CABOT CORP
Form 10-K
November 29, 2007
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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, 2007

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 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. x

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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 30, 2007), the aggregate market value of the Registrant s common stock held by non-affiliates was approximately $2,997,329,000. As of November 26, 2007, there were 65,294,938 shares of the Registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive proxy statement for its 2008 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 effect of rising raw material costs on our rubber blacks and performance products product lines; when we expect the construction of additional rubber blacks units in China to be completed; for our inkjet colorants product line, recovery in the aftermarket segment and volume growth of our products serving the high speed market segment; capacity utilization at our fumed metal oxides plants; volatility and competition in the market for tantalum products and the effect on profitability of our Supermetals Business; geographic expansion of our Specialty Fluids Business outside of the North Sea; the life of our pollucite ore reserves; anticipated capital spending; cash requirements and uses of available cash, including future cash outlays associated with long-term contractual obligations, restructurings, contributions to employee benefit plans, and escalating carbon black feedstock costs; exposure to interest rate and foreign exchange risk; our expected tax rate for fiscal 2008; our ability to recover deferred tax assets; the effect of newly issued accounting pronouncements on our consolidated financial statements, in particular FIN 48; environmental regulation and anticipated expenditures; 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 s business was founded in 1882 and incorporated in the State of Delaware in 1960. Cabot is a global specialty chemicals and performance materials company headquartered in Boston, Massachusetts. Our principal products are rubber blacks, performance products, inkjet colorants, fumed metal oxides, aerogels, tantalum and related products, and cesium formate drilling fluids. Cabot and its affiliates have manufacturing facilities and operations in the United States and approximately 20 other countries. The terms Cabot , Company , we , and our as used in this report refer to Cabot Corporation and its consolidated subsidiaries.

Our business strategy is based on two key principles: optimizing our core businesses and product lines (rubber blacks, performance products, fumed metal oxides and the Supermetals Business) and investing the cash and intellectual resources they generate in new businesses and product lines (inkjet colorants, aerogel, the Specialty Fluids Business and Superior MicroPowders).

Our new products and new businesses are generally based on technical innovation in one or more of our three core competencies: making and handling very fine particles; modifying the surfaces of very fine

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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 existing and emerging applications.

We are organized into four reportable segments: the Carbon Black Business, the Metal Oxides Business, the Supermetals Business and the Specialty Fluids Business. These businesses are discussed in more detail later in this section. We also manage our businesses on a regional basis and are organized into five business regions: North America, South America, Europe, Asia Pacific, and China. 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). Financial information about our business segments and geographic areas appears in Note U of the Notes to our Consolidated Financial Statements in Item 8 below.

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 Exchange Act as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the SEC.

Carbon Black Business

Carbon black is a form of elemental carbon, which 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. Carbon black is used to enhance the physical, electrical and optical properties of the systems and applications in which it is incorporated. Manufactured to match customer needs and performance requirements, carbon black is sold to diverse markets, including the automotive, building materials, agricultural, coatings, toners, plastics, inkjet printing and electronics markets. The Carbon Black Business is primarily comprised of the rubber blacks, performance products and inkjet colorants product lines. The Carbon Black Business also encompasses the business development activities of Cabot Superior MicroPowders (CSMP).

Product Lines

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 are developing 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 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.

Our performance products are specialized grades of carbon black that are used to enhance conductivity and static charge control, to provide UV protection, to enhance mechanical properties, to provide chemical flexibility through surface treatment and as pigments. These products are used in a wide variety of industries such as inks, coatings, cables, pipes, toners and electronics. Our performance products include black and white thermoplastic concentrates and specialty compounds that are marketed to the plastics industry.

Our inkjet colorants are high-quality pigment-based black and other colorant dispersions we manufacture by surface treating special grades of carbon black and other pigments. Our black colorants have been used in several inkjet printing systems introduced to the market since 1998. The expansion of our surface modification technology (small molecule attachment) to other pigments permitted

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commercialization of color pigment dispersions during fiscal year 2002. The dispersions are used in aqueous inkjet inks to impart color (optical density or chroma) with improved durability (waterfastness, lightfastness, rub resistance) while maintaining high printhead reliability. Cabot s inkjet colorants are produced for various inkjet printing markets, including small office and home office, high-speed, wide format, and commercial and industrial printing applications.

CSMP is a research and development enterprise with multiple technology platforms and core competencies in advanced powder manufacturing across a wide range of materials and the related materials chemistries. Its principal areas of commercial focus are in developing advanced materials for security applications (anti-counterfeiting materials), fuel cell applications (portable, stationary and automotive), solar panels, catalysts, and for other fine particle markets. We also expect CSMP to support our other businesses in developing new technologies that complement existing markets and provide opportunities for new business growth.

Sales and Customers

Sales of rubber blacks, performance products and inkjet colorants are made by Cabot employees and through distributors and sales representatives. The amount of sales for each product line and CSMP for each of the last three fiscal years is set forth in the following table:

	Years Ended September 30		
	2007	**2006**	**2005**
		(In millions)	
Rubber blacks	$ 1,416	$ 1,378	$ 976
Performance products	541	488	469
Inkjet colorants	46	47	39
CSMP	2	4	6
Total Carbon Black Business Sales	$ 2,005	$ 1,917	$ 1,490

Sales to three major tire customers represent a material portion of the Carbon Black Business s total net sales and operating revenues. The loss of any of these customers could have a material adverse effect on the Carbon Black Business. In fiscal year 2007, sales to The Goodyear Tire and Rubber Company and its affiliates (Goodyear) amounted to 12% 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 Cabot s consolidated revenues for the year.

Much of the carbon black 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 and other parts that are less subject to automotive industry cycles.

Under appropriate circumstances, we have pursued a strategy of entering into annual and long-term supply contracts (those with an initial term longer than one year) with certain customers. These contracts are designed to provide our customers with a secure supply of carbon black and help us reduce the volatility in our carbon black volumes and margins over time. Many of these contracts provide for quarterly sales price adjustments to account for changes in feedstock costs and, in some cases, changes in other relevant costs (such as the cost of natural gas).

In fiscal year 2007, approximately 42% of our rubber blacks volume was sold under long-term contracts in effect during the fiscal year and approximately 7% was sold under annual contracts in effect during the fiscal year. Two of the long-term rubber blacks contracts are global contracts with major tire customers. A portion of the global supply contract with one of these customers expires by its terms at the end of calendar year 2007. We are currently negotiating a new supply arrangement with this customer. During fiscal year 2007, approximately 25% of our performance products volume was sold to eight customers under long-term contracts. The majority of our rubber blacks and performance products volumes sold under annual or long-term contracts are sold to customers in North America and Europe.

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Sales of inkjet colorants are made to inkjet printer manufacturers and to suppliers of inkjet inks in the inkjet cartridge aftermarket.

Competition

We are one of the leading manufacturers of rubber blacks and performance products in the world, with an estimated one-quarter of the aggregate worldwide production capacity for these products combined. Cabot is also one of the five leading producers of thermoplastic concentrates in Europe. We compete in the manufacture of rubber blacks and performance products primarily with two companies with a global presence Columbian Chemicals Company and Evonik Industries AG (formerly Degussa AG) and with at least 20 other companies in various regional markets in which we operate, including the Aditya Birla Group of companies and China Synthetic Rubber Corporation.

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 for products within the Carbon Black Business is based on price, service, quality, product performance and technical innovation. With respect to our rubber blacks and performance products product lines, competition is also based upon the proximity of our manufacturing operations to those of our customers.

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. Accordingly, fluctuations in crude oil prices tend to create volatility in our carbon black feedstock costs.

While the lack of availability of raw materials has not been a significant factor for our rubber blacks or performance products product lines, we may experience some difficulty obtaining low sulfur feedstock at an acceptable cost for our European operations in the event the proposed Best Available Techniques Reference Documents, which are commonly referred to as BREF Notes, are adopted. The proposed BREF Note for the European carbon black industry, which is described more fully under Safety, Health and Environment below, calls for an annual average sulfur content in carbon black feedstock in a range of 0.5% to 1.5%.

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

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.

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Operations

We own (or have a controlling interest in) and operate plants that produce rubber blacks and/or performance products grades of carbon black in Argentina, Brazil, Canada, China, Colombia, the Czech Republic, the United Kingdom, France, India, Indonesia, Italy, Japan, The Netherlands, and the United States. Our affiliates own carbon black plants in Malaysia, Mexico and Venezuela. Our thermoplastic concentrates and specialty compounds are produced in facilities in Belgium, Italy, the United Kingdom and China (Hong Kong). Inkjet colorants are manufactured in the United States. The following table shows our ownership interest as of September 30, 2007 in carbon black operations in which we own less than 100%:

Location	Percentage Interest
Shanghai, China	70% (consolidated subsidiary)
Tianjin, China (rubber blacks)	70% (consolidated subsidiary)
Tianjin, China (performance products)	90% (consolidated subsidiary)
Valasske Mezirici (Valmez), Czech Republic	52% (consolidated subsidiary)
Thane, India	97.7% (consolidated subsidiary)
Cilegon and Merak, Indonesia	84.8% (consolidated subsidiary)
Port Dickson, Malaysia	49% (equity affiliate)
Tampico, Mexico	40% (equity affiliate)
Valencia, Venezuela	47.5% (equity affiliate)

Many of our rubber blacks and performance products customers have been moving their manufacturing operations to emerging, lower cost regions. To remain competitive, we have been expanding our operations in those regions, particularly in China and South America. In China in the last several years, we and our joint venture partner expanded capacity at our rubber blacks plant in Shanghai and constructed a new carbon black plant in Tianjin. At the Tianjin plant, we are currently operating two rubber blacks production units and one performance products unit. We have begun constructing two additional units for the production of rubber blacks, which we expect to be completed in late calendar year 2008. In South America, we constructed a new rubber blacks production unit at our plant in Maua, Brazil.

In June 2007, we decided to close our carbon black plant in Waverly, West Virginia. This decision was driven by a reduction in tire manufacturing capacity in North America in recent years. We expect manufacturing operations at the Waverly site to cease in March 2008, with shipments to customers continuing through the middle of calendar year 2008.

The headquarters for our rubber blacks product line is located in Boston, Massachusetts; the headquarters for our performance products and inkjet colorants product lines is located in Billerica, Massachusetts; and the headquarters for CSMP is in Albuquerque, New Mexico. Rubber blacks and performance products also have regional headquarters in Alpharetta, Georgia (North America); São Paulo, Brazil (South America); Leuven, Belgium and Suresnes, France (Europe); Kuala Lumpur, Malaysia (Asia Pacific); and Shanghai, China (China).

