the former Cabot Titania business, which operated two manufacturing facilities in Ashtabula in the 1960s and early 1970s. The ARCG II is part of a public/private partnership (the Ashtabula River Partnership) established to conduct dredging and environmental restoration of the Ashtabula River. In addition to funding provided by the ARCG II and the State of Ohio, the federal government also provided funding toward the project under the Great Lakes Legacy Act and the Water Resources Development Act. Dredging of the river was completed in 2008 and the landfill that was constructed to contain all of the dredged materials was capped in 2009. The ARCG II also is in the process of finalizing a settlement with the Ashtabula River Natural Resource Trustees for alleged natural resource damages to the river. The Consent Decree memorializing this settlement is expected to be signed in late 2010 or early 2011.

In 1986, Cabot sold a beryllium manufacturing facility in Reading, Pennsylvania to NGK Metals, Inc. ( NGK ). In doing so, we agreed to share with NGK the costs of certain environmental remediation of the Reading plant site. After the sale, the EPA issued an order to NGK pursuant to the Resource Conservation and Recovery Act ( RCRA ) requiring NGK to address soil and groundwater contamination at the site. Soil remediation at the site has been completed and the groundwater remediation activities are ongoing pursuant to the RCRA order. We are contributing to the costs of the groundwater remediation activities pursuant to the cost-sharing agreement with NGK. Cabot and NGK are also pursuing legal claims against the United States for cost recovery and participation in future remediation activities based on the United States previous involvement at the site, particularly during World War II.

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As of September 30, 2010, we had a $7 million reserve on a discounted basis ($7 million on an undiscounted basis) for environmental remediation costs at various sites. The operation and maintenance component of this reserve was $4 million on a discounted basis ($4 million on an undiscounted basis). The $7 million reserve represents our current best estimate of costs likely to be incurred for remediation based on our analysis of the extent of cleanup required, alternative cleanup methods available, abilities of other responsible parties to contribute and our interpretation of laws and regulations applicable to each of our sites.

**Other 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.

Generally, these respirator liabilities involve claims for personal injury, including asbestosis, silicosis and coal worker s pneumoconiosis, allegedly resulting from the use of respirators that are claimed to have been negligently designed or labeled. Neither Cabot, nor its past or present subsidiaries, at any time manufactured asbestos or asbestos-containing products. Moreover, not every person with exposure to asbestos, silica or coal mine dust giving rise to a claim used a form of respiratory protection. At no time did this respiratory product line represent a significant portion of the respirator market. In addition, other parties, including AO, AO s insurers, and another former owner and its insurers (collectively, the Payor Group ), are responsible for significant portions of the costs of these liabilities, leaving Cabot s subsidiary with a portion of the liability in only some of the pending cases.

The subsidiary transferred the business to Aearo Corporation ( Aearo ) in July 1995. Cabot agreed to have the subsidiary retain certain liabilities allocable to respirators used prior to the 1995 transaction so long as Aearo paid, and continues to pay, Cabot an annual fee of $400,000. Aearo can discontinue payment of the fee at any time, in which case it will assume the responsibility for and indemnify Cabot against the liabilities allocable to respirators manufactured and used prior to the 1995 transaction. We anticipate that we will continue to receive payment of the $400,000 fee from Aearo and thereby retain these liabilities for the foreseeable future. We have no liability in connection with any products manufactured by Aearo after 1995.

As of September 30, 2010 and 2009, there were approximately 45,000 and 47,000 claimants, respectively, in pending cases asserting claims against AO in connection with respiratory products. Cabot has contributed to the Payor Group s defense and settlement costs with respect to a percentage of pending claims depending on several factors, including the period of alleged product use. In order to quantify our estimated share of liability for pending and future respirator liability claims, we engaged, through counsel, the assistance of Hamilton, Rabinovitz & Alschuler, Inc. ( HR&A ), a leading consulting firm in the field of tort liability valuation. The methodology developed by HR&A addresses the complexities surrounding our potential liability by making assumptions about future claimants with respect to periods of asbestos, silica and coal mine dust exposure and respirator use. Using those and other assumptions, HR&A estimated the number of future asbestos, silica and coal mine dust claims that would be filed and the related costs that would be incurred in resolving both currently pending and future claims. On this basis, HR&A then estimated the net present value of the share of these liabilities that reflected our period of direct manufacture and our actual contractual obligations assuming that all other members of the Payor Group meet their

