FORM 10-Q

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended

MARCH 31, 2002

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 (Address of principal executive offices)	02210-2019 (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, and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

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

AS OF APRIL 30, 2002, THE COMPANY HAD 62,251,058 SHARES OF COMMON STOCK, PAR VALUE $1 PER SHARE, OUTSTANDING.

CABOT CORPORATION

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CABOT CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Three Months Ended March 31,

(In millions, except per share amounts)

UNAUDITED

	2002	2001
Revenues:		
Net sales and other operating revenues	$ 350	$ 458
Interest and dividend income	2	7
Total revenues	352	465
Costs and expenses:		
Cost of sales	247	339
Selling and administrative expenses	51	52
Research and technical service	12	12
Interest expense	6	9
Special items	3	17
Other charges (income), net	(4)	--
Total costs and expenses	315	429
Income before income taxes	37	36
Provision for income taxes	(10)	(10)
Equity in net income of affiliated companies	--	4
Minority interest in net income	(1)	(2)
Income from continuing operations	26	28
Discontinued operations:		
Gain on sale of businesses, net of income taxes	--	3
Net income	26	31
Dividends on preferred stock, net of tax benefit	(1)	(1)
Net income available to common shares	$ 25	$ 30
Weighted-average common shares outstanding:		
Basic	59	63
Diluted	71	76
Income per common share		
Basic:		
Continuing operations	$0.43	$0.42
Discontinued operations:		
Gain on sale of business	--	0.05
Net income	$0.43	$0.47
Diluted:		
Continuing operations	$0.36	$0.36
Discontinued operations:		
Gain on sale of business	--	0.04
Net income	$0.36	$0.40
Dividends per common share	$0.13	$0.11

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

CABOT CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Six Months Ended March 31,

(In millions, except per share amounts)

UNAUDITED

	2002	2001
Revenues:		
Net sales and other operating revenues	$ 727	$ 853
Interest and dividend income	5	18
Total revenues	732	871
Costs and expenses:		
Cost of sales	507	644
Selling and administrative expenses	99	97
Research and technical service	23	23
Interest expense	14	17
Special items	3	17
Other charges (income), net	(3)	--
Total costs and expenses	643	798
Income before income taxes	89	73
Provision for income taxes	(25)	(21)
Equity in net income of affiliated companies	2	8
Minority interest in net income	(2)	(4)
Income from continuing operations	64	56
Discontinued operations:		
Gain on sale of businesses, net of income taxes	--	3
Net income	64	59
Dividends on preferred stock, net of tax benefit	(2)	(2)
Net income available to common shares	$ 62	$ 57
Weighted-average common shares outstanding:		
Basic	59	64
Diluted	71	76
Income per common share		
Basic:		
Continuing operations	$1.06	$0.85
Discontinued operations:		
Gain on sale of business	--	0.05
Net income	$1.06	$0.90
Diluted:		
Continuing operations	$0.90	$0.73
Discontinued operations:		
Gain on sale of business	--	0.04
Net income	$0.90	$0.77
Dividends per common share	$0.26	$0.22

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

CABOT CORPORATION
CONSOLIDATED BALANCE SHEETS
March 31, 2002 and September 30, 2001

(In millions)

ASSETS

	March 31, 2002 (Unaudited)	September 30, 2001
Current assets:		
Cash and cash equivalents	$ 200	$ 364
Accounts and notes receivable, net of reserve for doubtful accounts of $5 and $4	317	267
Inventories:		
Raw materials	104	76
Work in process	129	70
Finished goods	123	106
Other	39	33
Total inventories	395	285
Prepaid expenses	38	33
Deferred income taxes	15	19
Total current assets	965	968
Investments:		
Equity	46	76
Other	42	29
Total investments	88	105
Property, plant and equipment	1,926	1,856
Accumulated depreciation and amortization	(1,074)	(1,049)
Net property, plant and equipment	852	807
Other assets:		
Goodwill	95	19
Other intangible assets, net of accumulated amortization of $4 and $4	8	2
Deferred income taxes	2	2
Other assets	18	16
Total other assets	123	39
Total assets	$ 2,028	$ 1,919

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

CABOT CORPORATION
CONSOLIDATED BALANCE SHEETS
March 31, 2002 and September 30, 2001

(In millions, except for share amounts)

LIABILITIES & STOCKHOLDERS' EQUITY

	March 31, 2002 (Unaudited)	September 30, 2001
Current liabilities:		
Notes payable to banks	$ 62	$ 13
Current portion of long-term debt	26	30
Accounts payable and accrued liabilities	220	243
Deferred income taxes	4	5
Total current liabilities	312	291
Long-term debt	467	419
Deferred income taxes	97	94
Other liabilities	154	138
Commitments and contingencies (Note G)		
Minority interest	32	27
Stockholders' equity:		
Preferred stock:		
Authorized: 2,000,000 shares of $1 par value		
Series A Junior Participating Preferred Stock		
Issued and outstanding: none		
Series B ESOP Convertible Preferred Stock 7.75% Cumulative		
Issued: 75,336 shares, outstanding: 57,798 and 59,148 shares (aggregate redemption value of $58 and $59)	75	75
Less cost of shares of preferred treasury stock	(39)	(33)
Common stock:		
Authorized: 200,000,000 shares of $1 par value		
Issued and outstanding: 62,225,948 and 62,633,252 shares	62	63
Less cost of shares of common treasury stock	(6)	--
Additional paid-in capital	--	9
Retained earnings	1,120	1,078
Unearned compensation	(30)	(40)
Deferred employee benefits	(52)	(54)
Notes receivable for restricted stock	(22)	(23)
Accumulated other comprehensive loss (Note J)	(142)	(125)
Total stockholders' equity	966	950
Total liabilities and stockholders' equity	$ 2,028	$ 1,919

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

CABOT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended March 31,

(In millions)

UNAUDITED

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 64	$ 59
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	53	59
Deferred tax provision (benefit)	3	(1)
Equity in income of affiliated companies, net of dividends received	(1)	(8)
Special items	2	10
Gain on sale of business, net of income taxes	--	(3)
Non-cash compensation	10	11
Other, net	1	3
Changes in assets and liabilities:		
Increase in accounts and notes receivable	(37)	(45)
Increase in inventory	(34)	(45)
Decrease in accounts payable and accrued liabilities	(36)	(22)
Increase in prepayments and other assets	(8)	(3)
Increase (decrease) in income taxes payable	14	(156)
Increase in other liabilities	6	--
Other, net	1	--
Cash provided by (used in) operating activities	38	(141)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of business	--	5
Additions to property, plant and equipment	(69)	(36)
Proceeds from sales of property, plant and equipment	1	2
Purchase of investments	(9)	(4)
Acquisition of affiliate, net of cash acquired	(89)	--
Cash from consolidation of equity affiliate	10	--
Cash used in investing activities	(156)	(33)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	--	129
Repayments of long-term debt	(5)	(63)
Increase (decrease) in short-term debt	4	(1)
Purchases of preferred and common stock	(31)	(77)
Sales and issuances of common stock	4	3
Cash dividends paid to stockholders	(17)	(16)
Employee loan repayments	1	6
Cash used in financing activities	(44)	(19)
Effect of exchange rate changes on cash	(2)	(1)
Decrease in cash and cash equivalents	(164)	(194)
Cash and cash equivalents at beginning of period	364	638
Cash and cash equivalents at end of period	$ 200	$ 444

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

CABOT CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Six Months Ended March 31, 2002

(In millions)

UNAUDITED

	Preferred Stock	Preferred Treasury Stock	Common Stock	Common Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss
Balance at September 30, 2001	$ 75	$ (33)	$ 63	$ --	$ 9	$1,078	$ (125)
Net income						64	
Foreign currency translation adjustments							(18)
Change in unrealized gain on available-for-sale securities							1
Total comprehensive income							
Common dividends paid						(16)	
Issuance of stock under employee compensation plans, net of tax benefit					4		
Purchase and retirement of common stock			(1)		(14)	(5)	
Purchase of treasury stock - common				(6)			
Purchase of treasury stock - preferred		(5)					
Preferred stock conversion		(1)			1		
Preferred dividends paid to Employee Stock Ownership Plan, net of tax						(1)	
Principal payment by Employee Stock Ownership Plan under guaranteed loan							
Amortization of unearned compensation							
Notes receivable - payment and forfeitures							
Balance at March 31, 2002	$ 75	$ (39)	$ 62	$ (6)	$ --	$1,120	$ (142)

	Unearned Compensation	Deferred Employee Benefits	Notes Receivable for Restricted Stock	Total Stockholders' Equity	Total Comprehensive Income
Balance at September 30, 2001	$ (40)	$ (54)	$ (23)	$ 950	
Net income					$ 64
Foreign currency translation adjustments					(18)
Change in unrealized gain on available-for-sale securities					1
Total comprehensive income					$ 47
Common dividends paid					
Issuance of stock under employee compensation plans, net of tax benefit					
Purchase and retirement of common stock					
Purchase of treasury stock - common					
Purchase of treasury stock - preferred					
Preferred stock conversion					
Preferred dividends paid to Employee Stock Ownership Plan, net of tax					
Principal payment by Employee Stock Ownership Plan under guaranteed loan		2			
Amortization of unearned compensation	10				
Notes receivable - payment and forfeitures			1		
Balance at March 31, 2002	$ (30)	$ (52)	$ (22)	$ 966	

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

(In millions, except per share amounts)
UNAUDITED

A. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Cabot Corporation and majority-owned and controlled U.S. and non-U.S. subsidiaries ("Cabot"). Investments in 20 to 50 percent owned affiliates are accounted for on the equity method. Intercompany transactions have been eliminated.

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 Form 10-K for the year ended September 30, 2001.

The financial information submitted herewith is unaudited and reflects all adjustments which are, in the opinion of management, necessary to provide a fair statement of the results for the interim periods ended March 31, 2002 and 2001. All such adjustments are of a normal recurring nature. The results for interim periods are not necessarily indicative of the results to be expected for the fiscal year.

B. SPECIAL ITEMS AND DISCONTINUED OPERATIONS

Associated with the acquisition of Showa Cabot Supermetals KK, Cabot recorded special items for the second quarter of fiscal 2002 of $2 million for an asset impairment charge from the cancellation of an expansion project at the Performance Materials plant in Boyertown, Pennsylvania and $1 million of non-capitalizable transaction costs.

During fiscal 2000, Cabot approved plans to close two plants. In relation to the plant closings, Cabot recorded an $18 million charge in the fourth quarter of fiscal 2000. Included in the charge were accruals of $2 million for severance and termination benefits for approximately 38 employees of the Chemical and Performance Materials businesses, $7 million for facility closing costs, and a $9 million charge for the impairment of long-lived assets. One of the plant closures was completed during fiscal 2001, and the second plant closure was completed during the second quarter of fiscal 2002. During the quarter ended March 31, 2002, approximately $1 million of severance and termination benefits were paid out of the accrual, which represents the final payments under the severance arrangements. At March 31, 2002, $2 million remains accrued for the required monitoring costs at the second site.

On September 19, 2000, Cabot completed a transaction to sell its liquefied natural gas (LNG) business for approximately $688 million cash. The sale included Cabot's LNG terminal in Everett, Massachusetts, its LNG tanker, the Matthew, and its equity interest in the Atlantic LNG liquefaction plant in Trinidad. The gain on the sale of the LNG business recorded in the fourth quarter of fiscal 2000 was approximately $309 million, net of taxes of $178 million. In February 2001, Cabot received additional cash proceeds of $5 million from the sale. The receipt net of taxes is classified as a gain on sale of discontinued business in the consolidated statements of income.

C. ACQUISITION

On February 8, 2002, Cabot Corporation purchased the remaining 50% of the shares in Showa Cabot Supermetals KK (SCSM) in Japan, from its joint venture partner, Showa Denko KK. SCSM is a supplier of tantalum powders and metal products to the global electronics, aerospace, and chemical processing industries. The acquisition of SCSM expands the capacity of Cabot's tantalum business.