Metal Oxides Business

The Metal Oxides Business is comprised of the fumed metal oxides (including fumed silica and fumed alumina and dispersions thereof) and aerogel product lines.

Product Lines

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, absorbant or barrier agent in a variety of products, such as inkjet media, lighting, coatings, cosmetics and polishing slurries.

Cabot s aerogels are nano-structured high surface area hydrophobic silica particles with potential uses in a variety of thermal and acoustic insulation applications. Cabot s aerogels are marketed under the Nanogel® trademark. To date, the product has been incorporated into the skylight, window and wall system products of several manufacturers of panels for use in the daylighting segment of the construction industry. We continue to focus on application and market development activities for use of aerogels in the daylighting and other commercial areas, including oil and gas pipeline insulation applications. Because our aerogel products are new, there is a significant risk that products targeted for new applications or markets will not gain market acceptance or that there will not be sufficient market size to support these products.

Sales and Customers

Sales of fumed metal oxides and aerogels are made by Cabot employees and through distributors and sales representatives. The amount of sales for each product line for each of the last three fiscal years is set forth in the following table:

	Years Ended September 30		
	2007	2006	2005
		(In millions)	
Fumed metal oxides	$ 270	$ 253	$ 231
Aerogel	1	1	
Total Metal Oxides Business Sales	$ 271	$ 254	$ 231

Sales to one silicones customer and one microelectronics customer represent a material portion of the total net sales and operating revenues of the Metal Oxides Business. The loss of either of these customers would have a material adverse effect on the Metal Oxides Business. We currently supply fumed metal oxides to both of these customers pursuant to long-term contracts. These contracts accounted for approximately 52% of the volume of fumed metal oxides sold by Cabot in fiscal year 2007.

Competition

We believe we are the leading producer and seller of fumed silica in the United States and second worldwide. We compete in the manufacture of fumed silica primarily with Evonik Industries AG (formerly Degussa AG), Wacker Chemie AG and Tokuyama Corporation, all of which have a global presence, and with at least four other companies in various regional markets in which we operate.

Although the manufacturing processes used are different, in premium insulation markets, our aerogel products compete principally with aerogel products manufactured by Aspen Aerogel, Inc. and other manufacturers of non-aerogel insulation products.

Competition for products within our Metal Oxides Business is based on price, service, quality, product performance and technical innovation. For our fumed metal oxides product line, competition is also based upon the proximity of our manufacturing operations to those of our customers.

Raw Materials

Raw materials for the production of fumed silica are various chlorosilane feedstocks. The feedstocks are either purchased or converted to product on a fee-basis (so called toll conversion) for owners of the feedstock. 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.

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

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Operations

We own two fumed metal oxide manufacturing plants in North America: one in Tuscola, Illinois and one in Midland, Michigan. We also own (or have a controlling interest in) manufacturing plants in China, the United Kingdom and Germany. An affiliate owns a fumed metal oxides plant in Mettur Dam, India. The following table shows our ownership interest as of September 30, 2007 in metal oxides operations in which we own less than 100%:

Location	**Percentage Interest**
Jiangxi Province, China	90% (consolidated subsidiary)
Mettur Dam, India	50% (equity affiliate)

In 2002, we completed construction of a semi-works facility in Frankfurt, Germany for the manufacture of aerogels. We have continued to refine the unique and patented manufacturing process at the semi-works facility to improve production rates and quality yield to permit manufacturing at the facility s intended capacity. The manufacture of aerogels uses a new chemical process and achieving the expected capacity output at the semi-works facility has taken longer than we anticipated. Although we have made substantial progress in our ability to operate the semi-works facility at higher capacity levels and over a more sustained period of time, there continues to be a risk that designed capacity output may not be achieved or that future full-scale manufacturing will not deliver expected economies of scale. In the first quarter of fiscal year 2007, we temporarily ceased production at the facility in an effort to reduce costs and inventory levels. Plant operations re-started in August 2007.

The headquarters for the Metal Oxides Business is located in Billerica, Massachusetts. We also have regional headquarters in Alpharetta, Georgia (North America); São Paulo, Brazil (South America); Leuven, Belgium (Europe); Kuala Lumpur, Malaysia (Asia Pacific); and Shanghai, China (China).

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 market 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. In addition, Supermetals 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.

In August 2007, the Supermetals Business acquired substantially all of the assets of AP Materials, Inc. for a purchase price of approximately $4 million. Through this acquisition, the Business acquired proprietary flame synthesis technology that it intends to further develop for use in the manufacture of fine metal powders.

Sales and Customers

Sales in North America are made by Cabot employees, in Europe by Cabot employees and a sales representative, and in Japan and other parts of Asia primarily through Cabot employees.

In fiscal year 2007, 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 one or more 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. During the five-year period ending in December 2006, a material portion of the sales of tantalum by the Supermetals Business were under fixed price and fixed volume contracts with four customers. The last of these fixed price and fixed volume arrangements expired in the first quarter of fiscal 2007. Sales are now substantially at market prices for variable volumes.

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Competition

We currently have two principal competitors in our tantalum business, H.C. Starck and Ningxia Non-ferrous Metals (Group) Co., Ltd. We believe that we are the leading producer of electronic grade tantalum powder products, with competitors having greater production in some other product lines. Competition in this business is based on price, service, quality, product performance, and technical innovation. During fiscal year 2007, H.C. Starck was acquired by a private equity firm from Bayer AG.

Raw Materials

We obtain the majority of our raw materials in the form of tantalum ore from the mine we own in Manitoba, Canada, from a mine in Australia owned by Talison Minerals Pty Ltd (which recently purchased the Sons of Gwalia s assets, including the mine and our tantalum ore supply agreement, out of administration proceedings), and from the spot market. Since 1996, we have relied on long-term supply contracts to secure the majority of our raw material requirements. In February 2006, in connection with the settlement of an arbitration proceeding between Cabot and the Sons of Gwalia over the price at which the Sons of Gwalia would supply tantalum ore to us under our then existing supply agreement, we entered into a new tantalum ore supply agreement that expires in December 2008. We are currently evaluating supply options to meet our raw materials needs beyond 2008. While we believe there is sufficient tantalum to meet global demand, our ability to contract for significant amounts of tantalum ore at an acceptable cost to us beyond 2008 is uncertain.

Operations

We operate manufacturing facilities for this business in Boyertown, Pennsylvania and Kawahigashi-machi, Fukushima-ken, Japan. The headquarters for the Supermetals Business is located in Boston, Massachusetts.

Specialty Fluids Business

Products

Our Specialty Fluids Business produces and markets cesium formate as a drilling and completion fluid for use primarily in high pressure and high temperature oil and gas well operations. Cesium formate products are solids-free, high-density fluids that have a low viscosity, permitting them to flow readily in oil and gas wells. The fluid is resistant to high temperatures, minimizes damage to producing reservoirs and is readily biodegradable. 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 by Cabot employees and sales representatives directly to oil and gas operating companies and 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. The rates to be charged to the customer for the daily product rental and for lost product are negotiated and agreed to before a job begins. Ordinarily, approximately 15% of the cesium formate used in an operation is lost.

In 2003, we entered into an agreement with a major energy service company to provide a supply of cesium formate-based fluids for both reservoir drilling and completion activities on two large gas and condensate field projects in the Norwegian Continental Shelf being developed and operated by Statoil. In fiscal year 2007, the agreement was extended through 2008. The loss of this customer would have a material adverse effect on the Specialty Fluids Business.

Although our fluids have been used principally for drilling and completion of wells in the North Sea, they have also been used in the drilling of appraisal wells in Argentina and Hungary.

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Competition

Formate fluids, which were introduced to the market in the mid-1990s, are a relatively small but growing part of the drilling fluids market and compete mainly with traditional drilling fluid technologies. Competition in the well fluids business is based on price, service, quality, product performance, technical innovation and proximity of inventory to customers drilling operations.

Raw Materials

The principal raw material used in this business is pollucite ore, which we obtain from our mine in Manitoba, Canada. We have an adequate supply of this cesium-rich pollucite ore, owning a substantial portion of the world s known pollucite reserves. Pollucite ore, however, is a finite resource. At current production rates and our currently estimated reserve levels, we expect our supply in the mine to last approximately 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. Further, our estimate of known reserves does not include our existing inventory of finished product or low grade ore that will 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 Business carries a large supply of fluid.

Operations

We have a mine and a cesium formate manufacturing facility in Manitoba, Canada. Cabot has 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 new operations. In fiscal year 2007, we established a regional sales office in Singapore in order to increase marketing initiatives to prospective customers in China, Southeast Asia, Australia and New Zealand. The Specialty Fluids Business has its headquarters in Aberdeen, Scotland.

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.

Backlog

Cabot s businesses are generally not seasonal in nature, although they typically experience some decline in European and North American sales in the fourth fiscal quarter due to summer plant shutdowns and in sales in Asia Pacific and China in the second fiscal quarter because of the New Year holidays in those areas. In general, no significant lead-time between order and delivery exists in any of our business segments and management does not use backlog information in managing our business. As a result, we do not consider that the dollar amount of backlog orders believed to be firm as of any particular date is material for an understanding of our business.

Employees

As of September 30, 2007, we had approximately 4,300 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.

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.

Safety, Health and Environment

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 a significant portion of our $11 million environmental reserve for costs associated with such remediation. We anticipate that the expenditures at these sites will be made over a number of years. 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, no assurance can be given that the actual costs to investigate and remediate these sites will not 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 the results of operations in a particular period, in light of the environmental reserve, 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 condition. It is possible that we may also incur future costs relating to sites that are 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 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 $16 million in environmentally related capital expenditures at existing facilities in fiscal year 2007 and anticipate spending approximately $19 million for such costs in fiscal year 2008. In addition, we expect to spend $10 million in each of fiscal years 2008 and 2009 to comply with new permit conditions at our facility in Maua, Brazil.

In recognition of the importance of SH&E Requirements to Cabot, our Board of Directors established a Safety, Health, and Environmental Affairs Committee in February 1990. The Committee, which is comprised of non-employee directors, meets at least three times a year and provides oversight and guidance in respect of Cabot s safety, health and environmental management programs and performance. 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 SH&E budget and capital expenditures. The Committee also consults with the Company s outside and internal advisors regarding management of Cabot s safety, health and environmental programs.

In 1996, the International Agency for Research on Cancer (IARC) revised its evaluation of carbon black from Group 3 (insufficient evidence to make a determination regarding carcinogenicity) to Group 2B (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. IARC reviewed its classification of carbon black regarding carcinogenicity in February 2006 and decided to maintain the classification of carbon black as a Group 2B

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substance. 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.