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obligations. Based on the HR&A estimates, we have recorded on a net present value basis a $15 million reserve ($20 million on an undiscounted basis) to cover our estimated share of liability for pending and future respirator claims. Cash payments related to this liability were approximately $2 million in each of fiscal 2010, 2009 and 2008.

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 silica and non-malignant asbestos 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 members of the Payor Group, (viii) a change in the availability of AO s insurance coverage, (ix) changes in the allocation of costs among the Payor Group and (x) a determination that our interpretation of the contractual obligations on which we have estimated our share of liability is inaccurate. We cannot determine the impact of these potential developments on our current estimate of our share of liability for these existing and future claims. Accordingly, the actual amount of these liabilities for existing and future claims could be different than the reserved amount. Further, if the timing of our actual payments made for respirator claims differs significantly from our estimated payment schedule, and we determine that we can no longer reasonably predict the timing of such payments, we could then be required to record the reserve amount on an undiscounted basis on our consolidated balance sheets, causing an immediate impact to earnings.

***Other Matters***

We have various other lawsuits, claims and contingent liabilities arising in the ordinary course of our business. These include a number of claims asserting premises liability for asbestos exposure and claims in respect of our divested businesses, including claims asserting liability as the result of exposure to beryllium. In our opinion, although final disposition of some or all of these other suits and claims may impact our financial statements in a particular period, they should not, in the aggregate, have a material adverse effect on our financial position.

**Item 4.** ***(Removed and Reserved)***

**Executive Officers of the Registrant**

Set forth below is certain information about Cabot s executive officers. Ages are as of November 29, 2010.

Patrick M. Prevost, age 55, joined Cabot in January 2008 as President and Chief Executive Officer. Mr. Prevost has also been a member of Cabot s Board of Directors since January 2008. Prior to joining Cabot, since October 2005, Mr. Prevost served as President, Performance Chemicals, of BASF AG, an international chemical company. Prior to that, he was responsible for BASF Corporation s Chemicals and Plastics business in North America. Prior to joining BASF in 2003, he held senior management positions at BP Chemicals and Amoco.

Eduardo E. Cordeiro, age 43, is Executive Vice President and Chief Financial Officer. Mr. Cordeiro joined Cabot in 1998 as Manager of Corporate Planning and served in that position until January 2000. Mr. Cordeiro was Director of Finance and Investor Relations from January 2000 to March 2002, Corporate Controller from March 2002 to July 2003, General Manager of the Fumed Metal Oxides Business from July 2003 to January 2005, General Manager of the Supermetals Business from January 2005 to May 2008, and responsible for Corporate Strategy from May 2008 until February 2009, when he became Cabot s Chief Financial Officer. Mr. Cordeiro also co-managed CSMP from November 2004 to May 2008. Mr. Cordeiro was appointed Vice President in March 2003 and Executive Vice President in March 2009.

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David A. Miller, age 51, joined Cabot in September 2009 as Executive Vice President, General Manager of Cabot s Core Segment and General Manager of the Americas region. Prior to joining Cabot, Mr. Miller held a variety of management positions in BP, p.l.c. s chemical business in North America, Europe and Asia. Most recently, Mr. Miller served as President, Aromatics Asia, Europe and Middle East from January 2007 to July 2009, President, Global Purified Terephthalic Acid from October 2005 to January 2007, and Senior Vice President, Olefins and Derivatives China & Asia Operations (Innovene division) from January 2004 to October 2005.

Brian A. Berube, age 48, is Vice President and General Counsel. Mr. Berube joined Cabot in 1994 as an attorney in Cabot s law department and became Deputy General Counsel in June 2001. Mr. Berube was appointed Vice President in March 2002 at which time he was also named Business General Counsel. Mr. Berube has been General Counsel since March 2003.