(In millions, except per share amounts)

This acquisition has been accounted for as a purchase and the operating results of SCSM will be reported on a one month lag. Prior to the acquisition Cabot's investment in SCSM was accounted for as an equity investment and the results were reported on a three month lag. The equity investment income for the final three month period prior to the acquisition was not material to the consolidated results of operations. Included in the consolidated results of Cabot Corporation for the second quarter of 2002, are 50% of the operating results of SCSM for the months of October 2001 through January 2002 and 100% of the operating results of Cabot Supermetals (formerly SCSM) for the month of February 2002.

The fair value of the debt assumed and assets and liabilities acquired represents the 50% of Cabot Supermetals purchased. A summary of the consideration paid and the allocation of the purchase price of the acquisition is as follows:

Cash paid	$ 99
Fair value of debt assumed	53
Total consideration	$152
Fair value of tangible and intangible assets acquired	$103
Fair value of liabilities assumed	22
Fair value of net assets acquired	$ 81
Recorded goodwill	$ 71

Allocation of the purchase price is based on estimates of the fair value of the net assets acquired, and is subject to adjustment. Cabot is not aware of any information that would indicate that the final purchase price allocations will differ significantly from preliminary estimates.

Assuming Cabot owned 100% of Cabot Supermetals for all periods presented, the following table would be the unaudited pro forma consolidated operating results for the three and six months ended March 31, 2002 and 2001:

	Three Months Ended March 31		Six Months Ended March 31	
	2002	2001	2002	2001
Total revenues	$ 359	$ 508	$ 758	$ 944
Net income	25	37	62	66
Net income per share:				
Basic	$ 0.41	$ 0.58	$ 1.02	$ 1.02
Diluted	$ 0.35	$ 0.49	$ 0.87	$ 0.87

The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the actual results of operations had the acquisition taken place in the prior year or the results that may occur in the future. Furthermore, the pro forma results do not give effect to all cost savings or incremental costs which may occur as a result of the integration and consolidation of Cabot Supermetals.

D. GOODWILL AND OTHER INTANGIBLE ASSETS

Cabot adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS No. 142") on October 1, 2001. Under FAS No. 142, all goodwill amortization ceased for Cabot on October 1, 2001. Upon adoption, the goodwill attributable to each of our reporting units was tested for impairment by comparing the fair value of each reporting unit to its carrying value. The fair value of a reporting unit was determined by estimating the present value of expected future cash flows. No impairments existed upon adoption of FAS No. 142. On an ongoing basis, impairment tests under FAS No. 142 will be performed at least annually.

(In millions, except per share amounts)
UNAUDITED

At March 31, 2002 and September 30, 2001, Cabot had goodwill balances of $95 million and $19 million, respectively. During the first quarter of 2002, Cabot acquired the shares of certain minority interest shareholders in the Chemical Businesses, resulting in $5 million of additional goodwill. On February 8, 2002, Cabot acquired the remaining 50% of the shares in Showa Cabot Supermetals KK, resulting in $71 million of additional goodwill in the Performance Materials business.

The carrying amount of goodwill attributable to each reportable operating segment with goodwill balances and the changes in those balances during the six months ended March 31, 2002 are as follows:

	Chemical Businesses	Performance Materials	Total
Balance at September 30, 2001	$ 16	$ 3	$ 19
Goodwill acquired during period	5	71	76
Foreign exchange translation adjustment	(1)	1	--
Balance at March 31, 2002	$ 20	$ 75	$ 95

Cabot does not have any indefinitely-lived intangible assets. At March 31, 2002, Cabot had $8 million of finite-lived intangible assets primarily composed of know-how. At September 30, 2001, Cabot had $2 million of finite-lived intangible assets. Intangible assets are amortized over their estimated useful lives, which range from two to fifteen years. Estimated amortization expense is expected to be approximately $1 million in each of the next five years.

If FAS No. 142 had been adopted in the prior period Cabot's pro forma net income and pro forma net income per common share for the three and six months ended March 31, 2001 would have been:

	Three Months Ended March 31,	Six Months Ended March 31,
	2001	2001
Net income - as reported	$ 31	$ 59
Goodwill amortization, net of tax benefit	--	1
Net income - pro forma	$ 31	$ 60
Net income per common share - pro forma:		
Basic	$ 0.48	$ 0.92
Diluted	$ 0.41	$ 0.78

E. NOTES PAYABLE AND LONG-TERM DEBT

On February 8, 2002, SCSM had $47 million in notes payable to banks and $59 million in long-term debt from institutional lenders. The bank notes are payable in Yen and have renewable one year terms. Notes payable to banks are classified as current liabilities on the consolidated balance sheet. The interest rates on $10 million of the bank notes are fixed and range from 0.7% to 0.8%. The interest rates on the remaining bank notes are variable and based on short term interest rates.

The long-term debts are also payable in Yen and mature on various dates in fiscal years 2004 to 2006. The interest rates on $25 million of the loans are fixed and range from 1.5% to 2.1%. The interest rates on the remaining long-term loans are variable and based on short term interest rates.

(In millions, except per share amounts)
UNAUDITED

The principal payments on the $59 million in long-term debt due in each of the five fiscal years 2002 through 2006 are zero, zero, $10 million, $19 million, and $30 million, respectively.

F. FINANCIAL INSTRUMENTS

In October 2001, Cabot entered into four interest rate swaps in an aggregate notional amount of $97 million. The swaps are derivative instruments as defined by FAS No. 133 and have been designated as fair value hedges. The swaps hedge the change in the fair value of $97 million of Cabot's fixed rate medium term notes due to changes in interest rates. The interest rate swaps, as well as the medium term notes they hedge, mature on various dates through February 2007. A derivative liability and a corresponding reduction to long term debt of $2 million were recorded for the fair market value of the swaps at March 31, 2002. The interest rate swaps were determined to be highly effective and no amount of ineffectiveness needed to be recorded in earnings during the period ended March 31, 2002.

As part of the SCSM acquisition, Cabot assumed interest rates swaps in an aggregate notional amount of $43 million. The swaps are derivative instruments as defined by FAS No. 133 and have been designated as cash flow hedges. The swaps hedge the risk of changes in market interest rates associated with $43 million of the variable rate bank notes and long-term debts assumed in the SCSM acquisition. The swaps are variable-for-fixed swaps of the quarterly interest payments. The swaps require payment of fixed rates ranging from 1.5% to 2.2% and the receipt of variable rates based on short-term interest rates. The interest rate contracts will mature with the associated loans in fiscal years 2002 through 2006. The interest rate swaps were recorded at their fair value of $1 million on the acquisition date. Subsequent changes in the fair value of these cash flow hedges will be recorded in other comprehensive income.

Derivative financial instruments are used by Cabot to manage some of its foreign currency exposures. Cabot may also use financial instruments to manage other exposures, such as commodity prices, share repurchases and interest rates. Cabot does not enter into financial instruments for speculative purposes. Derivative financial instruments are accounted for in accordance with Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities".

Cabot has formally documented the relationships between hedging instruments and hedged items, as well as its risk management objective. All derivative instruments are recognized on the balance sheet at fair value. Hedge accounting is followed for derivatives that have been designated and qualify as fair-value hedges. Changes in the fair value of a highly effective derivative, along with changes in the fair value of the hedged liability that are attributable to the hedged risk, are recorded in current period earnings.

By using derivative instruments, Cabot can expose itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, Cabot's credit risk will equal the fair-value gain on the derivative. Generally, when the fair value of a derivative contract is positive, the counterparty owes Cabot, thus creating a repayment risk for Cabot. When the fair value of a derivative contract is negative, Cabot owes the counterparty and, therefore, assumes no repayment risk. Cabot minimizes the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by Cabot.

(In millions, except per share amounts)
UNAUDITED

G. COMMITMENTS AND CONTINGENCIES

Cabot is a defendant, or potentially responsible party, in various lawsuits and environmental proceedings wherein substantial amounts are claimed or at issue.

The Company has exposure to a safety respiratory products business that it acquired in April 1990. It disposed of that business in July 1995. In connection with its acquisition of the business, the Company agreed, after an initial period during which responsibility was shared, to indemnify the seller, American Optical Corporation, for costs, including legal costs, settlements and judgments, in connection with a number of lawsuits and claims relating to the respirators (in exchange for which the Company received the benefits of the seller's insurance and other indemnities). These lawsuits and claims typically involve allegations that the plaintiffs suffer from asbestosis or silicosis as a result, in part, from respirators that were negligently designed or labeled. The defendants in these lawsuits are often numerous and include, in addition to respirator manufacturers, the plaintiffs' employers and makers of asbestos and sand used in sand blasting.

When the Company disposed of the business in 1995 to Aearo Corporation ("Aearo"), it agreed with Aearo that for an annual fee of $400,000 the Company would retain responsibility for, and indemnify Aearo against, claims asserted after July 11, 1995 to the extent they are alleged to arise out of the use of respirators before that date. Aearo can discontinue payment of the fee at any time, in which case it will assume the responsibility for and indemnify the Company with respect to these claims. Since the divestiture and until 2001, the Company had never spent more than the $400,000 that it collects from Aearo each year. In 2001 and to date in 2002, the amount spent in excess of $400,000 was not material. Neither the Company, 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 the business for which the Company is financially responsible for legal costs represent a significant portion of the respirator market. In addition, as a result of the arrangements involving these lawsuits and claims, the Company has only a portion of the liability in any given case.

The overall number of new cases filed increased last year, but the rate of new case filings substantially decreased during the latter half of the year. The rate of filings in the present year approximates the overall rate of filings last year. However, due to the inherent uncertainty of these matters, it is difficult to predict the scope and number of claims which might be asserted in future years. Accordingly, there is a remote possibility that this litigation could result in future charges that could have a material adverse impact on the Company's financial condition or results of operations. While there is always the possibility of an unusual result in any case, it is management's opinion, taking into account currently available information, past experience, contractual obligations and insurance coverage which may be applicable, that the pending suits and claims should not result in final judgments or settlements that, in the aggregate, would have a material effect on the Company's financial condition or results of operations.

As of March 31, 2002, Cabot has approximately $28 million reserved for environmental matters, primarily related to divested businesses. The amount represents Cabot's current best estimate of its share of costs likely to be incurred at those sites where costs are reasonably estimable based on its analysis of the extent of cleanup required, alternative cleanup methods available, abilities of other responsible parties to contribute, and its interpretation of applicable laws and regulations at each site. Cabot reviews the adequacy of this reserve as circumstances change at individual sites. Cabot is unable to reasonably estimate the amount of possible loss in excess of the accrued amount.

In the opinion of Cabot, although final disposition of these suits and claims may impact Cabot's financial statements in a particular period, they will not, in the aggregate, have a material adverse effect on Cabot's financial position.

H. COMMON TREASURY STOCK

Common treasury stock is presented on the consolidated balance sheet at cost as a reduction to stockholders' equity. During the second quarter of fiscal 2002, Cabot repurchased $6 million of its common stock. This stock will be held in treasury and used to fund an employee benefit plan.

