CABOT CORP
Form 10-Q
February 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2017

or

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

Commission file number 1-5667

Cabot Corporation

(Exact name of registrant as specified in its charter)

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

Two Seaport Lane

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

The Company had 61,807,147 shares of common stock, $1.00 par value per share, outstanding as of February 6, 2018.

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Part I. Financial Information

Item 1. Financial Statements

CABOT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

UNAUDITED

| | Three Months Ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| | (In millions, except per share amounts) | |
| Net sales and other operating revenues | $ 720 | $ 611 |
| Cost of sales | 542 | 452 |
| Gross profit | 178 | 159 |
| Selling and administrative expenses | 69 | 63 |
| Research and technical expenses | 15 | 12 |
| Income (loss) from operations | 94 | 84 |
| Interest and dividend income | 3 | 2 |
| Interest expense | (13) | (13) |
| Other income (expense) | 8 | 2 |
| Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies | 92 | 75 |
| (Provision) benefit for income taxes | (205) | (18) |
| Equity in earnings of affiliated companies, net of tax | 1 | 2 |
| Net income (loss) | (112) | 59 |
| Net income (loss) attributable to noncontrolling interests, net of tax | 10 | 4 |
| Net income (loss) attributable to Cabot Corporation | $ (122) | $ 55 |
| | | |
| Weighted-average common shares outstanding: | | |
| Basic | 61.9 | 62.2 |
| Diluted | 61.9 | 62.8 |
| | | |
| Earnings per common share: | | |
| Basic | $ (1.98) | $ 0.87 |
| Diluted | $ (1.98) | $ 0.86 |
| | | |
| Dividends per common share | $ 0.315 | $ 0.30 |

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

CABOT CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

UNAUDITED

| | Three Months Ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| | (In millions) | |
| Net income (loss) | $(112) | $59 |
| Other comprehensive income (loss), net of tax | | |
| Foreign currency translation adjustment, net of tax provision (benefit) of $(2) and $2 | — | (125) |
| Derivatives: net investment hedges | | |
| (Gains) losses reclassified to interest expense, net of tax provision of $— and $— | (1) | — |
| Pension and other postretirement benefit liability adjustments | | |
| Amortization of net loss and prior service credit included in net periodic benefit cost, net of tax | — | 1 |
| Other comprehensive income (loss) | (1) | (124) |
| Comprehensive income (loss) | (113) | (65) |
| Net income (loss) attributable to noncontrolling interests, net of tax | 10 | 4 |
| Foreign currency translation adjustment attributable to noncontrolling interests, net of tax | 3 | (4) |
| Comprehensive income (loss) attributable to noncontrolling interests, net of tax | 13 | — |
| Comprehensive income (loss) attributable to Cabot Corporation | $(126) | $(65) |

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

CABOT CORPORATION

CONSOLIDATED BALANCE SHEETS

ASSETS

UNAUDITED

| | December 31, 2017 | September 30, 2017 |
|---|---|---|
| | (In millions) | |
| Current assets: | | |
| Cash and cash equivalents | $189 | $ 280 |
| Accounts and notes receivable, net of reserve for doubtful accounts of $10 and $9 | 551 | 527 |
| Inventories: | | |
| Raw materials | 112 | 93 |
| Work in process | 2 | 2 |
| Finished goods | 318 | 293 |
| Other | 46 | 45 |
| Total inventories | 478 | 433 |
| Prepaid expenses and other current assets | 63 | 59 |
| Total current assets | 1,281 | 1,299 |
| Property, plant and equipment, net | 1,329 | 1,305 |
| Goodwill | 184 | 154 |
| Equity affiliates | 54 | 56 |
| Intangible assets, net | 164 | 137 |
| Assets held for rent | 104 | 104 |
| Deferred income taxes | 27 | 237 |
| Other assets | 46 | 46 |
| Total assets | $3,189 | $ 3,338 |