In October 1999, the California Office of Environmental Health Hazard Assessment (OEHHA) published a Notice of Intent to add carbon black (airborne particles of respirable size) to its list of chemicals known to the State to cause cancer promulgated pursuant to the California Safe Drinking Water and Toxic Enforcement Act, commonly referred to as Proposition 65. OEHHA stated it was taking this action in light of IARC s 1996 reclassification of carbon black. 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. In February 2003, OEHHA published a notice adding carbon black (airborne, unbound particles of respirable size) to the Proposition 65 list. We worked with the International Carbon Black Association (ICBA), 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.

In April 2002, the Netherlands published the Dutch Notes on BAT for the Carbon Black Industry to support the identification of Best Available Techniques (BAT) for the European carbon black industry pursuant to European Union (EU) Directive 96/61/EEC. BAT Reference Documents, so-called BREF Notes, are being finalized for use by EU member countries under the supervision of the Integrated Pollution Prevention and Control Bureau (the IPPC Bureau). The currently proposed IPPC Bureau draft BAT guidance for large volume inorganic chemicals for the carbon black industry calls for an annual average sulfur content in carbon black feedstock in the range of 0.5% to 1.5% to control sulfur dioxide emissions. Depending on the final guidance adopted, this could have significant financial effects on the carbon black industry, including Cabot, and could cause us to experience difficulty obtaining low sulfur feedstock at an acceptable cost for our European operations. We are not able to predict whether this regulatory development in the EU will affect our earnings in a materially adverse manner.

Since October 2003, the European Commission (EC) has been developing a new EU regulatory framework for chemicals called REACH (Registration, Evaluation and Authorization of Chemicals). REACH, which became effective in June 2007, applies to all existing and new chemical substances produced or imported into the EU in quantities greater than one ton a year. Manufacturers or importers of these chemical substances will be obligated to register the substance with a central agency by submitting specified health, safety, risk and use information about the substance. As we are committed to continuing to supply our EU customers, we continue to implement plans to respond to upcoming deadlines under REACH.

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 interest in the reduction of greenhouse gas emissions will likely have some impact on the carbon black industry. Carbon dioxide is inherently emitted as part of the carbon black manufacturing process. In December 2005, the EC published a new directive that includes carbon black manufacturing in the combustion sector and includes carbon black manufacturing in Phase II of the Emission Trading Scheme for the period 2008 to 2012. Various EU member states have included carbon black facilities in their draft national allocation plans. At the present time, we are in negotiations with the various member states to achieve adequate allocations. We are also pursuing certain Clean Development Mechanism projects at various facilities in an effort to generate carbon credits to offset potential allocation shortfalls. There are also ongoing discussions in other regions and countries, including the United States, regarding greenhouse gas emission control and reduction programs, but those programs have not yet been defined and their impact on Cabot cannot be estimated at this time.

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Since the terrorist attacks in the U.S. on September 11, 2001, various U.S. agencies and international bodies have adopted new security requirements applicable to certain manufacturing and industrial facilities and 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.

Financial Information About Segments, Foreign and Domestic Operations and Export Sales

Segment financial data are set forth in MD&A and in Note U of the Notes to the Company s Consolidated Financial Statements. 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 the Geographic Information portion of Note U for further information relating to sales and long-lived assets by geographic area and MD&A.) 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 T 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 in mature carbon black markets such as North America and Western Europe continue to shift their manufacturing capacity from those regions 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 in 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 acquire or form strategic business alliances) or 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 results.

In addition, our rubber blacks, performance products and fumed metal oxides product lines are sensitive to changes in industry capacity utilization. As a result, pricing tends to decrease when capacity utilization in these product lines decreases, which could affect our financial performance.

Increases in the price of raw materials or their reduced availability could increase our cost of goods and decrease our profitability.

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. Accordingly, fluctuations in crude oil prices tend to create volatility in our carbon black feedstock costs, and potentially our working capital and results of operations. Although our long-term and some of our annual carbon black supply contracts provide for a price adjustment to account for changes in feedstock costs, there is a lag between the time when feedstock costs are incurred by us and the time when prices are adjusted under the contracts. Accordingly, we may not be able to pass increased costs along to our customers during the quarter in which they occur, which can have a significant negative impact on results of operations and cash flows in a given quarter. In addition, it is possible that a supply contract with a price adjustment mechanism could expire by its terms before we are able to recapture fully our raw material cost increases. We have taken actions to offset the effects of higher raw material costs through selling price increases in our non-contract sales, productivity improvements and cost reduction efforts. Success in offsetting higher raw material costs with price increases is largely influenced by competitive and economic conditions and could vary significantly depending on the market 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 higher raw material or energy costs, it could have a significant impact on our financial results.

In addition, the proposed environmental regulations applicable to the European carbon black industry that call for a reduction in the annual average sulfur content in carbon black feedstock may be adopted by EU member countries in such a manner that we may experience some difficulty obtaining low sulfur feedstock at an acceptable cost for our European operations.

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. Three major tire customers, one silicones customer, four capacitor materials customers and one microelectronics customer represent a material portion of our total net sales and operating revenues. In fiscal year 2007, sales to The Goodyear Tire and Rubber Company by our rubber blacks product line accounted for approximately 12% of our consolidated revenues. The loss of any one or more of our important customers, or a reduction in volumes sold to them because of a work stoppage or other disruption, could materially adversely affect our results of operations until such business is replaced or the disruption ends. Any deterioration of the financial condition of any of our customers that impairs their ability to make payments to us also could affect our future results and financial condition.

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 year 2007, we used 17 functional currencies in addition to the U.S. dollar and derived a substantial amount 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 major currencies will affect our results of operations and the value of balance sheet items denominated in foreign currencies. 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 these risks through normal operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments as well as foreign currency debt. We cannot be certain, however, that our financial risk management program will be successful in reducing the risks inherent in exposures to foreign currency and interest rate fluctuations.

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

Sales outside of the United States constituted a substantial amount of our revenues in fiscal year 2007. Our operations in some countries may be subject to the following risks: unsettled political or economic conditions; possible expropriation or other governmental actions; social unrest, war 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; and changes in financial policy and availability of credit.

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, capacity expansion in our rubber blacks, performance products, fumed metal oxides and inkjet colorants product lines could have a negative impact on the business performance of these product lines until capacity utilization is sufficient to absorb the incremental costs associated with the expansion.

Our efforts to maintain or increase our margins may not be successful.

We have undertaken and will continue to undertake cost reduction initiatives and organizational restructurings to improve operating efficiencies and generate cost savings. We 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 realized.

In addition to cost reduction initiatives, we try to maintain or improve margins on our non-contracted sales through price increases. However, 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.

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

Our strategic focus includes optimizing our core businesses and investing the cash and intellectual resources they generate in developing new businesses. We cannot be certain that the costs we incur investing in these new businesses 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 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 delays could affect our future 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 predictable and we may not be successful in realizing our objectives as anticipated.

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

In our analysis of the recoverability of certain assets, namely inventory, property, plant and equipment, investments, intangible assets and deferred tax assets, we have made assumptions about future sales (pricing, volume and region of sale), costs, cash generation and the ultimate profitability of the business and/or tax jurisdiction. These assumptions were 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, 2007, which could lead to an impairment or write-off of certain of these assets in the future.

Our operations involve the handling of hazardous materials, and we are subject to extensive safety, health and environmental requirements, which could increase our costs and/or reduce our revenues.

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 addition, 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, aerogels 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 transportation of chemical products and other activities associated with the manufacturing process 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 affect our earnings or cash flow in an adverse manner. 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.

Global interest in the reduction of greenhouse gas emissions will likely have some impact on the carbon black industry, including us.

Carbon dioxide is inherently emitted as part of the carbon black manufacturing process. In December 2005, the European Commission published a new directive that includes carbon black manufacturing in the combustion sector and includes carbon black manufacturing in Phase II of the Emissions Trading Scheme for the period 2008 to 2012. Various European Union member states have included carbon black facilities in their draft national allocation plans. There are also ongoing discussions in other regions and countries, including the United States, regarding greenhouse gas emission control and reduction programs, but those programs have not yet been defined and their potential impact on Cabot s 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, antitrust, and health and safety matters as well as product liability and personal injury claims relating to asbestosis, silicosis and berylliosis, and exposure to various chemicals. Adverse rulings, judgments or settlements in pending or future litigation (including carbon black antitrust claims and liabilities associated with respirator claims and our former beryllium operations) could cause our results to differ materially from those expressed or forecasted in any forward-looking statements.

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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 United States 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 United States 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 United States, the strength of our intellectual property rights will vary from country to country.

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 Cabot, and if available, may not be available on acceptable terms.

Changes in our tax rate may have an adverse effect on our results of operations.

Our future tax rates may be adversely affected by a number of factors including 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. taxes; adjustments to estimated taxes upon finalization of various tax returns; increases in expenses that are not always 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; changes in the estimated realization of our deferred tax assets and liabilities; changes in tax laws or the interpretation of such tax laws; and the resolution of issues arising from tax audits with various tax authorities. Any significant increase in our future tax rates could adversely affect net income for future periods.

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.

Our business is subject to other general business risks.

In addition to the factors described above, the following other factors, among others, could affect our future performance and cause our actual results to differ materially from those expressed or implied by any forward-looking statements: changes in the rate of economic growth in the United States and other international economies; changes in trade, monetary and fiscal policies throughout the world; stock and credit market conditions; acts of war and terrorist activities; and the impact of global health, safety and environmental concerns on economic conditions and market opportunities.

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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.