(Preferred, preferred treasury and common treasury shares in thousands and common shares in millions)
UNAUDITED

I. STOCKHOLDERS' EQUITY

The following table summarizes the changes in shares of stock for the three months ended March 31:

	2002
PREFERRED STOCK	
Balance at December 31, 2001	75
Balance at March 31, 2002	75
PREFERRED TREASURY STOCK	
Balance at December 31, 2001	17
Purchased preferred treasury stock	--
Preferred stock conversion	1
Balance at March 31, 2002	18
COMMON STOCK	
Balance at December 31, 2001	62
Purchased and retired common stock	--
Balance at March 31, 2002	62
COMMON TREASURY STOCK	
Balance at December 31, 2001	--
Purchased common treasury stock	175
Balance at March 31, 2002	175

(Preferred, preferred treasury and common treasury shares in thousands and common shares in millions)
UNAUDITED

I. STOCKHOLDERS' EQUITY (CONTINUED)

The following table summarizes the changes in shares of stock for the six months ended March 31:

	2002
PREFERRED STOCK	
Balance at September 30, 2001	75
Balance at March 31, 2002	75
PREFERRED TREASURY STOCK	
Balance at September 30, 2001	16
Purchased preferred treasury stock	1
Preferred stock conversion	1
Balance at March 31, 2002	18
COMMON STOCK	
Balance at September 30, 2001	63
Purchased and retired common stock	(1)
Balance at March 31, 2002	62
COMMON TREASURY STOCK	
Balance at September 30, 2001	--
Purchased common treasury stock	175
Balance at March 31, 2002	175

(In millions)

UNAUDITED

J. COMPREHENSIVE INCOME

The pre-tax, tax, and after-tax effects of the components of other comprehensive loss for the three months ended March 31 are shown below:

	Pre-tax	Tax	After-tax
2002			
Foreign currency translation adjustments	$ (17)	$ --	$ (17)
Unrealized holding loss arising during period on marketable equity securities	(4)	1	(3)
Other comprehensive income (loss)	$ (21)	$ 1	$ (20)

	Pre-tax	Tax	After-tax
2001			
Foreign currency translation adjustments	$ (21)	$ --	$ (21)
Unrealized holding gain arising during period on marketable equity securities	7	(3)	4
Other comprehensive income (loss)	$ (14)	$ (3)	$ (17)

(In millions)

UNAUDITED

J. COMPREHENSIVE INCOME (CONTINUED)

The pre-tax, tax, and after-tax effects of the components of other comprehensive income (loss) for the six months ended March 31 are shown below:

	Pre-tax	Tax	After-tax
2002			
Foreign currency translation adjustments	$ (18)	$ --	$ (18)
Unrealized holding gain arising during period on marketable equity securities	2	(1)	1
Other comprehensive income (loss)	$ (16)	$ (1)	$ (17)

	Pre-tax	Tax	After-tax
2001			
Foreign currency translation adjustments	$ (20)	$ --	$ (20)
Unrealized holding gain arising during period on marketable equity securities	11	(5)	6
Other comprehensive income (loss)	$ (9)	$ (5)	$ (14)

The balance of related after-tax components comprising accumulated other comprehensive loss as of March 31 and September 30 is summarized below:

	March 31, 2002	September 30, 2001
Foreign currency translation adjustments	$(149)	$(131)
Unrealized holding gain on marketable equity securities	7	6
Accumulated other comprehensive loss	$(142)	$(125)

(In millions, except per share amounts)

UNAUDITED

K. EARNINGS PER SHARE

Basic and diluted earnings per share ("EPS") were calculated for the three months ended March 31 as follows:

	2002	2001
BASIC EPS		
Income available to common shares (numerator)	$ 25	$ 30
Weighted-average common shares outstanding	62	66
Less: Contingently issuable shares(1)	(3)	(3)
Adjusted weighted-average shares (denominator)	59	63
Basic EPS	$ 0.43	$ 0.47
DILUTED EPS		
Income available to common shares	$ 25	$ 30
Dividends on preferred stock	1	1
Less: Income effect of assumed conversion of preferred stock	--	--
Income available to common shares plus assumed conversions (numerator)	$ 26	$ 31
Weighted-average common shares outstanding	62	66
Effect of dilutive securities:		
Conversion of preferred stock	8	9
Conversion of incentive stock options(2)(3)	1	1
Adjusted weighted-average shares (denominator)	71	76
Diluted EPS	$ 0.36	$ 0.40

(1) Represents restricted stock issued under Cabot Equity Incentive Plans.

(2) As of March 31, 2001, the average fair value of Cabot's stock price exceeded the exercise price of all options outstanding. As such, all options outstanding have been included in the calculation of fully diluted earnings per share.

(3) Of the options to purchase shares of common stock outstanding at March 31, 2002, .3 million shares were not included in the computation of diluted EPS because those options' exercise price was greater than the average market price of common shares for the second quarter of fiscal year 2002.

(In millions, except per share amounts)

UNAUDITED

K. EARNINGS PER SHARE (CONTINUED)

Basic and diluted earnings per share ("EPS") were calculated for the six months ended March 31 as follows:

	2002	2001
BASIC EPS		
Income available to common shares (numerator)	$ 62	$ 57
Weighted-average common shares outstanding	62	67
Less: Contingently issuable shares(1)	(3)	(3)
Adjusted weighted-average shares (denominator)	59	64
Basic EPS	$ 1.06	$ 0.90
DILUTED EPS		
Income available to common shares	$ 62	$ 57
Dividends on preferred stock	2	2
Less: Income effect of assumed conversion of preferred stock	--	--
Income available to common shares plus assumed conversions (numerator)	$ 64	$ 59
Weighted-average common shares outstanding	62	67
Effect of dilutive securities:		
Conversion of preferred stock	8	9
Conversion of incentive stock options(2)	1	--
Adjusted weighted-average shares (denominator)	71	76
Diluted EPS	$ 0.90	$ 0.77

(1) Represents restricted stock issued under Cabot Equity Incentive Plans.

(2) As of March 31, 2001 and 2002, the average fair value of Cabot's stock price exceeded the exercise price of all options outstanding. As such, all options outstanding have been included in the calculation of fully diluted earnings per share.

(In millions)

UNAUDITED

L. FINANCIAL INFORMATION BY SEGMENT

The framework for segment reporting is intended to give analysts and other financial statement users a view of Cabot "through the eyes of management". It designates Cabot's internal management reporting structure as the basis for determining Cabot's reportable segments, as well as the basis for determining the information to be disclosed for those segments. The following table provides financial information by segment for the three months ended March 31:

	CHEMICAL BUSINESSES	PERFORMANCE MATERIALS	SPECIALTY FLUIDS	SEGMENT TOTAL	UNALLOCATED AND OTHER	CONSOLIDATED TOTAL
2002						
Net sales and other operating revenues(1) (2)	$ 301	$ 48	$ 6	$ 355	$ (5)	$ 350
Profit (loss) before taxes(3)	$ 30	$ 14	$ (1)	$ 43	$ (6)	$ 37
2001						
Net sales and other operating revenues(1) (2)	$ 357	$ 103	$ 5	$ 465	$ (7)	$ 458
Profit (loss) before taxes(3)	$ 35	$ 26	$ (1)	$ 60	$ (24)	$ 36

Unallocated and other net sales and other operating revenues includes the following:

	2002	2001
Equity affiliate sales	$ (15)	$ (16)
Royalties paid by equity affiliates	1	1
Interoperating segment revenues	(1)	(2)
Shipping and handling fees	10	10
Total	$ (5)	$ (7)

Unallocated and other profit (loss) before taxes includes the following:

	2002	2001
Interest expense	$ (6)	$ (9)
General unallocated income (expense)(4)	3	6
Equity in net income of affiliated companies	--	(4)
Special item(5)(6)	(3)	(17)
Total	$ (6)	$ (24)

(1) Segment sales for certain operating segments within Chemical Businesses include 100% of equity affiliate sales and transfers of materials at cost and market-based prices.

(2) Unallocated and other reflects an adjustment for equity affiliate sales and interoperating segment revenues and includes royalties paid by equity affiliates offset by external shipping and handling costs.

(3) Segment profit is a measure used by Cabot's chief operating decision-makers to measure consolidated operating results and assess segment performance. It includes equity in net income of affiliated companies, royalties paid by equity affiliates, minority interest, and corporate governance costs, and excludes foreign currency transaction gains (losses), interest income (expense) and dividend income.

(4) General unallocated income (expense) includes foreign currency transaction gains (losses), interest income and dividend income.

(5) Results for the second quarter of fiscal 2001 include a charge related to the retirement of the Chief Executive Officer. Included in the charge is $10

million relating to the accelerated vesting of shares issued under the Long Term Incentive Compensation Plan and a $7 million cash payment.

(6) Results for the second quarter of fiscal 2002 include a charge related to the discontinuance of a project in the Performance Materials plant in Boyertown, Pennsylvania and non-capitalizable transaction costs, both associated with the acquisition of Showa Cabot Supermetals.

(In millions)

UNAUDITED

L. FINANCIAL INFORMATION BY SEGMENT (CONTINUED)

The framework for segment reporting is intended to give analysts and other financial statement users a view of Cabot "through the eyes of management". It designates Cabot's internal management reporting structure as the basis for determining Cabot's reportable segments, as well as the basis for determining the information to be disclosed for those segments. The following table provides financial information by segment for the six months ended March 31:

	CHEMICAL BUSINESSES	PERFORMANCE MATERIALS	SPECIALTY FLUIDS	SEGMENT TOTAL	UNALLOCATED AND OTHER	CONSOLIDATED TOTAL
2002						
Net sales and other operating revenues(1) (2)	$ 594	$ 130	$ 15	$ 739	$ (12)	$ 727
Profit (loss) before taxes(3)	$ 57	$ 45	$ --	$ 102	$ (13)	$ 89
2001						
Net sales and other operating revenues(1) (2)	$ 691	$ 159	$ 12	$ 862	$ (9)	$ 853
Profit (loss) before taxes(3)	$ 76	$ 23	$ --	$ 99	$ (26)	$ 73

Unallocated and other net sales and other operating revenues includes the following:

	2002	2001
Equity affiliate sales	$ (30)	$ (31)
Royalties paid by equity affiliates	3	3
Interoperating segment revenues	(4)	(3)
Shipping and handling fees	19	22
Total	$ (12)	$ (9)

Unallocated and other profit (loss) before taxes includes the following:

	2002	2001
Interest expense	$ (14)	$ (17)
General unallocated income (expense)(4)	6	16
Equity in net income of affiliated companies	(2)	(8)
Special item(5)(6)	(3)	(17)
Total	$ (13)	$ (26)

(1) Segment sales for certain operating segments within Chemical Businesses include 100% of equity affiliate sales and transfers of materials at cost and market-based prices.

(2) Unallocated and other reflects an adjustment for equity affiliate sales and interoperating segment revenues and includes royalties paid by equity affiliates offset by external shipping and handling costs.

(3) Segment profit is a measure used by Cabot's chief operating decision-makers to measure consolidated operating results and assess segment performance. It includes equity in net income of affiliated companies, royalties paid by equity affiliates, minority interest, and corporate governance costs, and excludes foreign currency transaction gains (losses), interest income (expense) and dividend income.

(4) General unallocated income (expense) includes foreign currency transaction gains (losses), interest income and dividend income.

(5) Results for the second quarter of fiscal 2001 include a charge related to the retirement of the Chief Executive Officer. Included in the charge is $10 million relating to the accelerated vesting of shares issued under the Long Term Incentive Compensation Plan and a $7 million cash payment.

(6) Results for the second quarter of fiscal 2002 include a charge related to the discontinuance of a project in the Performance Materials plant in Boyertown, Pennsylvania and non-capitalizable transaction costs, both associated with the acquisition of Showa Cabot Supermetals.

(In millions, except per share amounts)
UNAUDITED

M. RECENT ACCOUNTING DEVELOPMENTS

The FASB issued Statement No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets" ("FAS No. 143"), in June 2001. The objective of FAS No. 143 is to establish an accounting standard for the recognition and measurement of an asset retirement obligation on certain long-lived assets. The retirement obligation must be one that results from the acquisition, construction or normal operation of a long-lived asset. FAS No. 143 requires the legal obligation associated with the retirement of a tangible long-lived asset to be recognized at fair value as a liability when incurred, and the cost to be capitalized by increasing the carrying amount of the related long-lived asset. FAS No. 143 will be effective for Cabot on October 1, 2002. Cabot is currently evaluating the effect of implementing FAS No. 143.