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

CABOT CORPORATION

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

UNAUDITED

| | December 31, 2017 | September 30, 2017 |
|---|---|---|
| | (In millions, except share and per share amounts) | |
| Current liabilities: | | |
| Notes payable | $ 7 | $ 7 |
| Accounts payable and accrued liabilities | 475 | 457 |
| Income taxes payable | 20 | 22 |
| Current portion of long-term debt | 286 | 256 |
| Total current liabilities | 788 | 742 |
| Long-term debt | 631 | 661 |
| Deferred income taxes | 20 | 38 |
| Other liabilities | 252 | 245 |
| Redeemable preferred stock | 26 | 27 |
| Commitments and contingencies (Note H) | | |
| Stockholders' equity: | | |
| Preferred stock: | | |
| Authorized: 2,000,000 shares of $1 par value | — | — |
| Issued and Outstanding: None and none | | |
| Common stock: | | |
| Authorized: 200,000,000 shares of $1 par value | | |
| Issued: 61,999,921 and 62,087,627 shares | | |
| Outstanding: 61,796,641 and 61,884,347 shares | 62 | 62 |
| Less cost of 203,280 and 203,280 shares of common treasury stock | (6) | (6) |
| Additional paid-in capital | — | — |
| Retained earnings | 1,555 | 1,707 |
| Accumulated other comprehensive income (loss) | (263) | (259) |
| Total Cabot Corporation stockholders' equity | 1,348 | 1,504 |
| Noncontrolling interests | 124 | 121 |
| Total stockholders' equity | 1,472 | 1,625 |
| Total liabilities and stockholders' equity | $ 3,189 | $ 3,338 |

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

CABOT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

| | Three Months Ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| | (In millions) | |
| Cash Flows from Operating Activities: | | |
| Net income (loss) | $(112) | $59 |
| Adjustments to reconcile net income (loss) to cash provided by operating activities: | | |
| Depreciation and amortization | 39 | 38 |
| Deferred tax provision (benefit) | 186 | (1) |
| Gain on sale of investments | (10) | — |
| Equity in net income of affiliated companies | (1) | (2) |
| Non-cash compensation | 6 | 5 |
| Changes in assets and liabilities: | | |
| Accounts and notes receivable | (19) | 28 |
| Inventories | (41) | (36) |
| Prepaid expenses and other current assets | (4) | 2 |
| Accounts payable and accrued liabilities | 10 | 22 |
| Income taxes payable | (3) | (4) |
| Other liabilities | (10) | (7) |
| Cash dividends received from equity affiliates | 4 | 3 |
| Cash provided by operating activities | 45 | 107 |
| | | |
| Cash Flows from Investing Activities: | | |
| Additions to property, plant and equipment | (52) | (22) |
| Cash paid for acquisition of business, net of cash acquired of $1 | (64) | — |
| Proceeds from sale of investments | 10 | — |
| Change in assets held for rent | — | (1) |
| Other | 5 | — |
| Cash used in investing activities | (101) | (23) |
| | | |
| Cash Flows from Financing Activities: | | |
| Repayments under financing arrangements | — | (4) |
| Increase in notes payable, net | — | 4 |
| Purchases of common stock | (16) | (16) |
| Proceeds from sales of common stock | — | 3 |
| Cash dividends paid to common stockholders | (20) | (19) |
| Cash used in financing activities | (36) | (32) |
| Effects of exchange rate changes on cash | 1 | (63) |
| Increase (decrease) in cash and cash equivalents | (91) | (11) |
| Cash and cash equivalents at beginning of period | 280 | 200 |

| | | |
|---|---|---|
| Cash and cash equivalents at end of period | $ 189 | $ 189 |

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

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CABOT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

UNAUDITED

## A. Basis of Presentation

The consolidated financial statements have been prepared in conformity with accounting policies generally accepted in the United States ("U.S.") and include the accounts of Cabot Corporation ("Cabot" or the "Company") and its wholly owned subsidiaries and majority-owned and controlled U.S. and non-U.S. subsidiaries. Additionally, Cabot considers consolidation of entities over which control is achieved through means other than voting rights. Intercompany transactions have been eliminated in consolidation.

The unaudited consolidated financial statements have been prepared in accordance with the requirements of Form 10-Q and consequently do not include all disclosures required by Form 10-K. Additional information may be obtained by referring to Cabot's Annual Report on Form 10-K for its fiscal year ended September 30, 2017 ("2017 10-K").

The financial information submitted herewith is unaudited and reflects all adjustments which are, in the opinion of management, necessary to provide a fair statement of the results for the interim periods ended December 31, 2017 and 2016. All such adjustments are of a normal recurring nature. The results for interim periods are not necessarily indicative of the results to be expected for the fiscal year.