	Segment Using Facility			
Location by Cabot Business Region	**Carbon Black**	**Metal Oxides**	**Supermetals**	**Specialty Fluids**
North America				
Alpharetta, GA*[(1)]	X	X	X	
Tuscola, IL		X		
Franklin, LA	X			
Ville Platte, LA	X			
Billerica, MA	X	X	X	
Haverhill, MA	X			
Midland, MI		X		
Albuquerque, NM (2 manufacturing facilities)*	X			
Boyertown, PA			X	
Pampa, TX	X			
The Woodlands, TX*				X
Waverly, WV	X			
Lac du Bonnet, Manitoba**			X	X
Sarnia, Ontario	X			
Europe				
Loncin, Belgium	X			
Leuven, Belgium*[(1)]	X	X		X
Pepinster, Belgium	X			
Valasske Mezirici (Valmez), Czech Republic**	X			
Dukinfield, England	X			
Stanlow, England	X			
Berre, France	X			
Port Jerome, France**	X			
Suresnes, France*	X			
Frankfurt, Germany*		X		
Hanau, Germany*	X	X		
Rheinfelden, Germany		X		
Grigno, Italy	X			
Ravenna, Italy	X			
Bergen, Norway*				X
Aberdeen, Scotland*				X
Botlek, The Netherlands**	X			
Barry, Wales*		X		

(1) Regional Shared Service Center

* Leased premises

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

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Location by Cabot Business Region	Segment Using Facility Carbon Black	Metal Oxides	Supermetals	Specialty Fluids
China				
Jiangxi Province, China**		X		
Tianjin, China**	X			
Shanghai, China*(1)	X	X		
Shanghai, China** (plant)	X			
Asia Pacific				
Hong Kong, China**	X			
Maharashtra, India**	X			
Mumbai, India*	X			
Cilegon, Indonesia**	X			
Jakarta, Indonesia*	X			
Merak, Indonesia	X			
Kawahigashi-machi, Japan**			X	
Ichihara, Japan	X			
Shimonoseki, Japan**	X			
Tokyo, Japan*	X	X	X	
Kuala Lumpur, Malaysia*(1)	X	X		
South America				
Campana, Argentina	X			
Maua, Brazil	X			
Sao Paulo, Brazil*(1)	X	X		
Cartagena, Colombia	X			

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

Cabot conducts research and development for its various businesses primarily at facilities in Billerica, MA; Albuquerque, NM; Boyertown, PA; Pampa, TX; Pepinster, Belgium; Frankfurt and Rheinfelden, Germany; Kawahigashi-machi, Japan; and Port Dickson, Malaysia.

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

Item 3. ***Legal Proceedings***

Cabot is a defendant in various lawsuits and environmental proceedings wherein substantial amounts are claimed. The following is a description of the significant proceedings pending on September 30, 2007, unless otherwise specified.

Environmental Proceedings

Cabot is one of fourteen companies, collectively the Ashtabula River Cooperating Group II (ARCG II), participating 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

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addition to funding provided by the ARCG II and the State of Ohio, the federal government is also providing funding toward the project under the Great Lakes Legacy Act and the Water Resources Development Act. Dredging of the river is expected to be completed in 2008. 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.

In 1986, we sold our 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 requiring it to address soil and groundwater contamination at the site. Soil remediation at the site has been completed and the groundwater remediation activities are ongoing. We are contributing to the costs of those activities pursuant to the cost-sharing agreement with NGK.

We hold a Nuclear Regulatory Commission (NRC) license for certain slag waste material deposited on industrial property in Reading, Pennsylvania in the late 1960s by a predecessor of Cabot that had leased a portion of the site to process tin slags. The slag material contains low levels of uranium and thorium, thus subjecting it to NRC jurisdiction. We have prepared a site decommissioning plan for the slag material which concludes that the levels of radioactivity in the slag are low enough that the material can be safely left in place and still meet NRC requirements for license termination without restrictions. We recently received final approval from the NRC on the decommissioning plan. Once the decomissioning plan activities have been carried out at the site, it is anticipated that the NRC will terminate the NRC license for the site and our NRC obligations will be satisfied.

We have several environmental-related lawsuits pending in Campana, Argentina related to our carbon black plant in Campana. Those lawsuits were filed between 2003 and 2006 by several residential neighbors living near the industrial area where our plant is located. The lawsuits also name other industrial companies operating in the Campana area. The plaintiffs seek monetary damages for property damage and other injury allegedly caused by emissions from neighboring industrial facilities. We believe the claims relative to Cabot are without merit.

We have received various requests for information and notifications that we may be a potentially responsible party at several other Superfund sites.

As of September 30, 2007, we had approximately $11 million reserved for environmental matters. The operational and maintenance component of this reserve includes $4 million on a net present value basis or $5 million on an undiscounted basis. This amount 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: (1) AO s insurance coverage for the period prior to the 1990 acquisition and (2) a former owner s indemnity of AO holding it harmless from any liability allocable to AO respiratory products used prior to May 1982.

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Generally, these respirator liabilities involve claims for personal injury, including asbestosis, silicosis and, more recently, 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 giving rise to an asbestos 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 disposed of the business in July 1995 by transferring it to a newly-formed joint venture called Aearo Corporation (Aearo) and retained an equity interest in Aearo. Cabot agreed to have the subsidiary retain certain liabilities allocable to respirators used prior to the 1995 transaction so long as Aearo pays 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 have no liability in connection with any products manufactured by Aearo after 1995. Between July 1995 and September 30, 2001, our total costs and payments in connection with these respirator liabilities did not exceed the total amounts received from Aearo. Since September 30, 2001, our total costs and payments in connection with these liabilities have exceeded the amount we have received from Aearo because of the significant increase in claims filed against AO beginning in calendar year 2001. In August 2003, Cabot and its subsidiary sold all of the subsidiary s equity interest in Aearo for approximately $35 million. This sale did not alter the arrangements described above.

As of December 31, 2002, there were approximately 50,000 claimants in pending cases asserting claims against AO in connection with respiratory products. As of September 30, 2003, 2004, 2005, 2006 and 2007 there were approximately 87,000, 91,000, 92,000, 63,000 and 55,000 claimants, respectively. A large portion of the claims asserted during 2003 were filed in Mississippi and appear to have been prompted by changes in Mississippi s state procedural laws, which caused claimants to file their claims prior to the effective date of these changes. In 2005, a federal judge ruled that many of the diagnoses presented in a broad silicosis class action were unreliable. As a consequence of this ruling, silica and non-malignant asbestos claims filed throughout the country have dropped significantly for AO and for defendants in general in non-malignant asbestos and silica cases. In addition, many claims filed against AO have been dismissed without payment. It appears that this reduction in silica and non-malignant asbestos claims has stabilized, although the total number of dismissals still outnumbered the new cases filed in calendar year 2007, through September 30, 2007.

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 exposure and respirator use. Using those and other assumptions, HR&A estimated the number of future claims that would be filed and the related costs that would be incurred in resolving those 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 obligations. Based on the HR&A estimates, we have recorded on a net present value basis an $18 million reserve ($26 million on an undiscounted basis) to cover our estimated share of liability for pending and future respirator claims.

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 and (ix) 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 could 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.

Carbon Black Antitrust Litigation

Cabot, Phelps Dodge Corporation, Columbian Chemicals Co., Degussa Engineered Carbons, LP, Degussa AG, and Degussa Corporation (referred to collectively as the Defendants), were named defendants in class action lawsuits filed in several U.S. federal district courts in 2003 and consolidated in U.S. Federal District Court for the District of Massachusetts in 2003. The plaintiffs in these cases alleged that the Defendants conspired to fix, raise, maintain or stabilize prices for carbon black sold in the United States during a specified period. In June 2007, Cabot and Columbian Chemicals agreed to settle the federal class action lawsuit, which was approved by the court in September 2007. Degussa had separately settled with the plaintiffs in October 2006. Cabot denies any wrongdoing of any kind in these cases and strongly believes it has good defenses to the claims, but agreed to the settlement to avoid further expense, inconvenience, risk and the distraction of burdensome and protracted litigation. Cabot s share of the settlement was $10 million. In addition, one federal case was brought by a party that did not join the federal class action. The Defendants settled this case in October 2007.

During fiscal years 2003 and 2004, Cabot and the Defendants were named in nine actions filed in Superior Court of the State of California on behalf of a purported class of indirect purchasers of carbon black in the state of California from as early as November 1998 to the present. During fiscal years 2004 and 2005, Cabot and the Defendants were named in actions filed in state courts in the states of Florida, Kansas, Tennessee, South Dakota, North Carolina and New Jersey on behalf of all indirect purchasers of carbon black in these states. Each of these complaints asserts violations under the applicable state laws for conduct that is similar to what was alleged in the federal cases described above (the state actions). The plaintiffs in the state actions seek treble damages in an unspecified amount and attorneys fees. In October 2007, the Defendants settled the California state actions. Court approval of this settlement is pending. We believe we have valid defenses to all of the remaining state action claims, and will continue to assert them vigorously.

Beryllium Claims

Cabot is a party to several pending actions in connection with its discontinued beryllium operations. Cabot entered the beryllium industry through an acquisition in 1978. We ceased manufacturing beryllium products at one of the acquired facilities in 1979, and the balance of our former beryllium business was sold to NGK Metals, Inc. in 1986.

During the last several years, several individuals who have resided or worked for many years in the immediate vicinity of our former beryllium facility located in Reading, Pennsylvania have brought suits against Cabot and NGK for personal injury allegedly caused by beryllium particle emissions produced at that facility. Eight personal injury claims against Cabot are pending in state court in Pennsylvania. In addition, since October 2003, approximately 50 individuals have asserted claims in separate cases for medical monitoring now pending in numerous Pennsylvania state court actions. The plaintiffs allege contact with beryllium in various ways, including residence or employment in the area surrounding the Reading facility, employment at the Reading facility or contact with individuals who worked at the Reading facility. In 2005, summary judgment was granted in Cabot s favor by the Pennsylvania state trial court in three of the medical monitoring cases and the plaintiffs appealed. In October 2007, the Pennsylvania Superior Court upheld the grant of summary judgment. Discovery is ongoing in the remaining personal injury and medical monitoring cases.

There are also four beryllium product liability cases pending in California state courts. All of these cases are stayed by court order pending the testing of the plaintiffs for beryllium exposure.

In September 2006, Cabot was one of several named defendants in *Anthony v. Small Tube Manufacturing Corp. et al.*, a class action complaint that was filed in the Pennsylvania Court of Common Pleas of Philadelphia County on behalf of certain present and former employees of the U.S. Gauge Inc. facility in Sellersville, Pennsylvania. Cabot removed the case to the United States District Court for the Eastern District of Pennsylvania. U.S. Gauge is a company alleged to have purchased beryllium-containing products from Cabot. The class action alleges that the present and former employees were exposed to beryllium dust and fumes during the machining of beryllium-containing products purchased from Cabot and that they are, therefore, entitled to receive medical monitoring. There are three other companies named as defendants in the case. Cabot has asserted claims against the other defendants and another party. Discovery in the case has not yet begun.

In December 2006, Cabot was one of several named defendants in *Sheridan et al. v. NGK North America, Inc., et al*., a class action complaint filed in the Pennsylvania Court of Common Pleas of Philadelphia County on behalf of persons who resided within a one mile radius of the Reading facility for a period of at least six months between 1950 and 2000. Cabot removed the case to the United States District Court for the Eastern District of Pennsylvania. The class action alleges that these persons were exposed to emissions of beryllium from the Reading plant and are, therefore, entitled to receive medical monitoring. Discovery regarding class certification began in October 2007.

We believe that we have valid defenses to all of these beryllium actions and will assert them vigorously in the various venues in which claims have been asserted. In addition, there is a contractual indemnification obligation running from NGK to Cabot in connection with many of these matters.