In October 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS No. 144"), which supersedes FAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and provisions of APB Opinion No. 30 "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB No. 30"), for the disposal of segments of a business. The statement creates one accounting model, based on the framework established in FAS No. 121, to be applied to all long-lived assets including discontinued operations. FAS No. 144 will be effective for Cabot on October 1, 2002. Cabot is currently evaluating the effect of implementing FAS No. 144.

The FASB issued Statement No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("FAS No. 145") in April 2002. This statement updates, clarifies and simplifies existing accounting pronouncements. Specifically, the statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt" ("FAS No. 4"), FASB Statement No. 64, "Extinguishment of Debt Made to Satisfy Sinking Fund Requirements" ("FAS No. 64") and FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers." This statement amends FASB Statement No. 13, "Accounting for Leases" ("FAS No. 13") and certain other existing authoritative pronouncements to make technical corrections or clarifications. FAS No. 145 will be effective for Cabot related to the rescission of FAS No. 4 and FAS No. 64 on October 1, 2002. FAS No. 145 will be effective related to the amendment of FAS No. 13 for all transactions occurring after May 15, 2002. All other provisions of FAS No. 145 will be effective for financial statements issued after May 15, 2002. Cabot is currently evaluating the effect of implementing FAS No. 145.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

I. CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that are central to the presentation of the Company's financial condition and results of operations and that require subjective or complex estimates by management. The preparation of the Company's 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. On an on-going basis, the Company evaluates its policies and estimates, including those related to revenue recognition, inventory valuation, impaired assets, environmental costs, pensions and other postemployment benefits, and litigation and contingencies. The Company bases its estimates on historical experience, current conditions and on various other assumptions that are believed to be 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 Company believes the following critical accounting policies are the most important to the portrayal of the Company's financial condition and results and require management's more significant judgments and estimates in the preparation of the Company's consolidated financial statements.

REVENUE RECOGNITION AND ACCOUNTS RECEIVABLE

The Company derives its revenue through the sale of chemical products, performance materials and specialty fluids products. Cabot recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibility is probable. Revenue from product sales is recognized when product is shipped and title and risk of loss has passed to the customer. The Company generally is able to ensure that products meet customer specification prior to shipment. The Company prepares its estimates for sales returns and allowances, discounts and rebates quarterly based primarily on historical experience updated for changes in facts and circumstances, as appropriate. If actual future results vary, the Company may need to adjust its estimates, which could have an impact on earnings in the period of adjustment.

The Company's revenue recognition policies are in compliance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101") which establishes criteria which must be satisfied before revenue is realized or realizable and earned.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required, which could affect future earnings. As of March 31, 2002, the allowance for doubtful accounts was $5 million.

INVENTORY VALUATION

Inventories are stated at the lower of cost or market. The cost of most raw materials, work in process and finished goods inventories in the United States is determined by the last-in, first-out ("LIFO") method. The cost of other United States and all non-United States inventories is determined using the average cost method or the first-in, first-out ("FIFO") method. As of March 31, 2002, the estimated current cost of these inventories exceeded their stated valuation determined on the LIFO basis by approximately $90 million. The Company writes down its inventories for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. Such write-downs have not historically been significant. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

VALUATION OF LONG-LIVED ASSETS

The Company's long-lived assets include property, plant, equipment, long-term investments, goodwill and other intangible assets. The Company reviews 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. An impairment loss is recognized when the fair value of the asset is less than the carrying value of the asset. The fair value of the asset is based on undiscounted estimated cash flows. The Company's estimates reflect management's assumptions about selling prices, production and sales volume, costs and market conditions over the estimated remaining operating period. If an impairment is indicated, the asset is written down to fair value.

Effective October 1, 2001, the Company adopted the Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS No. 142"). In accordance with FAS No. 142, the Company no longer amortizes goodwill and indefinite lived intangible assets. The Company performs an annual impairment test for goodwill by comparing the fair value of each reporting unit to its carrying value, including goodwill. The fair value is based on discounted estimated cash flows. The assumptions used to estimate the fair value of a reporting unit include management's best estimates of the reporting unit's future growth rates, capital expenditures, discount rates and market conditions over the estimated remaining operating period.

If the carrying value exceeds the fair value, then the Company compares the implied fair value of the reporting unit's goodwill with the carrying value of the goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets and liabilities of that reporting unit. If the carrying amount exceeds the implied fair value of the goodwill, then an impairment loss is recognized for the excess amount.

ENVIRONMENTAL COSTS

The Company accrues environmental costs when it is probable that the Company has incurred a liability and the amount can be reasonably estimated. When a single amount cannot be reasonably estimated, but a range of estimated liability can be reasonably estimated, the Company accrues the amount that reflects its best estimate within that range. The amount accrued reflects the Company's assumptions about remedial requirements at the contaminated site, the nature of the remedy, 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. The availability of new information, changes in the estimates on which the accruals are based, unanticipated government enforcement action, or changes in applicable government laws and regulations could result in higher or lower costs. The Company does not reduce its estimated liability for possible recoveries from insurance carriers. Insurance recoveries are recorded when received. In fiscal 2001 and 2000, the Company received $1 million and $10 million, respectively for insurance recoveries which were classified as special items in the consolidated statement of operations.

As of March 31, 2002, the Company had $28 million reserved for environmental matters.

PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The Company maintains both defined benefit and defined contribution plans for its employees. In addition, the Company provides certain health care and life insurance benefits for retired employees. The costs and obligations related to these benefits reflect the Company's assumptions related to general economic conditions, including interest rates, expected return on plan assets, and rate of compensation increase for employees. Projected health care benefits reflect the Company's assumptions about health care cost trends. The cost of providing plan benefits also depends on demographic assumptions including retirements, mortality, turnover, and plan participation. If actual experience differs from these assumptions, the cost of providing these benefits could increase or decrease. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, affect the recognized expense and recorded obligation in such future periods.

LITIGATION AND CONTINGENCIES

When the Company is involved in litigation, it accrues a liability for such matters when it is probable that a liability will be incurred and the amount can be reasonably estimated. The estimated reserves are recorded based on what is deemed reasonable for such pending matters; however, there is always the possibility of an unusual result in any case, which may have an adverse effect on the results of operations.

II. RESULTS OF OPERATIONS

Net sales and operating profit before taxes by segment are shown in Note L of the Consolidated Financial Statements.

THREE MONTHS ENDED MARCH 31, 2002 VERSUS THREE MONTHS ENDED MARCH 31, 2001

Net income for the second quarter of fiscal 2002 was $26 million ($0.36 per diluted common share) compared to $31 million ($0.40 per diluted common share) in the same quarter a year ago. Included in this quarter's results are special charges totaling $3 million ($0.03 per diluted common share) related to the cancellation of an expansion project in the Performance Materials plant in Boyertown, Pennsylvania and non-capitalizable transaction costs. These special charges are associated with the February 2002 acquisition of the remaining 50% of the shares in Showa Cabot Supermetals KK ("SCSM") in Japan from the Company's joint venture partner, Showa Denko KK. Included in results for the second quarter of 2001 are special charges totaling $17 million ($0.16 per diluted common share) related to the retirement of the Chief Executive Officer. These charges consist of $10 million related to the accelerated vesting of shares issued under the Long Term Incentive Compensation Plan and a $7 million cash payment.

Sales decreased $108 million or 24%, from $458 million last year to $350 million this year. Similarly, operating profit before taxes and special items decreased 25% from $53 million in the second quarter of fiscal 2001 to $40 million in the second quarter of fiscal 2002.

Sales for the Chemical Businesses decreased 16%, from $357 million in the second quarter of fiscal 2001 to $301 million in the second quarter of fiscal 2002. Operating profit decreased 14%, from $35 million to $30 million which included a $3 million impact related to unfavorable currency trends.

For the second quarter of fiscal 2002, global carbon black volumes declined 2% compared to the second quarter of fiscal 2001. In addition to volume declines, foreign exchange was unfavorable by $3 million for the global carbon black business. Lower volumes and prices and unfavorable foreign exchange were somewhat offset by reduced feedstock costs. Sales volumes decreased 2% and 7%, respectively, in North America and Europe as a result of lower demand for carbon black due to weakened economic conditions. European volumes were also negatively impacted by pressure due to imports from outside the region, primarily from Egypt. While the devaluation of the Peso has hurt domestic business in Argentina, it has also caused exports to become more cost competitive. Therefore, exports to Brazil have increased to offset the domestic volume decline in Argentina. As a result, volumes in South America have remained stable with a 1% increase in volume. Strong demand in Asia Pacific, particularly in China, resulted in a 9% increase in volumes in that region.

The fumed metal oxides business experienced a 9% decrease in volumes in the second fiscal quarter of 2002 compared to the same quarter of 2001. In particular, fumed metal oxides' electronics and fiber optics markets experienced a significant decline in demand. Its traditional silicone rubber, composites and adhesives markets experienced relatively flat volumes year over year. Lower operating costs, favorable feedstock costs, and revenue associated with the operation of the fumed alumina unit did, however, offset the impact of price erosion and volume decline resulting in a $2 million improvement in operating profit versus the second fiscal quarter of 2001.

Cabot's inkjet colorants business continues to make progress with the growth of its existing commercial products and the development of new products. Volumes increased 39% resulting in a $1 million increase in operating profit in the second quarter of fiscal 2002 versus the second fiscal quarter of 2001.

Though volumes for the Chemical Businesses decreased slightly in the second fiscal quarter of 2002, volumes were 11% higher sequentially. Rising oil prices will likely have a negative impact on carbon black feedstock costs and short-term margins. Consequently, the Company remains cautious about the outlook for the Chemical Businesses segment for the rest of fiscal 2002.

Performance Materials sales decreased 53% from $103 million in the second quarter of fiscal 2001 to $48 million in the second quarter of fiscal 2002. Volumes and operating profit declined 72% and 46%, respectively. The business did, however, experience higher average selling prices due to improved mix and higher contract prices for some products. In addition, the business benefited from lower average ore costs because the spot price for tantalum was much lower in the second quarter of 2002 compared to the same quarter of 2001. The significant declines in sales, volumes, and operating profit essentially resulted from the failure of two of the Company's tantalum customers to buy tantalum wire and powder regularly during the year pursuant to their contracts with the Company. Cabot has continued its efforts to resolve certain issues under the supply contracts with these customers but to date has been unsuccessful in reaching mutual resolution with them. Cabot filed legal actions in April 2002 against the two customers to enforce its rights under the contracts, to preserve their value for its shareholders, and to be fair to its tantalum customers who are honoring their contracts. As these lawsuits continue, the Company remains cautious about the outlook for the fiscal year for this business.

Specialty Fluids sales in the second quarter were $6 million versus $5 million last year. The segment reported an operating loss of $1 million for the second quarter of 2002 and 2001. While the business benefited from increased volumes and improved pricing in the second quarter of 2002 for cesium formate, lower tantalum ore sales had a negative impact. During the second quarter of fiscal 2002, Specialty Fluids began work on three additional completion jobs, including one job in the Gulf of Mexico which is a new market for the product. To date, cesium formate has been successfully used in a total of 50 completion and drill-in applications, primarily involving challenging high pressure, high temperature wells in the North Sea. In the second quarter of fiscal 2002, actual flow results continued to support the initial flow tests from drill-in jobs finished during the fourth quarter of fiscal 2001, which anticipated two to five times higher flow rates. These results indicate that cesium formate is delivering the value in use that the Company and our customers anticipated.

Research and technical service spending remained flat at $12 million for the second quarter of 2002 versus the second quarter of last year. Selling and administrative expenses decreased $1 million from $52 million for the second quarter of fiscal 2001 to $51 million spent in the second quarter of this year. The decrease is largely due to reduced stock-based incentive compensation costs.