Effective October 1, 2017, the Company changed its method of accounting for its U.S. carbon black inventories from the last-in, first-out ("LIFO") method to the first-in, first-out ("FIFO") method. The Company applied this change retrospectively to all prior periods presented, which is discussed in further detail in Note B.

As discussed in Note C, in November 2017, the Company acquired all of the issued and outstanding shares of 8755329 Canada Inc. ("Tech Blend"), a North American producer of black masterbatches. The financial position, results of operations and cash flows of Tech Blend are included in the Company's consolidated financial statements from the date of acquisition.

## B. Significant Accounting Policies

### Revenue Recognition and Accounts Receivable

Cabot recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured. Cabot generally is able to ensure that products meet customer specifications prior to shipment. If the Company is unable to determine that the product has met the specified objective criteria prior to shipment or if title has not transferred because of sales terms,

the revenue is considered "unearned" and is deferred until the revenue recognition criteria are met.

Shipping and handling charges related to sales transactions are recorded as sales revenue when billed to customers or included in the sales price. Taxes collected on sales to customers are excluded from revenues.

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

| | Three Months Ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Reinforcement Materials | 56 % | 51 % |
| Performance Chemicals | 33 % | 35 % |
| Purification Solutions | 10 % | 12 % |
| Specialty Fluids | 1 % | 2 % |

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

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

Revenue in Specialty Fluids arises primarily from the rental of cesium formate. This revenue is recognized throughout the rental period based on the contracted rental terms. Customers are also billed and revenue is recognized, typically at the end of the job, for cesium formate product that is not returned. The Company also generates revenues from cesium formate sold outside of the rental process and from the sale of fine cesium chemicals. This revenue is recognized upon delivery of the product.

Cabot maintains allowances for doubtful accounts based on an assessment of the collectability of specific customer accounts, the aging of accounts receivable and other economic information on both a historical and prospective basis. Customer account balances are charged against the allowance when it is probable the receivable will not be recovered. There were no material changes in the allowance for any of the periods presented. There is no material off-balance sheet credit exposure related to customer receivable balances.

Intangible Assets and Goodwill Impairment

The Company records tangible and intangible assets acquired and liabilities assumed in business combinations under the acquisition method of accounting. Amounts paid for an acquisition are allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition. The Company uses assumptions and estimates in determining the fair value of assets acquired and liabilities assumed in a business combination. The determination of the fair value of intangible assets requires the use of significant judgment with regard to assumptions used in the valuation model. The Company estimates the fair value of identifiable acquisition-related intangible assets principally based on projections of cash flows that will arise from these assets. The projected cash flows are discounted to determine the fair value of the assets at the dates of acquisition. The Company acquired Tech Blend in November 2017, which included separately identifiable intangible assets of $31 million as part of the preliminary purchase price allocation as discussed in Note C.

Definite-lived intangible assets, which are comprised of trademarks, customer relationships and developed technologies, are amortized over their estimated useful lives and are reviewed for impairment when indication of potential impairment exists, such as a significant reduction in cash flows associated with the assets.

Goodwill is comprised of the purchase price of business acquisitions in excess of the fair value assigned to the net tangible and identifiable intangible assets acquired. Goodwill is not amortized, but is reviewed for impairment annually as of May 31, or when events or changes in the business environment indicate that the carrying value of the reporting unit may exceed its fair value. A reporting unit, for the purpose of the impairment test, is at or below the operating segment level, and constitutes a business for which discrete financial information is available and regularly reviewed by segment management. As part of the Tech Blend acquisition, goodwill of $31 million was generated and is reflected in the Specialty Compounds reporting unit. The other reporting units with goodwill balances are Reinforcement Materials, Purification Solutions and Fumed Metal Oxides. The separate businesses included within Performance Chemicals are considered separate reporting units. As such, the goodwill balances relative to Performance Chemicals are recorded in the Fumed Metal Oxides and Specialty Compounds reporting units.