Other Matters

On March 8, 2004, AVX Corporation (AVX) filed an action against us in the United States District Court for the District of Massachusetts. This complaint alleged that we violated the federal antitrust laws in connection with the tantalum supply agreement between Cabot and AVX by tying the purchase of one type of tantalum product by AVX to the purchase of other types. Discovery is proceeding in this matter.

On September 6, 2005, AVX filed a lawsuit in the Superior Court of Massachusetts for Suffolk County alleging that Cabot improperly administered a tantalum supply agreement with AVX. In particular, AVX claims that we have not provided all of the price relief due to them pursuant to most favored nation (MFN) pricing provisions in the agreement. AVX is seeking a declaration of the rights of the parties to the agreement, an accounting of monies paid, due or owing under the MFN provisions, and an award of any sums not paid that should have been. We have filed an answer and a counterclaim against AVX asserting that AVX underpaid for product in accordance with a proper construction of the MFN provisions. This action was moved to the Business Litigation Section of the Superior Court of Massachusetts in November 2005. Discovery in this case is ongoing, but to date AVX has claimed that it is owed an additional $28 million in MFN credit. In early April 2007, Cabot and AVX filed cross-motions for summary judgment on two key disputed issues in the litigation. A hearing on the motions took place on May 1, 2007. No decision has been issued. We believe we have valid defenses to all of AVX s claims against us and will continue to assert them vigorously.

In 2001, we entered into agreements (the Project Agreements) with Private Power LLC (Private Power) relating to co-generation projects at our Ville Platte and Franklin (Canal) plants in Louisiana.

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Shortly after the Project Agreements were entered into, disputes arose regarding the scope of the projects and each party s respective rights under the Project Agreements. In December 2002, we filed a suit in the Massachusetts state court seeking a declaration that we had not terminated the Project Agreements. Private Power filed counterclaims, which were eventually amended to include claims for breach of contract and allegations of bad faith. In May 2007, Cabot s motion to dismiss Private Power s claims was denied. In August 2007, we amended our complaint to add breach of contract and bad faith claims. Discovery is ongoing in the case. We believe we have valid defenses to all of Private Power s claims and will continue to assert them vigorously.

We have various other lawsuits, claims and contingent liabilities arising in the ordinary course of our business, including a number of claims asserting premises liability for asbestos exposure, and in respect of our divested businesses. 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. ***Submission of Matters to a Vote of Security Holde rs***

None.

Executive Officers of the Registrant

Set forth below is certain information about Cabot s executive officers. Ages are as of November 28, 2007.

Kennett F. Burnes, age 64, is Cabot s Chairman of the Board, President and Chief Executive Officer. Mr. Burnes joined Cabot in 1987 as Vice President and General Counsel. He was appointed Executive Vice President in October 1988, a position he held until 1995. Mr. Burnes was appointed President of Cabot in 1995 and Chairman of the Board and Chief Executive Officer in 2001. Mr. Burnes also served as Chief Operating Officer from March 1996 until 2001.

Dirk L. Blevi, age 59, is Executive Vice President and General Manager of the European region and a director of Cabot. Mr. Blevi also has had management oversight responsibilities for the Specialty Fluids Business since July 2006. Mr. Blevi joined Cabot in 1975 as Product Manager for Cabot s then plastics business, which is now part of our performance products product line. From 1975 to 1993, Mr. Blevi held a variety of management positions in the plastics business and in March 1993 became its General Manager. He was appointed Vice President of Cabot in February 1994, and Executive Vice President and a director in September 2004. Mr. Blevi has held his current position of General Manager of the European region since January 2000. He also exercised management oversight responsibilities for the aerogel product line from early 2003 to March 2007.

William J. Brady, age 46, is Executive Vice President and General Manager of Cabot s Carbon Black Business. Mr. Brady joined Cabot in 1986 as a salesperson for the special blacks product line, which is now part of performance products. From 1989 until 1997, Mr. Brady held a variety of special blacks-related management positions, including Business Manager for Japan from 1993 to 1997. In March 1997, he was named General Manager of special blacks, a position he held until January 2000. Mr. Brady was also appointed Vice President of Cabot in March 1997. From January 2000 to July 2003, Mr. Brady served as General Manager of the fumed metal oxides product line. Mr. Brady was appointed Executive Vice President in March 2003, named General Manager of Cabot s Carbon Black Business in July 2003, and also served as General Manager of inkjet colorants from July 2004 to November 2005.

Jonathan P. Mason, age 49, is Executive Vice President and Chief Financial Officer. Mr. Mason joined Cabot as Chief Financial Officer in January 2006 and was appointed Executive Vice President in March 2006. Prior to joining Cabot, Mr. Mason had served since March 2005 as Vice President of Finance and Treasurer of International Paper, a global forest products, paper and packaging company. From 2000 to

March 2005, he was Chief Financial Officer of Carter Holt Harvey, a global paper company in Auckland, New Zealand, which was partially owned by International Paper during those years. Before joining International Paper, Mr. Mason worked for ExxonMobil between 1985 and 1990 in various roles in its Treasury Department.

Brian A. Berube, age 45, 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.

Eduardo E. Cordeiro, age 40, is Vice President and General Manager of Cabot s Supermetals Business. Mr. Cordeiro also co-manages CSMP. 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, and General Manager of the fumed metal oxides product line from July 2003 to January 2005. Mr. Cordeiro was appointed Vice President in March 2003 and General Manager of the Supermetals Business in January 2005.

Ravijit Paintal, age 46, is Vice President and General Manager of the Metal Oxides Business. Mr. Paintal joined Cabot in January 2003 as a member of Cabot s Corporate Planning group and became General Manager of the aerogel product line in August 2003, a position he held until March 1, 2007. Mr. Paintal was appointed General Manager of fumed metal oxides in January 2005 and Vice President in March 2005. Before joining Cabot, Mr. Paintal worked with the Boston Consulting Group as a management consultant and with Schlumberger Oilfield Services in various international positions.

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 26, 2007, there were approximately 1,170 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

	December	March	June	September
Fiscal 2007				
Cash dividends per share	$ 0.18	$ 0.18	$ 0.18	$ 0.18
Price range of common stock:				
High	$ 43.94	$ 48.50	$ 49.87	$ 49.14
Low	$ 36.54	$ 43.00	$ 43.11	$ 34.48
Fiscal 2006				
Cash dividends per share	$ 0.16	$ 0.16	$ 0.16	$ 0.16
Price range of common stock:				
High	$ 36.88	$ 39.50	$ 36.55	$ 37.34
Low	$ 30.42	$ 33.26	$ 31.48	$ 30.50

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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, 2007:

Period	Total Number of Shares Purchased	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, 2007 July 31, 2007	1,074,889	$ 46.09	1,074,889	3,455,732
August 1, 2007 August 31, 2007	1,957,604	$ 38.74	1,944,104	1,511,628
September 1, 2007 September 30, 2007	1,024,198	$ 38.17	1,018,998	5,492,630
Total	4,056,691		4,037,991	

(1) On May 11, 2007, the Company announced publicly that the Board of Directors authorized the Company to repurchase five million shares of the Company s common stock in 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. This authority does not have a set expiration date.

Included in the shares repurchased from time to time by Cabot under the Board s authorization are shares of common stock repurchased from employees at fair market value to satisfy tax withholding obligations that arise on the vesting of shares of restricted stock and the exercise of stock options. (Shares repurchased from employees in connection with the annual vesting of shares issued under our LTI program, which occurs each May, are separately authorized by the Board and excluded from the standing repurchase authorization.) During the fourth quarter of fiscal 2007, of the 4,037,991 shares repurchased pursuant to the Board s authorization, 4,032,500 were repurchased on the open market and 5,491 were repurchased from employees to satisfy tax withholding obligations. The average price paid for those shares was $40.69 and $40.83, respectively.

From time to time, the Company also repurchases shares of unvested restricted stock from employees whose employment is terminated before such shares vest. These shares are repurchased pursuant to the terms of the Company s equity incentive plans and are not included in the shares repurchased under the Board s authorization. During the fourth quarter of fiscal 2007, the Company repurchased 18,700 forfeited shares pursuant to the terms of its 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 Company s long term incentive compensation program since 1999 has been an amount equal to 30% of the fair market value of such shares on the date of grant. The average price per share paid for these forfeited shares was $9.73.

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

	Years Ended September 30				
	2007	2006	2005	2004	2003
	(Dollars in millions, except per share amounts and ratios)				
Consolidated Net Income (Loss)					
Net sales and other operating revenues	$ 2,616	$ 2,543	$ 2,125	$ 1,934	$ 1,795
Gross profit	505	419	433	477	422
Selling and administrative expenses	249	235	240	217	251
Research and technical expense	69	58	59	53	64
Goodwill and long-lived asset impairment charge			211		
Income (loss) from operations[(a)]	187	126	(77)	207	107
Net interest expense and other income (charges)[(b)]	(19)	(29)	(16)	(43)	(13)
Income (loss) from continuing operations	168	97	(93)	164	94
Benefit (provision) for income taxes[(c)]	(38)	(9)	45	(39)	(17)
Equity in net income of affiliated companies	12	12	12	6	5
Minority interest	(15)	(12)	(12)	(9)	(7)
Income from operations of discontinued businesses	2	2		2	5
Charges from cumulative effect of changes in accounting principles		(2)			
Net income (loss)	$ 129	$ 88	$ (48)	$ 124	$ 80
Common Share Data					
Diluted net income (loss):					
Continuing operations	$ 1.87	$ 1.28	$ (0.84)	$ 1.79	$ 1.08
Discontinued operations:					
Income from operations of discontinued businesses	0.03	0.03		0.03	0.06
Loss from cumulative effect of changes in accounting principles		(0.03)			
Net income (loss)	$ 1.90	$ 1.28	$ (0.84)	$ 1.82	$ 1.14
Dividends	$ 0.72	$ 0.64	$ 0.64	$ 0.60	$ 0.54
Closing prices	$ 35.53	$ 37.20	$ 33.01	$ 38.57	$ 28.51
Average diluted shares outstanding millions[(d)]	68	68	60	68	70
Shares outstanding at year end millions[(e)]	65	64	63	63	62
Consolidated Financial Position					
Total current assets	$ 1,275	$ 1,255	$ 1,246	$ 1,171	$ 1,108
Net property, plant and equipment	1,016	964	834	920	916
Other assets	345	315	294	335	301
Total assets	$ 2,636	$ 2,534	$ 2,374	$ 2,426	$ 2,325
Total current liabilities	$ 547	$ 505	$ 433	$ 372	$ 376
Long-term debt	503	459	463	506	516
Other long-term liabilities and minority interest	392	374	379	357	354
Stockholders equity	1,194	1,196	1,099	1,191	1,079
Total liabilities and stockholders equity	$ 2,636	$ 2,534	$ 2,374	$ 2,426	$ 2,325
Working capital	$ 728	$ 750	$ 813	$ 799	$ 732