Interest income in the second quarter was $5 million less than in the same quarter last year due to a decrease in Cabot's cash position and lower interest rates.

Interest expense for the quarter ended March 31, 2002 decreased $3 million versus the year ago quarter due to the benefit of the interest rate swaps, lower interest rates, and capitalized interest.

In the second quarter of 2002, other income increased $4 million due to a $2 million foreign exchange gain, primarily resulting from a net U.S. dollar receivable position in Argentina and a $2 million gain from the sale of Cabot Microelectronics shares related to incentive compensation forfeitures.

During fiscal 2000, Cabot approved plans to close two plants. In relation to the plant closings, Cabot recorded an $18 million charge in the fourth quarter of fiscal 2000. Included in the charge were accruals of $2 million for severance and termination benefits for approximately 38 employees of the Chemical and Performance Materials businesses, $7 million for facility closing costs, and a $9 million charge for the impairment of long-lived assets. One of the plant closures was completed during fiscal 2001, and the second plant closure was completed during the second quarter of fiscal 2002. During the quarter ended March 31, 2002, approximately $1 million of severance and termination benefits were paid out of the accrual, which represents the final payments under the severance arrangements. At March 31, 2002, $2 million remains accrued for the required monitoring costs at the second site.

SIX MONTHS ENDED MARCH 31, 2002 VERSUS
SIX MONTHS ENDED MARCH 31, 2001

Net income from continuing operations for the first six months of fiscal 2002 was $64 million compared to $59 million for the first half of fiscal 2001. Included in these results from operations for the first six months of 2002 is a $3 million special charge related to the cancellation of an expansion project in the Performance Materials plant in Boyertown, Pennsylvania and non-capitalizable transaction costs, both associated with the acquisition of SCSM. Included in these results from operations for the first half of fiscal 2001 is a $17 million special charge related to the retirement of Cabot's Chief Executive Officer.

Sales decreased 15% from $853 million last year to $727 million this year due to somewhat weaker volumes and pricing in the Chemical Businesses and significantly decreased volumes in the Performance Materials segment. However, operating profit before taxes and special items increased slightly from $90 million in the first half of fiscal 2001 to $92 million in the first half of fiscal 2002. Increased average selling prices, particularly in the first quarter of 2002, and decreased ore costs in the Performance Materials business were the primary drivers behind the increase in profitability.

Sales for the Chemical Businesses decreased $97 million or 14%, from $691 million last year to $594 million this year. Operating profit decreased $19 million or 25%, from $76 million to $57 million. The decrease in profitability is primarily attributed to slower industrial growth in North America and Europe, pressure on margins, and unfavorable currency trends.

Performance Materials sales were $130 million, an 18% decrease from $159 million in the first six months of fiscal 2001. Operating profit increased 96% from $23 million in the first six months of last year to $45 million in the first two quarters of this year driven by higher prices and lower raw material costs, partially offset by lower volumes.

Specialty Fluids realized a $3 million improvement in sales for the six-month period ended March 31, 2002. Sales increased from $12 million last year to $15 million this year. Operating profitability for Specialty Fluids was break- even for the six month period of 2002 and for the same period in 2001. While cesium formate volumes and pricing improved, the business results were negatively impacted by declining tantalum ore sales.

In February 2001, Cabot received $3 million, net of tax, ($0.04 per diluted common share) of additional proceeds from the September 2000 sale of the Liquefied Natural Gas business. The proceeds, net of tax, are classified as a gain on sale of discontinued business in the consolidated statements of income.

Research and technical service spending remained flat at $23 million for the first half of 2002 versus the first half of last year. Selling and administrative expenses increased $2 million from $97 million for the first six months of fiscal 2001 to $99 million spent in the first six months of this year. The increase is largely due to increased corporate administrative costs offset by reduced stock-based incentive compensation costs.

Interest income in the six months ended March 31, 2002 was $13 million less than in the same period last year due to a decrease in Cabot's cash position. Lower interest rates further negatively impacted interest income.

Interest expense for the first six months of fiscal 2002 decreased $3 million versus the year ago period due to the benefit of the interest rate swaps, lower interest rates, and capitalized interest.

In the six month period ended March 31, 2002, other income increased $3 million due to a $1 million foreign exchange gain, primarily resulting from a net U.S. dollar receivable position in Argentina and a $2 million gain from the sale of Cabot Microelectronics shares related to incentive compensation forfeitures.

During fiscal 2000, Cabot approved plans to close two plants. In relation to the plant closings, Cabot recorded an $18 million charge in the fourth quarter of fiscal 2000. Included in the charge were accruals of $2 million for severance and termination benefits for approximately 38 employees of the Chemical and Performance Materials businesses, $7 million for facility closing costs, and a $9 million charge for the impairment of long-lived assets. One of the plant closures was completed during fiscal 2001, and the second plant closure was completed during the second quarter of fiscal 2002. During the quarter ended March 31, 2002, approximately $1 million of severance and termination benefits were paid out of the accruals. At March 31, 2002, $2 million remains in the accrual for the required monitoring costs at the second site.

III. CASH FLOW AND LIQUIDITY

During the first six months of the fiscal year, cash provided by operating activities totaled $38 million as compared to cash used by operating activities of $141 million for the same period last year. The cash provided by operations for fiscal 2002 was attributable to net income offsetting an increase in working capital. A component of the increase in working capital is the build-up of inventory in the Performance Materials business, resulting from the failure of two customers in the business to buy regularly under their contracts. The uses of cash during the first six months of 2001 were much higher than 2002 due to a $178 million tax payment related to the September 2000 disposition of Cabot's Liquified Natural Gas business.

Capital spending for the first six months of the year was $167 million. Of this amount, $89 million, net of $10 million in cash acquired, was related to the buyout by Cabot of the other 50% shareholder in the Showa Cabot Supermetals joint venture. The majority of the remaining capital spending related to maintaining existing assets and the construction of a semi-works facility for the Nanogel(TM) business. Capital expenditures for 2002 are expected to be approximately $280-$300 million. Capital expenditures for 2002 also include replacement projects, plant expansions, and the completion of projects started in fiscal 2001.

On February 8, 2002, Cabot purchased the remaining 50% of the shares in Showa Cabot Supermetals KK in Japan, from its joint venture partner, Showa Denko KK. SCSM is a supplier of tantalum powders and metal products to the global electronics, aerospace, and chemical processing industries. The acquisition of SCSM expands the capacity of Cabot's tantalum business.

Cash used by financing activities was $44 million in the first half of fiscal 2002 as compared to $19 million for the same period last year. In the first six months of 2002, the Company primarily used cash for the repurchase of $26 million of its common stock and $5 million of its preferred stock and a $17 million payment of cash dividends to shareholders. These uses of cash were somewhat offset by an increase in short-term debt and the issuance of $4 million of common stock. In the first six months of 2001, the key components of the change in net cash from financing activities were the issuance of a 3-year EURO note for $129 million, the repayment of $63 million in long-term debt, and the repurchase of $73 million of common stock and $4 million of preferred stock.

On May 10, 2002, Cabot's Board of Directors authorized the repurchase of up to 12.6 million shares of Cabot's common stock, superseding prior authorizations. As of March 31, 2002, approximately 7 million shares have been purchased under this authorization.

As a result of lower cash balances and the acquisition of debt, both related to the SCSM acquisition, Cabot's ratio of total debt (including short-term debt net of cash) to capital increased from 14% at December 31, 2001 to 26% at March 31, 2002.

The acquired debt of SCSM consisted of $47 million in notes payable to banks and $59 million in long-term debt from institutional lenders. The bank notes are payable in Yen and have renewable one year terms. Notes payable to banks are classified as current liabilities on the consolidated balance sheet. Interest rates are variable and based on short-term interest rates.

The long-term debts are also payable in Yen and mature on various dates in fiscal years 2004 to 2006. The interest rates on $25 million of the loans are fixed and range from 1.5% to 2.1%. The interest rates on the remaining long-term loans are variable and based on short-term interest rates. The principal payments on the $59 million in long-term debt due in each of the five fiscal years 2002 through 2006 are zero, zero, $10 million, $19 million, and $30 million, respectively.

In July 2001, Cabot replaced its revolving credit facility with a new agreement. Under the new agreement, Cabot may, under certain conditions, borrow up to $250 million at floating rates. The new facility is available through July 13, 2006. As of March 31, 2002, Cabot had no borrowings outstanding under this arrangement. Management expects cash on hand, cash from operations and present financing arrangements, including Cabot's unused line of credit and shelf registration for debt securities, to be sufficient to meet Cabot's cash requirements for the foreseeable future.

IV. Recent Accounting Developments

Cabot is assessing the impact of the following new accounting pronouncements:

The FASB issued Statement No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets" ("FAS No. 143"), in June 2001. The objective of FAS No. 143 is to establish an accounting standard for the recognition and measurement of an asset retirement obligation on certain long-lived assets. The retirement obligation must be one that results from the acquisition, construction or normal operation of a long-lived asset. FAS No. 143 requires the legal obligation associated with the retirement of a tangible long-lived asset to be recognized at fair value as a liability when incurred, and the cost to be capitalized by increasing the carrying amount of the related long-lived asset. FAS No. 143 will be effective for Cabot on October 1, 2002. Cabot is currently evaluating the effect of implementing FAS No. 143.

In October 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS No. 144"), which supersedes FAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and provisions of APB Opinion No. 30 "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB No. 30"), for the disposal of segments of a business. The statement creates one accounting model, based on the framework established in FAS No. 121, to be applied to all long-lived assets including discontinued operations. FAS No. 144 will be effective for Cabot on October 1, 2002. Cabot is currently evaluating the effect of implementing FAS No. 144.

The FASB issued Statement No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("FAS No. 145") in April 2002. This statement updates, clarifies and simplifies existing accounting pronouncements. Specifically, the statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt" ("FAS No. 4"), FASB Statement No. 64, "Extinguishment of Debt Made to Satisfy Sinking Fund Requirements" ("FAS No. 64") and FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers." This statement amends FASB Statement No. 13, "Accounting for Leases" ("FAS No. 13") and certain other existing authoritative pronouncements to make technical corrections or clarifications. FAS No. 145 will be effective for Cabot related to the rescission of FAS No. 4 and FAS No. 64 on October 1, 2002. FAS No. 145 will be effective related to the amendment of FAS No. 13 for all transactions occurring after May 15, 2002. All other provisions of FAS No. 145 will be effective for financial statements issued after May 15, 2002. Cabot is currently evaluating the effect of implementing FAS No. 145.

Forward-Looking Information: Included herein are statements relating to management's projections of future profits, the possible achievement of Cabot's financial goals and objectives, and management's expectations for Cabot's product development program. Actual results may differ materially from the results anticipated in the forward looking statements included herein due to a variety of factors, including but not limited to the following: market supply and demand conditions, fluctuations in currency exchange rates, the outcome of pending litigation, changes in the rate of economic growth in the United States and other major international economies, changes in regulatory environments, changes in trade, monetary and fiscal policies throughout the world, acts of war and terrorist activities, future litigation, cost of raw materials, patent rights of Cabot and others, demand for Cabot's customers' products, and competitors' reactions to market conditions. Timely commercialization of products under development by Cabot may be disrupted or delayed by technical difficulties, market acceptance, or competitors' new products, as well as difficulties in moving from the experimental stage to the production stage. The risk management discussion and the estimated amounts generated from the analyses are forward-looking statements of market risk, assuming certain adverse market conditions occur. Actual results in the future may differ materially from these projected results due to actual developments in the global financial markets. The methods used by Cabot to assess and mitigate risks should not be considered projections of future events or losses. The Company undertakes no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Cabot's objective in managing its exposure to interest rate changes is to maintain an appropriate balance of fixed and variable rate debt and to match borrowing costs with the economics of Cabot's business cycles. Cabot uses interest rate swaps to adjust fixed and variable rate debt positions.