For the purpose of the goodwill impairment test, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an initial qualitative assessment identifies that it is more likely than not that the carrying value of a reporting unit exceeds its estimated fair value, an additional quantitative evaluation is performed. Alternatively, the Company may elect to proceed directly to the quantitative goodwill impairment test. If based on the quantitative evaluation the fair value of the reporting unit is less than its carrying amount, a goodwill impairment loss would result. The goodwill impairment loss would be the amount by which the carrying value of the reporting unit, including goodwill, exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit. The fair value of a reporting unit is based on discounted estimated future cash flows. The fair value is also benchmarked against a market approach using the guideline public

companies method. The assumptions used to estimate fair value include management's best estimates of future growth rates, operating cash flows, capital expenditures and discount rates over an estimate of the remaining operating period at the reporting unit level.

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

Long-lived Assets Impairment

The Company’s long-lived assets primarily include property, plant and equipment, intangible assets, long-term investments and assets held for rent. The carrying values of long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be recoverable.

To test for impairment of assets, the Company generally uses a probability-weighted estimate of the future undiscounted net cash flows of the assets over their remaining lives to determine if the value of the asset is recoverable. Long-lived assets are grouped with other assets and liabilities at the lowest level for which independent identifiable cash flows are determinable.

An asset impairment is recognized when the carrying value of the asset is not recoverable based on the analysis described above, in which case the asset is written down to its fair value. If the asset does not have a readily determinable market value, a discounted cash flow model may be used to determine the fair value of the asset. In circumstances when an asset does not have separately identifiable cash flows, an impairment charge is recorded when the Company no longer intends to use the asset.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation of property, plant and equipment is calculated using the straight-line method over the estimated useful lives. The depreciable lives for buildings, machinery and equipment, and other fixed assets are between twenty and twenty-five years, ten and twenty-five years, and three and twenty-five years, respectively. The cost and accumulated depreciation for property, plant and equipment sold, retired, or otherwise disposed of are removed from the Consolidated Balance Sheets and resulting gains or losses are included in earnings in the Consolidated Statements of Operations. Expenditures for repairs and maintenance are charged to expenses as incurred. Expenditures for major renewals and betterments, which significantly extend the useful lives of existing plant and equipment, are capitalized and depreciated.

Income Tax in Interim Periods

The Company records its tax provision or benefit on an interim basis using an estimated annual effective tax rate. This rate is applied to the current period ordinary income or loss to determine the income tax provision or benefit allocated

to the interim period. Losses from jurisdictions for which no benefit can be recognized and the income tax effects of unusual or infrequent items are excluded from the estimated annual effective tax rate and are recognized in the impacted interim period.

Valuation allowances are provided against the future tax benefits that arise from the deferred tax assets in jurisdictions for which no benefit can be recognized. The estimated annual effective tax rate may be significantly impacted by nondeductible expenses and the Company's projected earnings mix by tax jurisdiction. Adjustments to the estimated annual effective income tax rate are recognized in the period when such estimates are revised.

Inventory Valuation

Inventories are stated at the lower of cost or market. Effective October 1, 2017, the Company changed its method of accounting for its U.S. carbon black inventories from the LIFO method to the FIFO method. Total U.S. inventories accounted for utilizing the LIFO cost flow assumption represented 7% of the Company's total worldwide inventories as of September 30, 2017 prior to this change in method. The Company believes the FIFO method is preferable because it: (i) conforms the accounting for U.S. carbon black inventories to the Company's inventory valuation methodology for the majority of its other inventories; (ii) better represents how management assesses and reports on the performance of the Reinforcement Materials and Performance Chemicals operating segments that carry the Company's U.S. carbon black inventories, as the impact of accounting for this inventory on a LIFO basis has historically been excluded from segment results; (iii) better aligns the accounting for U.S. carbon black inventories with the physical flow of that inventory; and (iv) improves comparability with many of the Company's peers.