Sean D. Keohane, age 43, is Vice President and General Manager of the Performance Segment. Mr. Keohane joined Cabot in August 2002 as Global Marketing Director. Mr. Keohane was General Manager of the Performance Products Business from October 2003 until May 2008, when he was named General Manager of the Performance Segment. He was appointed Vice President in March 2005. Before joining Cabot, Mr. Keohane worked for Pratt & Whitney, a division of United Technologies, in a variety of leadership positions.

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## PART II

**Item 5.** ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Cabot s common stock is listed for trading (symbol CBT) on the New York Stock Exchange. As of November 16, 2010, there were 1,109 holders of record of Cabot s common stock. The tables below show the high and low sales price for Cabot s common stock for each of the fiscal quarters ended December 31, March 31, June 30, and September 30 and the quarterly cash dividend paid on Cabot s common stock for the past two fiscal years.

**Stock Price and Dividend Data**

| | Quarters Ended | | | |
|---|---|---|---|---|
| | December 31 | March 31 | June 30 | September 30 |
| **Fiscal 2010** | | | | |
| Cash dividends per share | $ 0.18 | $ 0.18 | $ 0.18 | $ 0.18 |
| Price range of common stock: | | | | |
| High | $ 27.52 | $ 32.23 | $ 34.00 | $ 33.20 |
| Low | $ 20.95 | $ 24.13 | $ 23.84 | $ 22.95 |
| **Fiscal 2009** | | | | |
| Cash dividends per share | $ 0.18 | $ 0.18 | $ 0.18 | $ 0.18 |
| Price range of common stock: | | | | |
| High | $ 32.00 | $ 16.66 | $ 18.42 | $ 24.67 |
| Low | $ 13.42 | $ 7.97 | $ 10.12 | $ 12.18 |

**Issuer Purchases of Equity Securities**

The table below sets forth information regarding Cabot s purchases of its equity securities during the quarter ended September 30, 2010:

| Period | Total Number of Shares Purchased[1] | Average Price Paid per Share[1] | 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] |
|---|---|---|---|---|
| July 1, 2010 July 31, 2010 | 5,500 | $ 9.61 | | 4,311,122 |
| August 1, 2010 August 31, 2010 | 13,549 | $ 26.16 | | 4,311,122 |
| September 1, 2010 September 30, 2010 | 5,693 | $ 32.05 | | 4,311,122 |
| Total | 24,742 | | | |

(1) On May 11, 2007, we publicly announced that the Board of Directors authorized us to repurchase five million shares of our common stock on the open market or in privately negotiated transactions. On September 14, 2007, the Board of Directors increased the share repurchase authorization to 10 million shares (the 2007 Authorization ). This authority does not have a set expiration date. We did not repurchase any shares under the 2007 Authorization during the fourth quarter of fiscal 2010.

In addition to the 2007 Authorization, in certain circumstances the Board has authorized us to repurchase shares of restricted stock purchased by recipients of certain long-term incentive awards after such shares vest to satisfy tax withholding obligations and associated loan repayment liabilities. The shares are repurchased from employees at fair market value. During the fourth quarter of fiscal 2010, we repurchased 16,742 shares from employees under this authorization.

From time to time, we also repurchase shares of unvested restricted stock from employees whose employment is terminated before such shares vest. These shares are repurchased pursuant to the terms of our equity incentive plans and are not included in the shares repurchased under the authorizations described above. During the fourth quarter of fiscal 2010, we repurchased 8,000 forfeited shares pursuant to the terms of our equity incentive plans. The purchase price for these repurchased shares was the employee s original purchase price for the stock, which under the terms of the long-term incentive compensation program in place at the time these shares were issued was an amount equal to 30% of the fair market value of the purchased shares on the date of grant. The average price per share paid for these forfeited shares was $9.61.

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**Item 6.** *Selected Financial Data*

| | Years Ended September 30 | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| | (Dollars in millions, except per share amounts and ratios) | | | | |
| **Consolidated Net Income (Loss)** | | | | | |