Selected Financial Ratios

Income (loss) from continuing operations as a percentage of sales	6%	4%	(4)%	8%	5%
Return on average stockholders equity[f]	11%	9%	(4)%	11%	8%
Net debt to capitalization ratio	25%	22%	24%	24%	22%
Earnings to fixed charges ratio	5x	4x	(1)x	6x	4x
Return on investment[g]	10%	7%	(1)%	10%	7%

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[a] Income from operations for 2007 include charges of $12 million for legal reserves, $8 million and $1 million for the closure of our carbon black facilities in Waverly, West Virginia and Altona, Australia, respectively, $3 million for global restructuring initiatives, $6 million for environmental reserves and settlement and $4 million related to the acquisition of substantially all of the assets of AP Materials, Inc. Income from operations for 2006 includes charges of

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$10 million for the global restructuring, $11 million of charges related to the closure of our Altona facility, $3 million for cost reduction initiatives and a $27 million payment to Sons of Gwalia. Loss from operations for 2005 includes charges of $16 million for restructurings and $15 million of charges for cost reduction initiatives in the Supermetals Business. Income from operations for 2004 includes a charge of $6 million for restructurings, income of $2 million for a reduction of the respirator reserve and income of $1 million for other recoveries. Income from operations for 2003 includes charges of $51 million for restructurings, $14 million for acquired in-process research and development, $20 million for a reserve for respirator claims, $4 million for asset impairments and proceeds of $4 million for insurance recoveries.

(b) Net interest expense and other income (charges) for 2007 include foreign currency gains of approximately $8 million. Net interest expense and other income (charges) for 2006 includes a $8 million charge related to a foreign currency translation adjustment write-off due to the substantial liquidation of our Altona, Australia entity. Other income (charges) for 2005 includes $2 million of insurance recoveries and $2 million of income related to foreign currency translation adjustments. Other income (charges) for 2004 include charges of $12 million for an investment impairment and $3 million for foreign currency translation adjustments. Other income (charges) for 2003 includes a $22 million charge for the impairment of two investments and proceeds of $35 million for the sale of an equity interest in an investment.

(c) The Company s tax rate for 2007 was a provision of 23%, which includes $3 million in tax benefits resulting from the settlement of various tax audits during the year. The Company s tax rate for 2006 was a provision of 9%, which includes a $18 million tax benefit from the settlement of various tax audits during the year. The Company s tax rate for 2005 was a benefit of 48%, which includes the effect of a $23 million tax settlement benefit. For fiscal years 2004 and 2003, the Company s tax rate was a provision of 24% and 18%, respectively.

(d) The weighted average common shares outstanding for the fiscal year ended September 30, 2005 excludes approximately 8 million shares as those shares would have had an antidilutive effect due to the Company s net loss position.

(e) The shares outstanding as of September 30, 2007 reflect the issuance in July 2007 of approximately 4.7 million shares of common stock upon the conversion of our outstanding shares of Series B Convertible Preferred Stock and the repurchase of approximately 4.6 million shares of common stock during fiscal 2007.

(f) Return on average stockholders equity is calculated using net income excluding minority interest expense divided by the average stockholders equity plus minority interest. This presentation changed slightly from prior years as minority interest expense has been added back to net income for consistency.

(g) Return on investment is calculated using net income excluding after-tax net interest income and expense and minority interest expense, divided by the average total debt and stockholders equity plus minority interest less the average cash and marketable securities during the periods presented.

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Overview

Cabot s strategy focuses on optimizing our core businesses and product lines (rubber blacks, performance products, fumed metal oxides and the Supermetals Business) and investing the cash and intellectual resources they generate in new businesses and product lines (inkjet colorants, aerogel, the Specialty Fluids Business and Superior MicroPowders).

Drivers of demand and key factors impacting our profitability differ by business and product line. Demand for carbon black is driven primarily by vehicle miles driven and general economic conditions that influence the consumption of products that are produced using carbon black. Regional demand is influenced by shifts in demand from mature to emerging markets. Rubber blacks and performance products results have been driven by changes in raw material costs, by our ability to obtain sales price increases for our products commensurate with increases in raw material costs and by global and regional capacity utilization. Inkjet colorants demand and results have been driven by a relative increase of printer platforms using our pigments at both new and existing OEM customers and by the inkjet printer cartridge aftermarket. Over the past several years advances in inkjet technology, including printheads and high efficiency colorants, have enabled inkjet cartridge manufacturers to achieve similar print quality with less ink, leading to a decreased demand for inkjet pigments.

Demand for fumed metal oxides is largely driven by the construction, automotive and electronics industries, by general consumer product growth and by increasing demand for our products in emerging markets. Fumed metal oxides results have been driven by our traditional silicones and electronics market segments, by growth in emerging markets and by global fumed silica capacity utilization.

In the Supermetals Business, demand for tantalum is largely driven by the number of electronic devices produced using tantalum capacitors versus competing materials. Over the past several years capacitors have been made using high efficiency powders that require a lower volume of tantalum powder to achieve the same capacitance. Since 2004, sales in the Supermetals Business have been transitioning from principally those under fixed-price, fixed-volume contracts to market-based arrangements. This transition was completed in December 2006. In fiscal year 2007, sales under these fixed-price contracts accounted for 14% of sales in the Supermetals Business; this compares to 30% in 2006 and 56% in 2005. Profitability for the Business has largely been determined by the pricing and volume commitments under these supply contracts, by our ability to replace contracted volumes with market-based sales, by the cost of ore under our long-term raw materials supply contract and by our ability to implement cost reduction initiatives.

Cesium formate demand is primarily driven by the level of drilling of high pressure oil and gas wells and by the petroleum industry s acceptance of our product as a drilling and completion fluid for this application. Results in the Specialty Fluids Business have been driven by the size and type of jobs, by the percentage of our total available fluid being utilized in any given period in our principal North Sea market and by our ability to expand the usage of our fluids outside of the North Sea. Aerogel and Superior MicroPowders are both in early formative stages and do not currently generate material revenue.

During 2007, our Carbon Black Business experienced solid volume growth in rubber blacks and performance products, but was unfavorably impacted by significant weakness in the inkjet colorants aftermarket market segment. This volume increase coupled with the positive impact of pricing relative to our raw material costs increased profitability. In the Metal Oxides Business, our fumed metal oxides product line experienced solid volume growth and high plant utilization, including the benefit of operating our fumed silica plant in China, which commenced operations in the second half of 2006. These factors coupled with a reduction in the unfavorable earnings impact from our aerogel product line led the Business to significant increases in profitability. The Supermetals Business was unfavorably impacted by lower prices and volumes during the year and by higher raw material costs under our long term tantalum ore supply contract. During the year, however, this Business continued to reduce its inventory levels, generating $30 million of cash. In the Specialty Fluids Business, increased drilling activity, particularly in the North

Sea, resulted in higher fluid utilization and increased profitability. We also expanded our geographic reach, increasing the number of wells using our fluid outside of the North Sea.

Critical Accounting Policies

The preparation of our financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and related disclosure of contingent assets and liabilities. We consider an accounting estimate to be critical to the financial statements if 1) the estimate is complex in nature or requires a high degree of judgment and 2) different estimates and assumptions were used, the result could have a material impact on the consolidated financial statements. On an ongoing basis, we evaluate our policies and estimates. We base our estimates on historical experience, current conditions and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The estimates that we believe are critical to the preparation of the Consolidated Financial Statements are presented below.

Revenue Recognition and Accounts Receivable

We derive most of our revenues from the sale of rubber blacks, performance products, fumed metal oxides, tantalum and related products and from the rental and sale of cesium formate. Revenue from product sales is typically recognized when the product is shipped and title and risk of loss have passed to the customer. Revenue from the rental of cesium formate is recognized throughout the rental period based on the contracted rental terms. Customers are also billed and revenue is recognized, typically at the end of the job, for cesium formate product that is not returned. Other operating revenues, which represents less than ten percent of total revenues, include tolling, servicing and royalties for licensed technology.

Our revenue recognition policies are in compliance with Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition , which establishes criteria that must be satisfied before revenue is realized or realizable and earned. We recognize revenue when persuasive evidence of a sales arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibility is probable. We generally are able to ensure that products meet customer specifications prior to shipment. If we are unable to determine that the product has met the specified objective criteria prior to shipment, the revenue is deferred until product acceptance has occurred.

Certain customer contracts contain price protection clauses that provide for the potential reduction in past or future sales prices. We analyze these contract provisions to determine if an obligation related to these clauses exists and record revenue net of any estimated price protection commitments.

We offer certain customers cash discounts and volume rebates as sales incentives. The discounts and volume rebates are recorded as a reduction of sales at the time revenue is recognized based on historical experience. Rebates are estimated and recorded based primarily on historical experience and contractual obligations. We review the estimates for discounts and volume rebates, and the assumptions underlying the estimates are modified to reflect changes in facts and circumstances as appropriate. This estimation process introduces some uncertainty as to the amount of revenue we recognize. Refinements to the initial estimates can result in increases or decreases to revenue and thus directly impact our earnings and cash flows. Such changes in our estimates have historically not been material.

The allowance for doubtful accounts is based on our assessment of the collectibility of specific customer accounts, the aging of our accounts receivable and other economic information on both a historical and prospective basis. Additionally, we estimate sales returns based on historical trends in our customers product returns. While bad debt write-offs and product returns have not been significant historically, if there is a deterioration of a major customer s credit-worthiness, actual defaults are higher than our previous experience or actual returns do not reflect historical trends, our estimates of the recoverability of the amounts due to us and our sales would be adversely affected, which may reduce our earnings.

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Inventory Valuation

The cost of most raw materials, work in process and finished goods inventories in the U.S. is determined by the last-in, first-out (LIFO) inventory method. Had we used the first-in, first-out (FIFO) inventory method instead of the LIFO method for such inventories, the value of those inventories would have been $95 million and $76 million higher as of September 30, 2007 and 2006, respectively. The cost of other U.S. and all non-U.S. inventories is determined using the average cost method or the FIFO method. In periods of rapidly rising or declining prices, the inventory method we employ can have a significant impact on our profitability. (For example, the significant increase in oil prices recently caused our reported cost of sales in our Carbon Black Business to be higher than they would have been had we used a different inventory valuation method.) Under our current LIFO method, when raw material costs are rising, our most recent higher priced purchases are the first to be charged to cost of sales. If, however, we were using a FIFO method, our purchases from 60 days ago, which were at lower prices, would instead be the first charged to cost of sales. The opposite result occurs should there be a rapid decline in prices.