The Company applied this change retrospectively to all prior periods presented. This change resulted in a $17 million increase in retained earnings as of October 1, 2016, from $1,544 million to $1,561 million. In addition, the following financial statement line items in the Company's Consolidated Balance Sheets as of September 30, 2017 and its Consolidated Statements of Operations and Consolidated Statements of Cash Flows for the three months ended December 31, 2016 were adjusted as follows:

| Consolidated Statements of Operations | Three Months Ended December 31 2016 | | |
|---|---|---|---|
| | As Originally Reported | Effect of Change | As Adjusted |
| | (In millions, except per share amounts) | | |
| Cost of sales | $454 | $ (2 ) | $ 452 |
| Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies | $73 | $ 2 | $ 75 |
| (Provision) benefit for income taxes | $(17 ) | $ (1 ) | $ (18 ) |
| Net income (loss) | $58 | $ 1 | $ 59 |
| Net income (loss) attributable to Cabot Corporation | $54 | $ 1 | $ 55 |
| Earnings per common share: | | | |
| Basic | $0.85 | $ 0.02 | $ 0.87 |
| Diluted | $0.85 | $ 0.01 | $ 0.86 |

| Consolidated Balance Sheets | September 30, 2017 | | |
|---|---|---|---|
| | As Originally Reported | Effect of Change | As Adjusted |
| | (In millions) | | |
| Inventories | $396 | $ 37 | $ 433 |
| Deferred income taxes (assets) | $250 | $ (13 ) | $ 237 |
| Retained earnings | $1,683 | $ 24 | $ 1,707 |

| Consolidated Statements of Cash Flows | Three Months Ended December 31 2016 | | |
|---|---|---|---|
| | As Originally Reported | Effect of Change | As Adjusted |
| | (In millions) | | |
| Net income (loss) | $58 | $ 1 | $ 59 |
| Deferred tax provision (benefit) | $(2 ) | $ 1 | $ (1 ) |
| Inventories | $(34) | $ (2 ) | $ (36 ) |

If the Company had continued to account for its U.S. carbon black inventories under LIFO, there would have been an impact of less than $1 million to Cost of sales, (Provision) for income taxes and Net (loss) attributable to Cabot Corporation, and an increase of $0.01 in both basic and diluted loss per common share in the Consolidated Statements of Operations for the three months ended December 31, 2017. The impact to the Consolidated Balance Sheets as of December 31, 2017 would have been a decrease of $37 million in Inventories, an increase of $13 million in Deferred income taxes, and a decrease of $24 million in Retained earnings.

The cost of Specialty Fluids inventories that are classified as assets held for rent is determined using the average cost method. The cost of all other inventories is determined using the FIFO method.

Cabot periodically reviews inventory for both potential obsolescence and potential declines in anticipated selling prices. In this review, the Company makes assumptions about the future demand for and market value of the inventory, and based on these assumptions estimates the amount of any obsolete, unmarketable, slow moving, or overvalued inventory. Cabot writes down the value of these inventories by an amount equal to the difference between the cost of the inventory and its estimated net realizable value.

Pensions and Other Postretirement Benefits

The Company recognizes the funded status of defined benefit pension and other postretirement benefit plans as an asset or liability. This amount is defined as the difference between the fair value of plan assets and the benefit obligation. The Company is required to recognize as a component of other comprehensive income (loss), net of tax, the actuarial gains/losses and prior service costs/credits that arise but were not previously required to be recognized as components of net periodic benefit cost. Other comprehensive income (loss) is adjusted as these amounts are later recognized in income as components of net periodic benefit cost.

Accumulated Other Comprehensive Income (Loss)

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

Recently Adopted Accounting Standards

In March 2016, the Financial Accounting Standards Board (“FASB”) issued a new standard that amends the accounting standard for stock compensation by simplifying several aspects of the accounting for employee share-based payment transactions, including the related accounting for income taxes, forfeitures, and the withholding of shares to satisfy the employer’s tax withholding requirements, as well as classification in the statements of cash flows. The Company adopted the standard on October 1, 2017. The following guidance was updated under the new standard, and its impact to Cabot is described below:

- When accounting for forfeitures the Company may elect to estimate the number of forfeitures to be recognized over the term of an award, which was also permitted under the previous guidance, or account for forfeitures as they occur. The Company elected to modify its accounting policy and account for forfeitures as they occur. The Company applied the accounting change on a modified retrospective basis, which resulted in a cumulative-effect charge of less than $1 million to Retained earnings as of October 1, 2017.
- Excess tax benefits or deficiencies related to stock compensation that were previously recorded to Additional paid-in capital are now recognized as a discrete tax benefit or expense in (Provision) benefit for income taxes within the Consolidated Statements of Operations. The impact on the (Provision) benefit for income taxes was a discrete tax benefit of $1 million during the first three months of fiscal 2018.
- Excess tax benefits are no longer reclassified out of cash flows from operating activities to financing activities in the Consolidated Statement of Cash Flows. The Company elected to apply this cash flow presentation requirement retrospectively, which resulted in the reclassification of $5 million of tax benefit from share-based compensation awards from cash flows from financing activities to cash flows from operating activities in the Consolidated Statements of Cash Flows for the three months ended December 31, 2016.
- Cash paid by an employer when directly withholding shares for tax withholding purposes are required to be classified as a financing activity in the Consolidated Statements of Cash Flows. This method of presentation is consistent with the Company's historical presentation.