In October 2001, Cabot entered into four interest rate swaps in an aggregate notional amount of $97 million. The swaps are derivative instruments as defined by FAS No. 133 and have been designated as fair value hedges. The swaps hedge the change in the fair value of $97 million of Cabot's fixed rate medium term notes due to changes in interest rates. The interest rate swaps, as well as the medium term notes they hedge, mature on various dates through February 2007. The variable interest rates on the swaps are set for a six-month period and will reset in June 2002.

As part of the SCSM acquisition, Cabot assumed $106 million of Yen denominated debt, of which $35 million is at fixed interest rates and $71 million is at variable interest rates, resulting in increased interest rate market risk. Cabot also assumed $43 million of interest rates swaps that fix an equivalent amount of the variable rate debt. The swaps are derivative instruments as defined by FAS No. 133 and have been designated as cash flow hedges. The swaps hedge the risk of changes in market interest rates associated with $43 million of the variable rate bank notes and long-term debts assumed in the SCSM acquisition. The swaps are variable-for-fixed swaps of the quarterly interest payments. The swaps require payment of fixed rates ranging from 1.5% to 2.2% and the receipt of variable rates. The interest rate contracts will mature with the associated loans in fiscal years 2002 through 2006.

Cabot also has the equivalent of $115 million of Euro debt at variable rates. A change in rates of 10% on Cabot's aggregate variable rate debt could cause interest expense to change by $1 million per year.

As of March 31, 2002, Cabot had $200 million in cash and short-term investments. It is the Company's practice to invest excess cash in instruments that will earn a high rate of return, consistent with the protection of principal. Interest income earned may vary as a result of changes in interest rates and average cash balances, which could fluctuate over time. Based on current market rates of 2% and a cash balance invested in money market securities of $143 million, a 10% change in interest rates could cause interest income to change by approximately $0.3 million.

Cabot utilizes a Value-at-Risk ("VAR") model to determine the maximum potential loss in the fair value of its foreign exchange, share repurchases and commodity sensitive derivative financial instruments within a 95% confidence interval. Cabot's computation is based on the interrelationships between movements in interest rates, foreign currencies, share repurchases and commodities. These interrelationships are determined by observing historical interest rates, foreign currency, share price and commodity market changes over corresponding periods. The assets and liabilities, firm commitments and anticipated transactions, which are hedged by derivative financial instruments, are excluded from the model. The VAR model estimates were made assuming normal market conditions. There are various modeling techniques that can be used in the VAR computation. Cabot's computations are based on a Monte Carlo simulation method. The VAR Model is a risk analysis tool and does not purport to represent actual gains or losses in fair value that will be incurred by Cabot. The VAR Model estimated a maximum loss in market value of $9 million for the twelve month period following March 31, 2002 for derivative instruments held on that date.

At no time during 2001 did actual changes in market value exceed the VAR amounts during the reporting period.

In 2001, the VAR Model estimated a maximum loss in market value of $2 million for derivative instruments held as of September 30, 2001.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

On April 10, 2002 the Company commenced an action in Suffolk Superior Court in the Commonwealth of Massachusetts against Vishay Intertechnology Inc., Vishay Sprague Inc. and Vishay Sprague Sanford Inc. (referred to collectively as "Vishay") with respect to tantalum supply contracts entered into by the parties in 2000. The Company is seeking declaratory relief in connection with Vishay's obligations to purchase tantalum products regularly over the contract year, as well as damages in an unspecified amount. The Company is also requesting preliminary injunctive relief. A hearing on the request for injunctive relief is scheduled for June 2002, motions for summary judgment are scheduled to be heard in September 2002 and the trial, if necessary, is scheduled to commence in November 2002.

On April 10, 2002 the Company also commenced an action in Suffolk Superior Court in the Commonwealth of Massachusetts against Kemet Electronics Corporation (referred to as "Kemet") with respect to a tantalum supply contract entered into by the parties in 2000. The Company is seeking declaratory relief in connection with Kemet's obligations to purchase tantalum products regularly over the contract year, damages in an unspecified amount and preliminary injunctive relief. A hearing on the request for injunctive relief is scheduled for June 2002, motions for summary judgment are scheduled to be heard in September 2002 and the trial, if necessary, is scheduled to commence in November 2002.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The Annual Meeting of Stockholders of Cabot Corporation (the "Annual Meeting") was held on March 7, 2002. An election of Directors was held for which Arthur L. Goldstein, Gautam S. Kaji and John H. McArthur were nominated and elected to the class of Directors whose terms expire in 2005. The following votes were cast for or withheld with respect to each of the nominees:

Director	In Favor of	Withheld
Arthur L. Goldstein	59,875,362	1,482,482
Gautam S. Kaji	59,842,424	1,515,420
John H. McArthur	59,924,227	1,433,617

Other Directors whose terms of office as Directors continued after the meeting are:

Director	Term of Office Expires
Kennett F. Burnes	2004
John S. Clarkeson	2004
Roderick C.G. MacLeod	2004
Ronaldo H. Schmitz	2004
John G.L. Cabot	2003
John F. O'Brien	2003
Lydia W. Thomas	2003
Mark S. Wrighton	2003

The second proposal before the Annual Meeting was a management proposal to adopt certain amendments to the 1999 Equity Incentive Plan, including an increase in the number of shares authorized for issuance under the Plan from 3,000,000 shares to 6,000,000 shares. The proposal was approved by the stockholders. The following votes were cast for or against, or abstained from voting on, this proposal:

For	Against	Abstained
59,699,284	4,349,614	308,946

There were no broker non-votes with respect to this proposal.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) EXHIBITS

The exhibit numbers in the following list correspond to the number assigned to such exhibits in the Exhibit Table of Item 601 of Regulation S-K:

Exhibit Number	Description
*10.1	1999 Equity Incentive Plan as amended through March 7, 2002.

* Management contract or compensatory plan or arrangement.

(b) REPORTS ON FORM 8-K

The Company filed a Current Report on Form 8-K dated February 8, 2002 on February 22, 2002 reporting that on February 8, 2002 it had completed its purchase of the remaining 50% of the shares in Showa Cabot Supermetals KK in Japan and attaching the texts of the related press releases dated January 31, 2002 and February 8, 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CABOT CORPORATION

Date: May 15, 2002	By: /s/ John A. Shaw -- John A. Shaw Executive Vice President and Chief Financial Officer (Duly Authorized Officer)
Date: May 15, 2002	By: /s/ Eduardo E. Cordeiro -- Eduardo E. Cordeiro Controller (Chief Accounting Officer)

EXHIBIT 10.1

CABOT CORPORATION

1999 EQUITY INCENTIVE PLAN

As Amended as of March 7, 2002

1. PURPOSE

The purpose of this 1999 Equity Incentive Plan (the "Plan") is to advance the interests of Cabot Corporation (the "Company") and its stockholders by enhancing the Company's ability to (a) attract and retain employees who are in a position to make significant contributions to the success of the Company and its subsidiaries; (b) reward employees for such contributions; and (c) encourage employees to take into account the long-term interests of the Company and its stockholders through ownership of shares of the Company's common stock ("Stock").

2. ADMINISTRATION

The Plan will be administered by the Compensation Committee or such other committee (the "Committee") of the Board of Directors of the Company (the "Board") as the Board may from time to time designate; provided that any Committee administering the Plan shall consist of at least three directors and shall not include any employees of the Company. The Committee will have authority, not inconsistent with the express provisions of the Plan and in addition to other authority granted under the Plan, to (a) grant awards ("Awards") and determine the terms and conditions of each Award; (b) modify or waive, on a case by case basis, any term or condition of, or compliance by a Participant with any obligation to be performed by him or her under, a previously granted Award; (c) prescribe forms, rules and procedures (which it may vary from time to time) as appropriate for the administration of the Plan; and (d) interpret the Plan and decide any questions and settle all controversies and disputes that may arise in connection with the Plan. Such determinations and actions of the Committee, and all other determinations and actions of the Committee made or taken under authority granted by any provision of the Plan, will be conclusive and will bind all parties.

3. EFFECTIVE DATE AND TERM OF PLAN

The Plan originally became effective on March 11, 1999, the date on which it was approved by the stockholders of the Company. No Award may be granted under the Plan after the tenth anniversary of the date on which this Plan was adopted by the Board, but Awards previously granted may extend beyond that date.

4. SHARES SUBJECT TO THE PLAN

Subject to adjustment as provided in Section 8.6, the maximum number of shares of Stock that may be delivered under the Plan will be (a) 6,000,000 shares of Stock, which includes the 3,000,000 shares of Stock authorized for delivery when the Plan was originally approved by the stockholders of the Company; plus (b) any shares of Stock issued under the Plan and forfeited; plus (c) without duplication for shares counted under the immediately preceding clause, a number of shares of Stock equal to the number of shares repurchased by the Company in the open market or otherwise and having an aggregate repurchase price no greater than the amount of cash proceeds received by the Company from the sale of shares of Stock under the Plan; plus (d) any shares of Stock surrendered to the Company in payment of the exercise price of Options (as defined in Section 6.2) issued under the Plan. However, in no event shall the Company (a) deliver more than 6,000,000 shares of Stock under the Plan (subject to adjustment pursuant to Section 8.6) to the officers of the Company, (b) issue ISO's (as defined in Section 6.2(a)) under the Plan covering more than 6,000,000 shares of Stock, or (c) issue any Award under the Plan if after giving effect to such Award the aggregate of all outstanding awards under the Plan (i.e., unexercised Options, unvested Restricted Stock, or other awards that remain subject to the restrictions of the Plan) would exceed 9.9% of the total number of shares of Stock outstanding (adjusted to include such unexercised Options, unvested Restricted Stock, or other awards that remain subject to the restrictions of the Plan) at the time of such award, or of the total number of shares of Stock outstanding (as so adjusted) at any time since the Plan was first approved by the stockholders of the Company, whichever is higher.

Stock delivered under the Plan may be either from authorized but unissued Stock or from treasury shares.

5. ELIGIBILITY AND PARTICIPATION

Those eligible to receive Awards under the Plan will be key employees of the Company or any of its subsidiaries ("Employees") who, in the opinion of the Committee, are in a position to make a significant contribution to the success of the Company or its subsidiaries. A "subsidiary" for purposes of the Plan is an entity in which the Company owns, directly or indirectly, (a) equity interests possessing 40% or more, but less than a majority, of the total combined voting power of all classes of equity, and which entity the Committee shall have determined is managed as part of one of the Company's core businesses, or (b) equity interests possessing a majority of the total combined voting power of all classes of equity. The Committee will from time to time select the eligible Employees who are to be granted Awards ("Participants"), but no Participant shall receive Awards under the Plan covering more than 1,000,000 shares of Stock (subject to adjustment pursuant to Section 8.6).

6. TYPES OF AWARDS

6.1. RESTRICTED STOCK.

(a) Nature of Restricted Stock Award. An Award of Restricted Stock entitles the recipient to acquire, at such time or times as the Committee may determine, shares of Stock subject to the restrictions described in paragraph (d) below ("Restricted Stock") for a consideration which may be either (i) any amount which is not less than 30% of the fair market value of the Stock at the time of grant, or (ii) an amount less than 30% of the fair market value of the Stock at the time of grant if the Committee has expressly determined to grant the discount in accordance with Section 6.5 or in lieu of a comparable amount of salary or cash bonus. However, the number of shares issued at less than 30% of the fair market value in lieu of salary or cash bonus shall be no more than 500,000 shares (subject to adjustment pursuant to Section 8.6).

(b) Payment for Restricted Stock. An Award of Restricted Stock may permit the Participant to pay some or all of the purchase price thereof, or withholding taxes to be paid by the Participant in connection therewith, in the form of a note from the Participant on such terms as the Committee shall determine. Such terms may include forgiveness of all or a portion of any such note upon such conditions as the Committee may specify. However, if any portion of such a note is to be forgiven on the sole condition that the Participant remains an Employee for a period of time, the portion to be so forgiven shall not be counted for the purposes of Section 6.1(a) as consideration for such Stock.