We review inventory for potential obsolescence recoverability periodically. In this review, we make assumptions about the future demand for and market value of the inventory and based on these assumptions estimate the amount of any obsolete, unmarketable or slow moving inventory. We write down our inventories for estimated obsolescence or unsaleable inventory by an amount equal to the difference between the cost of inventory and the estimated market value. In cases where the market value of inventories is below cost, the inventory is adjusted to its market value. Historically, such write-downs have not been significant. If actual market conditions are less favorable than those projected by management at the time of the assessment, additional inventory write-downs may be required, which could reduce our gross profit and our earnings.

Stock-based Compensation

Since October 1, 2005, we have followed the methodology set forth in FAS No. 123 Share-Based Payments (FAS 123(R)), using the modified prospective approach to account for all of our stock-based awards. Historically, we have issued significantly more shares of restricted stock than stock options under our equity compensation plans. Restricted stock awards, whether accounted for under FAS 123(R) or the previous standard, Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, generally result in a charge to the consolidated statement of operations. Accordingly, the impact of FAS 123(R) on our comparative results over a period of years is not significant. The fair value of restricted stock is based on intrinsic value at the grant date and is recognized as expense over the service period, which generally represents the vesting period.

We use the Black-Scholes option-pricing model to calculate the fair value of stock options issued under our equity compensation plans. In determining the fair value of stock options, we make a variety of assumptions and estimates, including discount rates, forfeiture rates, volatility measures, expected yields and expected option lives. Changes to such assumptions and estimates can result in different fair values and could therefore impact our earnings. Such changes would not impact our cash flows.

Goodwill and Other Intangible Assets

We perform an impairment test for goodwill at least annually and when events or changes in business circumstances indicate that the carrying value may not be recoverable. To test whether an impairment exists, the fair value of the applicable reporting unit is estimated based on discounted future cash flows. The calculation of fair value is sensitive to both the estimated future cash flows and the discount rate applied to those cash flows. The assumptions used to estimate the discounted cash flows are based on management s best estimates about selling prices, production and sales volume, costs, future growth rates, capital expenditures and market conditions over an estimate of the remaining operating period at the reporting unit. The discount rate is based on the weighted average cost of capital that is determined by evaluating the

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risk-free rate of return, cost of debt and expected equity premiums. If an impairment exists, a loss to write down the value of goodwill to its implied fair value is recorded. While this would have no direct impact on our cash flows, it would reduce our earnings.

Valuation of Long-Lived Assets

Our long-lived assets primarily include property, plant, equipment, long-term investments and assets held for rent. We review the carrying values of long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be recoverable. Such circumstances would include, but are not limited to, a significant decrease in the market price of the long-lived asset, a significant adverse change in the way the asset is being used, a decline in the physical condition of the asset or a history of operating or cash flow losses associated with the use of the asset.

We make various estimates and assumptions when analyzing whether there is an impairment of our long-lived assets, excluding goodwill and long-term investments. These estimates and assumptions include determining which cash flows are directly related to the potentially impaired asset, the useful life of the asset over which the cash flows will occur, their amounts and the asset s residual value, if any. An asset impairment exists when the carrying value of the asset is not recoverable based on the undiscounted estimated cash flows expected from the asset. The impairment loss is determined by the excess of the asset s carrying value over its fair value. Our estimated future cash flows reflect management s assumptions about selling prices, production and sales volume, costs, and market conditions over an estimate of the remaining useful life of the asset. While an impairment charge would have no direct impact on our cash flows, it would reduce our earnings.

The fair values of long-term investments are dependent on the financial performance of the entities in which we invest and the external factors inherent in the markets in which these entities operate. We consider these factors as well as the forecasted financial performance of the investment entities when assessing the potential impairment of these investments.

Financial Instruments

Our financial instruments consist primarily of cash and cash equivalents, short-term and long-term debt, and derivative instruments. The carrying values of our financial instruments approximate fair value, with the exception of certain long-term debt that has not been designated with a fair value hedge. This portion of long-term debt is recorded at face value. The fair values of our derivative instruments are based on quoted market prices. We use derivative financial instruments primarily for purposes of hedging exposures to fluctuations in interest rates and foreign currency exchange rates, which exist as part of our on-going business operations. We do not enter into contracts for speculative purposes nor do we hold or issue any financial instruments for trading purposes.

All derivatives are recognized on the consolidated balance sheets at fair value. The changes in the fair value of derivatives are recorded in either earnings or other comprehensive income, depending on whether or not the instrument is designated as part of a hedge transaction and, if designated as part of a hedge transaction, the type of hedge transaction. The gains or losses on derivative instruments reported in other comprehensive income are reclassified to earnings in the period in which earnings are affected by the underlying hedged item. The ineffective portion of all hedges is recognized in earnings.

In accordance with our risk management strategy, we may enter into certain derivative instruments that may not be designated as hedges for hedge accounting purposes. Although these derivatives do not qualify for hedge accounting, we believe that such instruments are closely correlated with the underlying exposure, thus managing the associated risk. We record in earnings the gains or losses from changes in the fair value of derivative instruments that are not accounted for as hedges.

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Pensions and Other Postretirement Benefits

We maintain both defined benefit and defined contribution plans for our employees. In addition, we provide certain postretirement health care and life insurance benefits for our retired employees. Plan obligations and annual expense calculations are based on a number of key assumptions. The assumptions, which are specific for each of our U.S. and foreign plans, are related to both the assets we hold to fund our plans (where applicable) and the characteristics of the benefits that will ultimately be provided to our employees. The most significant assumptions relative to our plan assets include the anticipated rates of return on these assets. Assumptions relative to our pension obligations are more varied; they include estimated discount rates, rates of compensation increases for employees, mortality, employee turnover and other related demographic data. Projected health care and life insurance obligations also rely on the above mentioned demographic assumptions and assumptions surrounding health care cost trends.

We compute our recorded obligations globally in accordance with generally accepted accounting principles in the United States. Under such principles, if actual results differ from what is projected, the differences are generally accumulated and amortized over future periods and could therefore affect the recognized expense and recorded obligation in such future periods. However, cash flow requirements may be different from the amounts of expense that are recorded in the consolidated financial statements.

Self-Insurance Reserves

We are partially self-insured for certain third party liability, workers compensation and employee health benefits in the United States and Canada. The third party and workers compensation liabilities are managed through a wholly-owned insurance captive and the related liabilities are included in the consolidated financial statements. We have accrued amounts equal to the actuarially determined liabilities. The actuarial valuations are based on historical information along with certain assumptions about future events. Changes in assumptions for such matters as legal actions, medical costs and changes in actual experience could cause these estimates to change and impact our earnings and cash flows.

Asset Retirement Obligations

We account for asset retirement obligations in accordance with FAS No. 143, Accounting for Asset Retirement Obligations (FAS 143), and Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (FIN 47). Pursuant to FAS 143, companies are required to estimate incremental costs for special handling, removal and disposal costs of materials that may or will give rise to conditional asset retirement obligations (AROs) and then discount the expected costs back to the current year using a credit adjusted risk-free rate. FIN 47 clarified that ARO liabilities and costs must be recognized when the timing and/or settlement can be reasonably estimated. If it is unclear when, or if, an ARO will be triggered, companies are required to use probability weightings for possible timing scenarios to determine the amounts that should be recognized in their financial statements.

The estimation of AROs is subject to a number of inherent uncertainties including: (a) the timing of when any ARO may be incurred, (b) the ability to accurately identify and reasonably estimate the costs of all materials that may require special handling or treatment, (c) the ability to assess the relative probability of different scenarios that could give rise to an ARO, and (d) other factors outside a company s control, including changes in regulations, costs and interest rates.

AROs have not been recognized for certain of our facilities because either the present value of the obligation cannot be reasonably estimated due to an indeterminable facility life or we do not have a legal obligation associated with the retirement of those facilities. In most circumstances where AROs have been recorded, the anticipated cash outflows will likely take place far into the future. Accordingly, actual costs and the timing of such costs may vary significantly from our estimates, which may, in turn, impact our earnings. In general, however, when such estimates change, the impact is spread over future years and thus the impact on any individual year is unlikely to be material.

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Litigation and Contingencies

We are involved in litigation in the ordinary course of business, including personal injury and environmental litigation. After consultation with counsel, as appropriate, we accrue a liability for litigation when it is probable that a liability has been incurred and the amount can be reasonably estimated. The estimated reserves are recorded based on our best estimate of the liability associated with such matters or the low end of the estimated range of liability if we are unable to identify a better estimate within that range. Our best estimate is determined through the evaluation of various information, including claims, settlement offers, demands by government agencies, estimates performed by independent third parties, identification of other responsible parties and an assessment of their ability to contribute, and our prior experience. Litigation is highly uncertain and there is always the possibility of an unusual result in any particular case that may reduce our earnings and cash flows.

The most significant reserves that we have established are for environmental remediation and respirator litigation claims. The amount accrued reflects our assumptions about remediation requirements at the contaminated sites, the nature of the remedies, the outcome of discussions with regulatory agencies and other potentially responsible parties at multi-party sites, and the number and financial viability of other potentially responsible parties. A portion of the reserve for environmental matters is recognized on a discounted basis, which requires the use of an estimated discount rate and estimates of future cash flows associated with the liability. These liabilities can be affected by the availability of new information, changes in the assumptions on which the accruals are based, unanticipated government enforcement action or changes in applicable government laws and regulations, which could result in higher or lower costs.

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 other parties who contribute to the settlement of respirator claims, (viii) a change in the availability of American Optical s insurance coverage, and (ix) a determination that our interpretation of the contractual obligations on which we have estimated our share of liability is inaccurate. While we believe the current best estimate is recorded, we cannot determine the impact of these potential developments on our current estimate of our share of liability for these existing and future claims.

Additionally, if the timing of actual payments made for environmental remediation or respirator claims differs significantly from our estimated payment schedules, and we could no longer reasonably predict the timing of such payments, we could then be required to record the reserve amounts on an undiscounted basis on our consolidated balance sheets, causing an immediate impact to our earnings.

Income Taxes

Our business operations are global in nature and we are subject to taxes in numerous jurisdictions. Tax laws and tax rates vary substantially in these jurisdictions and are subject to change given the political and economic climate in those countries. We file our tax returns in accordance with our interpretations of each jurisdiction s tax laws.