In August 2017, the FASB issued a new standard that amends the hedge accounting recognition and presentation requirements under hedge accounting. The new standard will make more financial and nonfinancial hedging strategies eligible for hedge accounting, amends the presentation and disclosure requirements, and simplifies how companies assess effectiveness. The Company adopted the standard on October 1, 2017. The adoption of this standard did not impact the Company’s consolidated financial statements.

Recent Accounting Pronouncements

In May 2014, the FASB issued a new standard that amends the existing accounting standards for revenue recognition. The standard requires entities to recognize revenue when they transfer promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. This standard is applicable for fiscal years beginning after December 15, 2017. The Company has completed its preliminary assessment of the new standard, which included reviewing a sample of contracts across the Company's four business segments. Based on this assessment, the Company does not expect adoption of this standard to have a material impact on how it recognizes revenue. The Company is continuing its assessment of the new standard and preparing to implement the updates that will be necessary to its revenue recognition policy, internal controls, processes and financial statement disclosures. The Company will adopt this standard on October 1, 2018 and expects to apply a modified retrospective approach.

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

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

In March 2017, the FASB issued a new standard that amends the requirements on the presentation of net periodic pension and postretirement benefit cost. Currently, net benefit costs are reported as employee costs within operating income. The new standard requires the service cost component to be presented with other employee compensation costs. The other components will be reported separately outside of operations. The new standard is effective for fiscal years beginning after December 15, 2017. The Company will adopt this standard on October 1, 2018. The adoption of this standard is not expected to materially impact the Company’s consolidated financial statements.

C. Acquisition of Tech Blend

In November 2017, the Company acquired all of the issued and outstanding shares and cash of Tech Blend, a North American producer of black masterbatches, for a preliminary purchase price of $65 million, paid in cash. The preliminary purchase price is subject to a working capital adjustment, which has not been finalized. The operating results of the business are included in the Company’s Performance Chemicals segment. The acquisition extends the Company’s global footprint in black masterbatch and compounds and provides a platform to serve global customers and grow in conductive formulations. Since the acquisition, Tech Blend revenues totaled approximately $4 million in the two month period ended December 31, 2017.

The Company incurred acquisition costs of less than $1 million through December 31, 2017 associated with the transaction, which are included in Selling and administrative expenses in the Consolidated Statements of Operations.

The allocation of the preliminary purchase price set forth below was based on preliminary estimates of the fair value of assets acquired and liabilities assumed. The Company is continuing to obtain information to complete its valuation of these accounts and the associated tax accounting.

| | (In millions) |
|---|---|
| Assets | |
| Cash | $ 1 |
| Accounts Receivable | 5 |

| | | |
|---|---|---|
| Inventories | | 3 |
| Property, plant and equipment | | 7 |
| Intangible assets | | 31 |
| Goodwill | | 31 |
| Total assets acquired | | 78 |
| | | |
| Liabilities | | |
| Current liabilities | | (3 ) |
| Deferred tax liabilities | | (10 ) |
| Total liabilities assumed | | (13 ) |
| | | |
| Cash consideration paid | $ | 65 |

As part of the preliminary purchase price allocation, the Company determined the separately identifiable intangible assets are comprised of developed technologies of $21 million, which will be amortized over 25 years, trademarks of $2 million, which will be amortized over 10 years, and customer relationships of $8 million, which will be amortized over 12 years. The Company estimated the fair values of the identifiable acquisition-related intangible assets based on projections of cash flows that will arise from those assets. The projected cash flows are discounted to determine the fair value of the assets at the date of acquisition. The determination of the fair value of the intangible assets acquired required the use of significant judgment with regard to (i) assumptions in the discounted cash flow model used and (ii) determination of the useful lives of the developed technologies, trademarks, and customer relationships.