(c) Rights as a Stockholder. A Participant who receives Restricted Stock will have all the rights of a stockholder with respect to the Stock, including voting and dividend rights, subject to the restrictions described in paragraph (d) below and any other conditions imposed by the Committee at the time of grant.

(d) Restrictions. The restrictions on each grant of Restricted Stock will lapse at such time or times, and on such conditions, as the Committee may specify. However, not more than 5% of the shares of Stock subject to the Plan shall be awarded with a vesting period less than 3 years from the date of grant, or with no vesting period, or with a vesting schedule that is faster than ratably over a three year period. Except as otherwise specifically provided by the Plan or by the Committee in any particular case, until these restrictions lapse, Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of, except that Restricted Stock may be pledged as security for the purchase price thereof, or for loans used to fund any or all of the purchase price thereof or withholding taxes paid in connection with the purchase thereof. If the Participant ceases to be an Employee before such restrictions have lapsed, the Company shall have the right to repurchase the Restricted Stock for the amount of consideration (excluding services) it received for the Stock plus, if the Committee shall so determine, an amount equal to the withholding taxes paid in connection with the sale of the Stock, or for such other consideration as the Committee shall determine, including for no consideration if no consideration other than services was paid. The Committee shall not accelerate the time at which the restrictions on all or any part of a grant of Restricted Stock will lapse, except as the Committee may determine to be appropriate in connection with a Participant's termination as an Employee.

6.2. OPTIONS.

(a) Nature of Options. An "Option" is an Award entitling the recipient on exercise thereof to purchase Stock at a specified exercise price. Both "incentive stock options," as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), and Options that are not incentive stock options, may be granted under the Plan. Any Option intended to qualify as an incentive stock option will be referred to in the Plan as an "ISO". Once an ISO has been granted, no action by the Committee that would cause the Option to lose its status under the Code as an incentive stock option will be effective without the consent of the Option holder.

(b) Exercise Price. The exercise price of an Option will be determined by the Committee, but except as provided in Section 6.5 the Committee shall not set the exercise price of an Option at less than the fair market value per share of the Stock at the time the Option is granted unless the Committee expressly determines to grant the discount in lieu of a comparable amount of salary or cash bonus.

(c) Duration of Options. The latest date on which an Option may be exercised will be the tenth anniversary of the date the Option was granted, or such earlier date as may have been specified by the Committee at the time the Option was granted.

(d) Exercise of Options. An Option will become exercisable at such time or times, and on such terms and conditions, as the Committee may specify. The Committee may at any time accelerate the time at which all or any part of the Option may be exercised.

Any exercise of an Option must be in writing, signed by the proper person and delivered or mailed to the Company, accompanied by (1) any documents required by the Committee and (2) payment in full for the number of shares for which the Option is exercised.

6.3. APPRECIATION RIGHTS.

(a) Nature of Appreciation Rights. An Appreciation Right is an Award entitling the recipient on exercise of the Right to receive an amount, in cash or Stock or a combination thereof (such form to be determined by the Committee), determined in whole or in part by reference to appreciation in Stock value.

An Appreciation Right may be either a standard Stock Appreciation Right or a Performance Appreciation Right. A Stock Appreciation Right entitles the Participant to receive, with respect to each share of Stock as to which the Right is exercised, the excess of (1) the share's fair market value on the date of exercise, increased if the Committee so provides by the value of dividends on the Stock, over (2) its fair market value on the date the Right was granted. A Performance Appreciation Right is a form of Stock Appreciation Right pursuant to which the amount the recipient is entitled to receive is adjusted upward or downward under rules established by the Committee to take into account the performance of the Stock in comparison with the performance of other stocks or an index of other stocks or to take into account other criteria determined by the Committee to be appropriate to reflect the true performance of the Stock or the Company.

Appreciation Rights shall be exercisable at such time or times (not later than ten years from the date of grant), and on such terms, as the Committee may specify.

(b) Tandem Appreciation Rights. Appreciation Rights may be granted in tandem with, or independently of, Options granted under the Plan. The relationship between an Option and any Tandem Appreciation Rights shall be set forth in the respective instrument for the Option or the Tandem Appreciation Right or both.

6.4. PERFORMANCE AWARDS.

(a) Nature of Performance Awards. A Performance Award entitles the recipient to receive an amount, in cash or Stock or a combination thereof (such form to be determined by the Committee), based on one or more measures of performance and/or the attainment of one or more performance goals. Performance measures or goals may be related to personal performance, corporate performance, departmental performance or any other category of performance deemed by the Committee to be important to the success of the Company. The Committee will determine the performance measures and/or goals, the period or periods during which performance is to be measured and all other terms and conditions applicable to the Award. The Committee may in its discretion, in order to qualify an Award under Section 162(m) of the Code, or for any other reason, seek Stockholder approval for particular Awards, or a program pursuant to which Awards were or are to be made, and may make any such Awards subject to such approval.

(b) Other Awards May be Made Subject to Performance Criteria. The Committee may, at the time any Award described in this Section 6 is granted, specify one or more measures of performance and/or the attainment of one or more performance goals to be used in determining one or more terms of the Award or which shall be conditions to the Participant's realization of benefits under all or a portion of the Award.

6.5. SUBSTITUTE AWARDS.

In connection with any acquisition, the Committee may grant Awards to persons who become Employees in connection with such acquisition in substitution for equity incentives held by them in the seller or acquired entity. In such case the Committee may set the prices and other terms of the substitute Awards at such amounts and in such manner as may be appropriate to preserve for the Participants the economic values of the equity incentives for which such Awards are substitutes, or otherwise to provide such incentives as the Committee may determine are appropriate. Any substitute Awards granted under the Plan shall not count toward the share limitations set forth in Section 4, 6.1(a) or 6.1(d).

6.6. REPRICING PROHIBITION

Except for adjustments required or permitted pursuant to Section 8.6,

a) the Exercise Price for any outstanding Option granted under the Plan may not be decreased after the date of grant nor may an outstanding Option granted under the Plan be surrendered to the Company as consideration for the grant of a new Option with a lower exercise price, and

b) the Purchase Price for Restricted Stock may not be reduced or reimbursed after the date of grant nor may outstanding Restricted Stock be surrendered to the Company as consideration for a new grant of Restricted Stock at a lower price.

7. EVENTS AFFECTING OUTSTANDING AWARDS

7.1. DEATH AND DISABILITY.

If a Participant ceases to be an Employee by reason of death or total and permanent disability (as determined by the Committee), the following will apply:

(a) Subject to paragraph (c) below, each Option and Appreciation Right held by the Participant when his or her employment ended will immediately become exercisable in full and will continue to be exercisable until the earlier of (1) the third anniversary of the date on which his or her employment ended, and (2) the date on which the Award would have terminated had the Participant remained an Employee. If the Participant has died, his or her Award may be exercised within such limits by his or her executor or administrator or by the person or persons to whom the Award is transferred by will or the applicable laws of descent and distribution (the Participant's "legal representative").

(b) Subject to paragraph (c) below, each share of Restricted Stock held by the Participant when his or her employment ended will immediately become free of the restrictions.

(c) If when the Participant's employment ended exercise of an Option or Appreciation Right or lapse of restrictions on Restricted Stock was subject to performance or other conditions (other than conditions relating solely to the passage of time and continued employment, which automatically lapse pursuant to Section 7.1(a) or (b)) which had not been satisfied at such time, the Committee may remove or modify such conditions or provide that the Participant will receive the benefit of the Award if and when the conditions are subsequently satisfied. If the Committee does not take such action, however, such Award will terminate as of the date on which the Participant's employment ended as described above.

(d) Any payment or benefit under a Performance Award to which the Participant has not become irrevocably entitled will be forfeited and the Award canceled as of the date on which the

Participant's employment ended, unless otherwise provided in the instrument evidencing the Award or otherwise agreed to by the Committee.

If a Participant dies after his or her employment has ended but while an Award held by him or her is still exercisable, his or her legal representative will be entitled to exercise such Award until the earlier of (1) the third anniversary of his or her death and (2) the date on which the Award would have terminated had the Participant remained an Employee.

7.2. RETIREMENT WITH COMPANY CONSENT.

If a Participant ceases to be an Employee by reason of retirement with Company consent (as defined in paragraph (f) below), the following will apply:

(a) Subject to paragraphs (c) and (e) below, each Option and Appreciation Right held by the Participant that was granted at least six months prior to the date his or her employment ended due to retirement with Company consent will immediately become exercisable in full and will continue to be exercisable until the earlier of (1) the third anniversary of the date on which his or her employment ended, and (2) the date on which the Award would have terminated had the Participant remained an Employee. If the Participant has died, his or her Award may be exercised within such limits by his or her executor or administrator or by the person or persons to whom the Award is transferred by will or the applicable laws of descent and distribution (the Participant's "legal representative").

(b) Subject to paragraphs (c) and (e) below, each share of Restricted Stock held by the Participant that was granted at least six months prior to the date his or her employment ended due to retirement with Company consent will immediately become free of the restrictions.

(c) Subject to paragraph (e) below, if when the Participant's employment ended exercise of an Option or Appreciation Right or lapse of restrictions on Restricted Stock was subject to performance or other conditions (other than conditions relating solely to the passage of time and continued employment, which automatically lapse pursuant to Section 7.1(a) or (b)) which had not been satisfied at such time, the Committee may remove or modify such conditions or provide that the Participant will receive the benefit of the Award if and when the conditions are subsequently satisfied. If the Committee does not take such action, however, such Award will terminate as of the date on which the Participant's employment ended as described above.

(d) Subject to paragraph (e) below any payment or benefit under a Performance Award to which the Participant has not become irrevocably entitled will be forfeited and the Award canceled as of the date on which the Participant's employment ended, unless otherwise provided in the instrument evidencing the Award or otherwise agreed to by the Committee.

(e) Notwithstanding the foregoing, all Awards shall be subject to such terms, conditions, restrictions, and/or limitations, if any, as the Committee deems appropriate and the Committee in its sole discretion may modify or accelerate the delivery of Awards under such circumstances as it deems appropriate. Such provisions shall be included in the Award agreement entered into with each Participant and need not be uniform among all Awards issued pursuant to the Plan.

(f) For the purposes of the Plan, "retirement with Company consent" shall be deemed to have occurred if the employee (i) has reached the age of 60 with a minimum of 15 years of service with the Company, (ii) agrees to enter into a non-compete, non-solicitation and confidentiality agreement with the Company for a period of two years commencing with the date of retirement, and (iii) has not been dismissed "for cause".

If a Participant dies after his or her employment has ended but while an Award held by him or her is still exercisable, his or her legal representative will be entitled to exercise such Award until the earlier of (1) the third anniversary of his or her death and (2) the date on which the Award would have terminated had the Participant remained an Employee.

7.3 SPIN-OFF OR SALE OF COMPANY ASSETS, REDUCTION IN COMPANY'S PERCENTAGE OWNERSHIP OF AN ENTITY EMPLOYING THE EMPLOYEE OR TRANSFERS OF AN EMPLOYEE TO ENTITIES ACQUIRING ALL OR A PORTION OF THE COMPANY OR ITS SUBSIDIARIES.

Notwithstanding any other provision of the Plan or of any Award, in the event of a spin-off or sale or other disposition of a significant portion of the Company's assets, reduction in the Company's percentage ownership of an entity employing the employee or a transfer of an employee to entities acquiring all or a portion of the Company or its subsidiaries except as otherwise determined by the Committee in any particular case, the following will apply:

(a) Each outstanding Option and Appreciation Right will immediately become exercisable in full.

(b) Each outstanding share of Restricted Stock will immediately become free of all restrictions and conditions.