Significant judgment is required in determining our worldwide provision for income taxes and recording the related tax assets and liabilities. In the ordinary course of our business, there are operational decisions, transactions, facts and circumstances, and calculations in which the ultimate tax determination is not certain. Furthermore, our tax positions are periodically subject to challenge by taxing authorities throughout the world. Where appropriate, we reserve for tax matters when we believe that the likelihood of an incremental liability being incurred is probable in accordance with the provisions of FAS No. 5, Accounting for Contingencies (FAS 5) and FAS No. 109, Accounting for Income Taxes (FAS 109). Any significant impact as a result of changes in underlying facts, law, tax rates, tax audit, or review could lead to adjustments to our income tax expense, our effective tax rate, or our cash flow. For example, a 1% change in our effective tax rate would change income tax expense for the fiscal year ended September 30, 2007 by approximately $2 million.

Additionally, in accordance with FAS 109 we have established valuation allowances against a variety of deferred tax assets, including net operating loss carry-forwards, foreign tax credits, and other income tax credits. Valuation allowances take into consideration our ability to use these deferred tax assets and reduce the value of such items to the amount that is deemed more likely than not to be recoverable. Our ability to utilize these deferred tax assets is dependent on achieving our forecast of future taxable operating income over an extended period of time. We review our forecast in relation to actual results and expected trends on a quarterly basis. Failure to achieve our operating income targets may change our assessment regarding the recoverability of our net deferred tax assets and such change could result in a valuation allowance being recorded against some or all of our net deferred tax assets. An increase in a valuation allowance would result in additional income tax expense, lower stockholders equity and could have a significant impact on our earnings in future periods. The release of valuation allowances in periods when these tax attributes become realizable would reduce our effective tax rate.

Restructuring Activities

Our consolidated financial statements detail specific charges relating to restructuring activities as well as the actual spending that has occurred against the resulting accruals. Our restructuring charges are estimates based on our preliminary assessments of (1) severance benefits to be granted to employees that are based on known benefit formulas and identified job grades, (2) costs to abandon certain facilities and (3) asset impairments as discussed above under Valuation of Long-Lived Assets. Because these accruals are estimates, they are subject to change as a result of deviations from initial restructuring plans or if new information comes to our attention, which would then be reflected in our consolidated financial statements.

Significant Accounting Policies

We have other significant accounting policies that are discussed in Note A of the Notes to our Consolidated Financial Statements in Item 8 below. Certain of these policies include the use of estimates, but do not meet the definition of critical because they generally do not require estimates or judgments that are as difficult or subjective to measure. However, these policies are important to an understanding of the consolidated financial statements.

Newly Issued Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued FAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 (FAS 159). FAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. FAS 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. FAS 159 is effective for fiscal years beginning after November 15, 2007, which will be fiscal 2009 for us. We are evaluating the impact of FAS 159 on our consolidated financial statements.

In September 2006, the FASB issued FAS No. 157, Fair Value Measurements (FAS 157). FAS 157 provides guidance for using fair value to measure assets and liabilities and requires additional disclosure about the use of fair value measures, the information used to measure fair value, and the effect fair-value measurements have on earnings. The primary areas in which we utilize fair value measures are valuing pension plan assets and liabilities, valuing hedge-related derivative financial instruments, allocating purchase price to the assets and liabilities of acquired companies, and evaluating long-term assets for potential impairment. FAS 157 does not require any new fair value measurements. FAS 157 is effective for us beginning October 1, 2008. We are evaluating the impact of FAS 157 on our consolidated financial statements.

In September 2006, the FASB issued FAS No. 158, Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)

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(FAS 158). FAS 158 requires an employer to recognize the funded status of its benefit plans, measured as the difference between plan assets at fair value and the projected benefit obligation, in its consolidated balance sheets. FAS 158 also requires an employer to measure defined benefit plan assets and obligations as of the date of the employer s fiscal year end. As of September 30, 2007, we adopted the balance sheet impact of reflecting the funded status of our plan using the current June 30 measurement date. As required by FAS 158, on or before September 30, 2009, we will change our measurement date to our September 30 year end rather than the current June 30 measurement date. We are continuing to evaluate the impact of the adoption of the change in measurement date related to the second part of FAS 158 on our consolidated financial statements.

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109 (FIN 48), which prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its consolidated financial statements uncertain tax positions that the company has taken or expects to take on a tax return, including a decision whether or not to file a return in a particular jurisdiction. Under this new guidance, the consolidated financial statements will reflect expected future tax consequences of such positions presuming the taxing authorities full knowledge of the position and all relevant facts, but without considering the time value of money. This guidance also revises disclosure requirements and introduces a prescriptive annual, tabular roll-forward of unrecognized tax benefits. FIN 48 is effective for annual periods beginning after December 15, 2006, which will be fiscal 2008 for us. We are continuing to evaluate the impact of FIN 48 on our consolidated financial statements, however a preliminary evaluation indicates that we will record an additional liability in the range of $10 million to $20 million through the consolidated statements of stockholders equity in the first quarter of fiscal 2008.

Results of Operations

Cabot is organized into four reportable segments: the Carbon Black Business, the Metal Oxides Business, the Supermetals Business, and the Specialty Fluids Business. The Carbon Black Business is comprised of the rubber blacks, performance products and inkjet colorants product lines as well as the business development activities of Cabot Superior MicroPowders (CSMP). The Metal Oxides Business is comprised of the fumed metal oxides and aerogel product lines.

Our analysis of financial condition and operating results should be read with our Consolidated Financial Statements and accompanying notes. Unless a calendar year is specified, all references to years in this discussion are to our fiscal years ended September 30.

Fiscal Year 2007 compared to Fiscal Years 2006 and 2005 Consolidated

Net Sales and Gross Profit

	Years Ended September 30		
	2007	2006	2005
	(Dollars in millions)		
Net Sales	$ 2,616	$ 2,543	$ 2,125
Gross Profit	$ 505	$ 419	$ 433

The $73 million increase in sales in 2007 compared to 2006 was primarily due to higher volumes ($52 million) and the positive effect of foreign currency translation on our selling prices ($79 million), principally resulting from the weakening of the U.S. dollar against the Euro. These factors were partially offset by lower pricing ($44 million), principally resulting from the feedstock related pricing mechanism in our rubber blacks contracts and the transition from contracted to market-based sales in the Supermetals Business. Additionally, we had $25 million of revenue related to our transportation of a third party s cargo in 2006 that did not reoccur in 2007. In 2006, the $418 million increase in sales compared to 2005 was primarily due to higher volumes ($38 million); higher pricing, principally to keep pace with rising carbon black feedstock costs ($246 million); and the favorable impact of consolidating the results of Cabot Japan ($118 million).

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Our gross profit margin was 19% in 2007, 16% in 2006 and 20% in 2005. Gross profit increased in 2007 as the impact of higher volumes and lower relative raw material costs more than offset lower pricing. Gross profit decreased in 2006 compared to 2005 primarily due to higher raw material costs and a $27 million payment made to the Sons of Gwalia. These factors were partially offset by higher prices from feedstock related price increases in rubber blacks and performance products.

Selling and Administrative Expense

	Years Ended September 30		
	2007	**2006**	**2005**
	(Dollars in millions)		
Selling and Administrative Expense	$ 249	$ 235	$ 240

The $14 million increase in selling and administrative expense in 2007 compared to 2006 was primarily due to payments associated with settlements of certain carbon black antitrust litigation ($11 million), which were recorded in the consolidated statement of operations as selling and administrative expense, and the unfavorable impact of foreign currency translation. The $5 million decrease in expense in 2006 compared to 2005 was primarily due to lower administrative costs, principally in our Supermetals Business, and a reduction of costs associated with the implementation of the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. These savings were partially offset by increased spending on initiatives aimed at standardizing our transactional processes and administering certain functional activities through a shared services model.

Research and Technical Expense

	Years Ended September 30		
	2007	**2006**	**2005**
	(Dollars in millions)		
Research and Technical Expense	$ 69	$ 58	$ 59

The $11 million increase in research and technical expense in 2007 compared to 2006 is due primarily to increased spending associated with new business development opportunities ($7 million combined), including: (i) investments in the development of pigments to serve the high speed inkjet market, (ii) the development activities of CSMP, and (iii) increased spending in our rubber blacks and performance products product lines. In addition, research and technical expense in 2007 includes the acquisition of $4 million of in-process research and development technology in the Supermetals Business. The $1 million decrease in 2006 compared to 2005 was primarily due to reduced research and technical spending in the Supermetals Business partially offset by increased spending for CSMP.

Interest and Dividend Income

	Years Ended September 30		
	2007	**2006**	**2005**
	(Dollars in millions)		
Interest and Dividend Income	$ 10	$ 5	$ 6

Interest and dividend income increased by $5 million in 2007 when compared to 2006 due primarily to higher cash balances available for interest earning investments. Interest and dividend income decreased by $1 million in 2006 compared to 2005 due to lower cash available for interest earning investments, primarily in the first half of 2006, and the liquidation of marketable securities in the first quarter of 2006.

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Interest Expense

	Years Ended September 30		
	2007	2006	2005
	(Dollars in millions)		
Interest Expense	$ 34	$ 27	$ 29

Interest expense increased by $7 million in 2007 compared to 2006 primarily driven by a reduction in capitalized interest on capital projects in 2007 (approximately $2 million), the effect of the appreciation of the Euro (approximately $2 million) and an increase in our debt level during the year (approximately $2 million), principally to fund working capital requirements in China. The $2 million decrease in interest expense in 2006 compared to 2005 was due to the repayment of debt in the U.S. that matured in December 2005, and to the capitalization of interest related to the construction of our new facilities in China and the expansion of our existing carbon black facility in Brazil.

Other Income (Charges)

	Years Ended September 30		
	2007	2006	2005
	(Dollars in millions)		
Other Income (Charges)	$ 5	$ (7)	$ 7

The $12 million increase in other income was primarily due to foreign currency translation gains of approximately $8 million. The $14 million decrease in other income in 2006 was primarily due to foreign currency transaction losses, including a charge of $8 million for the recognition of cumulative foreign currency translation adjustments related to the substantial liquidation of the legal entity through which we had conducted carbon black operations in Altona, Australia.

Benefit (Provision) for Income Taxes

	Years Ended September 30		
	2007	2006	2005
	(Dollars in millions)		
Benefit (Provision) for Income Taxes	$ (38)	$ (9)	$ 45
Tax Rate on Income (Loss) from Continuing Operations	23%	9%	(48)%

The provision for income taxes was $38 million for fiscal 2007, resulting in an overall 23% tax rate on income from continuing operations. Excluding $3 million in tax benefits resulting from the settlement of various tax audits, our tax rate would have been approximately 25% for fiscal 2007. Our tax rate varies from the U.S. statutory rate of 35% for a variety of reaso