The excess of the preliminary purchase price over the fair value of the tangible net assets and intangible assets acquired was recorded as goodwill. The goodwill recognized is attributable to the growth and operating synergies that the Company expects to realize from this acquisition. Goodwill generated from the acquisition will not be deductible for tax purposes.

D. Employee Benefit Plans

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

| | Three Months Ended December 31 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2017 | | 2016 | |
| | Pension Benefits | | | | Postretirement Benefits | | | |
| | U.S. | Foreign | U.S. | Foreign | U.S. | Foreign | U.S. | Foreign |
| | (In millions) | | | | | | | |
| Service cost | $— | $ 2 | $— | $ 2 | $— | $ — | $— | $ — |
| Interest cost | 1 | 2 | 1 | 1 | — | — | — | — |
| Expected return on plan assets | (2) | (4) | (3) | (3) | — | — | — | — |
| Amortization of prior service credit | — | — | — | — | (1) | — | — | — |
| Amortization of actuarial loss | — | 1 | — | 1 | — | — | — | — |
| Net periodic benefit (credit) cost | $(1) | $ 1 | $(2) | $ 1 | $(1) | $ — | $— | $ — |

E. Goodwill and Intangible Assets

The carrying amount of goodwill attributable to each reportable segment with goodwill balances and the changes in those balances during the three month period ended December 31, 2017 are as follows:

| | Reinforcement Materials | Performance Chemicals | Purification Solutions | Total |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| | (In millions) | | | |
| Balance at September 30, 2017 | $53 | $ 9 | $ 92 | $154 |
| Goodwill acquired[1] | — | 31 | — | 31 |
| Foreign currency impact | (2 ) | 1 | — | (1 ) |
| Balance at December 31, 2017 | $51 | $ 41 | $ 92 | $184 |

[1] Consists of goodwill acquired in the acquisition of Tech Blend as described in Note C.

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

| | December 31, 2017 | | | September 30, 2017 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Value | Accumulated Amortization | Net Intangible Assets | Gross Carrying Value | Accumulated Amortization | Net Intangible Assets |
| | (In millions) | | | | | |
| Intangible assets with finite lives | | | | | | |
| Developed technologies[1] | $72 | $ (7 ) | $ 65 | $49 | $ (7 ) | $ 42 |
| Trademarks[1] | 18 | (2 ) | 16 | 16 | (1 ) | 15 |
| Customer relationships[1] | 98 | (15 ) | 83 | 94 | (14 ) | 80 |
| Total intangible assets | $188 | $ (24 ) | $ 164 | $159 | $ (22 ) | $ 137 |

[1] The changes in the gross carrying value of the Developed technologies, Trademarks, and Customer relationships intangible assets are primarily due to the acquisition of Tech Blend as described in Note C.

Intangible assets are amortized over their estimated useful lives, which range between ten and twenty-five years, with a weighted average amortization period of approximately nineteen years. Amortization expense for both of the three month periods ended December 31, 2017 and 2016 was $2 million and is included in Cost of sales and Selling and administrative expenses in the Consolidated Statements of Operations. Total amortization expense is estimated to be approximately $10 million each year for the next five fiscal years.

F. Stockholders' Equity

In January 2015, the Board of Directors authorized Cabot to repurchase up to five million shares of its common stock in the open market or in privately negotiated transactions. As of December 31, 2017, under the current authorization, Cabot has repurchased 3,491,902 shares of its common stock and 1,508,098 shares remain available for repurchase. The Company retired the repurchased shares and recorded the excess of the purchase price over par value to additional paid-in capital until such amount was reduced to zero and then charged the remainder against retained earnings.

During the first three months of fiscal 2018 and 2017, Cabot paid cash dividends in the amount of $0.315 and $0.30, respectively, per share of common stock, with a total cost of $20 million and $19 million, respectively.

Noncontrolling Interest

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

| | 2017 | 2016 |
|---|---|---|
| | (In millions) | |
| Balance at September 30 | $ 121 | $ 98 |
| Net income (loss) attributable to noncontrolling interests | 10 | 4 |
| Foreign currency translation adjustment attributable to noncontrolling interests, net of tax | 3 | |