(c) Conditions on Performance Awards which relate solely to the passage of time and continued employment will be removed. Performance or other conditions (other than conditions relating solely to the passage of time and continued employment) will be measured based on performance at the time an event covered in this section occurs unless otherwise provided in the instrument evidencing the Awards or in any other agreement between the Participant and the Company or unless otherwise agreed to by the Committee.

7.4. OTHER TERMINATION OF EMPLOYMENT.

If a Participant ceases to be an Employee for any reason other than those specified in Section 7.1, 7.2 and 7.3 above, except as otherwise determined by the Committee in any particular case, the following will apply:

(a) All Options and Appreciation Rights held by the Participant that were not exercisable when his or her employment ended will terminate. Any Awards that were so exercisable will continue to be exercisable until the earlier of (1) the date which is three months after the date on which his or her employment ended and (2) the date on which the Award would have terminated had the Participant remained an Employee.

(b) All Restricted Stock held by the Participant must be transferred to the Company in accordance with Section 6.1 above.

(c) Any payment or benefit under a Performance Award to which the Participant has not become irrevocably entitled will be forfeited and the Award canceled, unless otherwise provided in the instrument evidencing the Award or otherwise agreed to by the Committee.

For purposes of this Section 7.4, an Employee's employment will not be considered to have ended (1) in the case of sick leave or short-term disability or other bona fide leave of absence approved for purposes of the Plan by the Committee, so long as his or her right to reemployment is guaranteed either by statute or by contract.

7.5 CHANGE IN CONTROL.

Notwithstanding any other provision of the Plan or of any Award, in the event of a Change in Control as defined below, the following will apply:

(a) Each outstanding Option and Appreciation Right will immediately become exercisable in full.

(b) Each outstanding share of Restricted Stock will immediately become free of all restrictions and conditions.

(c) Conditions on Performance Awards which relate solely to the passage of time and continued employment will be removed. Performance or other conditions (other than conditions relating solely to the passage of time and continued employment) will continue to apply unless otherwise provided in the instrument evidencing the Awards or in any other agreement between the Participant and the Company or unless otherwise agreed to by the Committee.

(d) During the 60-day period following the Change in Control, a Participant holding an Option or an Appreciation Right will have the right (by giving written notice to the Company) to surrender all or part of his or her Award to the Company and receive a cash payment equal to (1) the excess of the value per share of stock (as defined below) on the date of exercise over the exercise price per share, adjusted, in the case of a Performance Appreciation Right to take into account the performance of the Stock in comparison to the other stocks or index specified by the Committee, multiplied by (2) the number of shares subject to the surrendered Award. Such right will not apply to any Option as to which the Committee expressly excludes such right at the date of grant; provided, however, if (i) the Change of Control is a merger to be accounted for as a pooling of interest, (ii) adequate provision is made for all Participants to receive, in substitution for their Awards, awards from the surviving entity in the same form and terms (after giving effect to the foregoing paragraphs (a), (b) and (c)) and with the same economic value as their Awards under the Plan, and (iii) the Committee, in its discretion, determines that the rights to receive cash payment under this paragraph (d) are not in the best interests of the Company, then no Participant shall have the right pursuant to this paragraph (d) to surrender his or her Award to the Company for a cash payment. As used in this paragraph with respect to an election by a Participant to receive cash in respect of an Award which is not an ISO, the term "value per share" will mean the higher of (i) the highest reported sales price, regular way, of a share of Stock on the New York Stock Exchange Composite Transactions Index during the 60-day period ending on the date of the Change in Control and (ii) if the Change in Control is the result of the acquisition of Stock by a "person" (as defined below), the highest price per share of the Stock paid by such person. In the case of an election by a Participant to receive cash in respect of an ISO, however, the term "value" will mean fair market value unless otherwise agreed to by the Participant.

A "Change in Control" shall be deemed to have occurred if:

(a) any "person" as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934 (the "1934 Act") (other than (i) the Company, (ii) any subsidiary of the Company, (iii) any trustee or other fiduciary holding securities under an employee benefit plan of the Company or of any subsidiary of the Company, or (iv) any company owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), is or becomes the "beneficial owner" (as defined in Section 13(d) of the 1934 Act), together with all affiliates and Associates (as such terms are used in Rule 12b-2 of the General Rules and Regulations under the 1934 Act) of such person, directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities;

(b) the stockholders of the Company approve a merger or consolidation of the Company with any other company, other than (1) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary of the Company, at least 65% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation or (2) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) after which no "person" (with the method of determining "beneficial ownership" used in clause (a) of this definition) owns more than 25% of the combined voting power of the securities of the Company or the surviving entity of such merger or consolidation; or

(c) during any period of two consecutive years (not including any period prior to the execution of the Plan), individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person who has conducted or threatened a proxy contest, or has entered into an agreement with the Company to effect a transaction described in clause (a), (b) or (d) of this definition) whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved cease for any reason to constitute at least a majority thereof; or

(d) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

7.6 MERGERS, CONSOLIDATIONS, ETC.

In the event of a merger or consolidation in which the Company is not the surviving corporation or which results in the acquisition of substantially all the Company's outstanding Stock by a single person or entity or by a group of persons or entities acting in concert, or in the event of sale or transfer of all or substantially all of the Company's assets (a "covered transaction"), all outstanding Options and Appreciation Rights may be terminated by the Board as of the effective date of the covered transaction, subject to the following: if the covered transaction follows a Change in Control or would give rise to a Change in Control, no Option or Appreciation Right will be terminated (without the consent of the Participant) prior to the expiration of 20 days following the later of (i) the date on which the Award became fully exercisable and (ii) the date on which the Participant received written notice of the covered transaction.

8. GENERAL PROVISIONS

8.1. DOCUMENTATION OF AWARDS.

Awards will be evidenced by written instruments prescribed by the Company from time to time. Such instruments may be in the form of agreements, to be executed by both the Participant and the Company, or certificates, letters or similar instruments, which need not be executed by the Participant but acceptance of which will evidence agreement to the terms thereof and hereof.

8.2. RIGHTS AS A STOCKHOLDER; DIVIDEND EQUIVALENTS.

Except as specifically provided by the Plan, the receipt of an Award will not give a Participant rights as a stockholder; the Participant will obtain such rights, subject to any limitations imposed by the Plan or the instrument evidencing the Award, upon actual receipt of Stock. However, the Committee may, on such conditions as it deems appropriate, provide that a Participant will receive a benefit in lieu of cash dividends that would have been payable on any or all Stock subject to the Participant's Award had such Stock been outstanding. Without limitation, the Committee may provide for payment to the Participant of amounts representing such dividends, either currently or in the future, or for the investment of such amounts on behalf of the Participant.

8.3. CONDITIONS ON DELIVERY OF STOCK.

The Company will not be obligated to deliver any shares of Stock pursuant to the Plan or to remove any restriction from shares previously delivered under the Plan (a) until all conditions of the Award have been satisfied or removed, (b) until, in the opinion of the Company's counsel, all applicable federal and state laws and regulations have been complied with, (c) if the outstanding Stock is at the time listed on any stock exchange, until the shares to be delivered have been listed or authorized to be listed on such exchange upon official notice of notice of issuance, and (d) until all other legal matters in connection with the issuance and delivery of such shares have been approved by the Company's counsel. If the sale of Stock has not been registered under the Securities Act of 1933, as amended, the Company may require, as a condition to exercise of the Award, such representations or agreements as counsel for the Company may consider appropriate to avoid violation of such Act and may require that the certificates evidencing such Stock bear an appropriate legend restricting transfer.

8.4. TAX WITHHOLDING.

The Company will withhold from any payment made pursuant to an Award an amount sufficient to satisfy all federal, state and local withholding tax requirements (the "withholding requirements").

In the case of an Award pursuant to which Stock may be delivered, the Committee will have the right to require that the Participant or other appropriate person remit to the Company an amount sufficient to satisfy the withholding requirements, or make other arrangements satisfactory to the Committee with regard to such requirements, prior to the delivery of any Stock. If and to the extent that such withholding is required, the

Committee may permit the Participant or such other person to elect at such time and in such manner as the Committee provides to have the Company hold back from the shares to be delivered, or to deliver to the Company, Stock having a value calculated to satisfy the withholding requirement.

If at the time an ISO is exercised the Committee determines that the Company could be liable for withholding requirements with respect to a disposition of the Stock received upon exercise, the Committee may require as a condition of exercise that the person exercising the ISO agree (a) to inform the Company promptly of any disposition of Stock received upon exercise, and (b) to give such security as the Committee deems adequate to meet the potential liability of the Company for the withholding requirements and to augment such security from time to time in any amount reasonably deemed necessary by the Committee to preserve the adequacy of such security.

8.5. NONTRANSFERABILITY OF AWARDS.

Except as otherwise specifically provided by the Committee, no Award may be transferred other than by will or by the laws of descent and distribution, and during a Participant's lifetime an Award requiring exercise may be exercised only by him or her (or in the event of incapacity, the person or persons properly appointed to act on his or her behalf).

8.6. ADJUSTMENTS IN THE EVENT OF CERTAIN TRANSACTIONS.

(a) In the event of a stock dividend, stock split or combination of shares, recapitalization or other change in the Company's capitalization, or other distribution with respect to common stockholders other than normal cash dividends, the Committee will make any appropriate adjustments to the maximum number of shares that may be delivered under the Plan under Section 4 above.

(b) In any event referred to in paragraph (a) the Committee will also make any appropriate adjustments to the number and kind of shares of stock or securities subject to Awards then outstanding or subsequently granted, any exercise prices relating to Awards and any other provisions of Awards affected by such change. The Committee may also make such adjustments to take into account material changes in law or in accounting practices or principles, mergers, consolidations, acquisitions, dispositions, repurchases or similar corporate transactions, or any other event, if it is determined by the Committee that adjustments are appropriate to avoid distortion in the operation of the Plan, but no such adjustments other than those required by law may adversely affect the rights of any Participant (without the Participant's consent) under any Award previously granted.

8.7. EMPLOYMENT RIGHTS.

Neither the adoption of the Plan nor the grant of Awards will confer upon any person any right to continued employment with the Company or any subsidiary or affect in any way the right of the Company or subsidiary to terminate an employment relationship at any time. Except as specifically provided by the Committee in any particular case, the loss of existing or potential profit in Awards granted under the Plan will not constitute an element of damages in the event of termination of an employment relationship even if the termination is in violation of an obligation of the Company to the Employee.

8.8. DEFERRAL OF PAYMENTS.

The Committee may agree at any time, upon request of the Participant, to defer the date on which any payment under an Award will be made.

8.9. PAYMENT FOR STOCK; LOANS.

Stock purchased from the Company under this Plan either as Restricted Stock or on exercise of an Option may be paid for with such legal consideration as the Committee may determine. If and to the extent authorized by the Committee, the Company may permit Participants to pay for Stock with promissory notes, and may make loans to Participants of all or a portion of any withholding taxes to be paid in connection with the grant, exercise or vesting of any Award. Any such extensions of credit may be secured by Stock or other collateral, or may be made on an unsecured basis, as the Committee may determine.

9. DISCONTINUANCE, CANCELLATION, AMENDMENT AND TERMINATION

The Committee may at any time discontinue granting Awards under the Plan. The Board may at any time or times amend the Plan or any outstanding Award for any purpose which may at the time be permitted by law, or may at any time terminate the Plan as to any further grants of Awards, provided that (except to the extent expressly required or permitted by the Plan) no such amendment will, without the approval of the stockholders of the Company, (a) increase the maximum number of shares available under the Plan, (b) extend the time within which Awards may be granted, (c) permit the repricing of outstanding Options or unvested Restricted Stock, or (d) amend the provisions of this Section 9, and no amendment or termination of the Plan may adversely affect the rights of any Participant (without his or her consent) under any Award previously granted.