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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2008

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 of Incorporation)	**(I.R.S. Employer Identification No.)**
Two Seaport Lane **Boston, Massachusetts**	**02210-2019**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

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

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

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

As of May 5, 2008 the Company had 64,449,651 shares of Common Stock, par value $1 per share, outstanding.

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Part I. Financial Information

Item 1. Financial Statements

CABOT CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
UNAUDITED

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
	(In millions, except per share amounts)			
Net sales and other operating revenues	$ 786	$ 637	$1,497	$1,292
Cost of sales	668	499	1,263	1,005
Gross profit	118	138	234	287
Selling and administrative expenses	66	73	123	127
Research and technical expenses	19	17	35	32
Income from operations	33	48	76	128
Interest and dividend income	1	3	2	5
Interest expense	(9)	(9)	(18)	(18)
Other income (expense)	(2)	(1)	(4)	1
Income from operations before income taxes, equity in net income of affiliated companies and minority interest	23	41	56	116
Provision for income taxes	(11)	(11)	(5)	(30)
Equity in net income of affiliated companies, net of tax	2	3	4	6
Minority interest in net income, net of tax	(3)	(2)	(8)	(7)
Net income	11	31	47	85
Dividends on preferred stock, net of tax benefit	—	(1)	—	(1)
Net income available to common shares	$ 11	$ 30	$ 47	$ 84
Weighted-average common shares outstanding:				
Basic	62	61	62	61
Diluted	64	69	64	69
Income per common share:				
Basic:				
Net income per share—basic	$ 0.18	$ 0.49	$ 0.74	$ 1.37
Diluted:				
Net income per share—diluted	$ 0.17	$ 0.45	$ 0.73	$ 1.24
Dividends per common share	$ 0.18	$ 0.18	$ 0.36	$ 0.36

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

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CABOT CORPORATION
CONSOLIDATED BALANCE SHEETS
ASSETS
UNAUDITED

	March 31, 2008	September 30, 2007
	(In millions)	
Current assets:		
Cash and cash equivalents	$ 111	$ 154
Short-term marketable securities	1	2
Accounts and notes receivable, net of reserve for doubtful accounts of $6 and $6	644	563
Inventories:		
Raw materials	181	154
Work in process	63	77
Finished goods	237	184
Other	32	27
Total inventories	513	442
Prepaid expenses and other current assets	84	72
Assets held for sale	7	7
Deferred income taxes	37	35
Total current assets	1,397	1,275
Investments:		
Equity affiliates	69	65
Long-term marketable securities and cost investments	2	3
Total investments	71	68
Property, plant and equipment	3,005	2,823
Accumulated depreciation and amortization	(1,951)	(1,807)
Net property, plant and equipment	1,054	1,016
Other assets:		
Goodwill	38	34
Intangible assets, net of accumulated amortization of $11 and $10	3	4
Assets held for rent	45	42
Deferred income taxes	121	120
Other assets	92	77
Total other assets	299	277
Total assets	$ 2,821	$ 2,636

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

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CABOT CORPORATION
CONSOLIDATED BALANCE SHEETS (Continued)
LIABILITIES & STOCKHOLDERS' EQUITY
UNAUDITED

	March 31, 2008	September 30, 2007
	(In millions, except share and per share amounts)	
Current liabilities:		
Notes payable to banks	$ 147	$ 67
Accounts payable and accrued liabilities	402	427
Income taxes payable	42	36
Deferred income taxes	1	2
Current portion of long-term debt	39	15
Total current liabilities	631	547
Long-term debt	487	503
Deferred income taxes	11	16
Other liabilities	341	300
Commitments and contingencies (Note G)		
Minority interest	89	76
Stockholders' equity:		
Preferred stock:		
Authorized: 2,000,000 shares of $1 par value		
Series B ESOP Convertible Preferred Stock 7.75% Cumulative,		
Authorized: 200,000 shares		
Issued and outstanding: none	—	—
Common stock:		
Authorized: 200,000,000 shares of $1 par value		
Issued: 64,626,502 and 65,424,674 shares		
Outstanding: 64,484,058 and 65,279,803 shares	65	65
Less cost of 142,443 and 144,871 shares of common treasury stock	(5)	(5)
Additional paid-in capital	—	—
Retained earnings	1,132	1,119
Deferred employee benefits	(32)	(34)
Notes receivable for restricted stock	(19)	(19)
Accumulated other comprehensive income	121	68
Total stockholders' equity	1,262	1,194
Total liabilities and stockholders' equity	$ 2,821	$ 2,636

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

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CABOT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

	Six Months Ended March 31	
	2008	2007
	(In millions)	
Cash Flows from Operating Activities:		
Net income	$ 47	$ 85
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	84	70
Deferred tax (provision) benefit	(10)	1
Gain on sale of property, plant and equipment	(15)	—
Equity in net income of affiliated companies	(4)	(6)
Minority interest in net income	8	7
Non-cash compensation	16	13
Other non-cash items, net	(2)	(1)
Changes in assets and liabilities:		
Accounts and notes receivable	(30)	8
Inventories	(39)	(3)
Prepaid expenses and other current assets	(8)	—
Accounts payable and accrued liabilities	(60)	(9)
Income taxes payable	5	5
Other liabilities	(3)	(4)
Cash dividends received from equity affiliates	1	7
Cash (used in) provided by operating activities	(10)	173
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(72)	(49)
Proceeds from sales of property, plant and equipment	18	2
Increase in assets held for rent	(3)	(2)
Purchases of marketable securities	—	(59)
Proceeds from the sale of marketable securities	—	39
Cash used in investing activities	(57)	(69)
Cash Flows from Financing Activities:		
Borrowings under financing arrangements	84	18
Repayments under financing arrangements	(54)	(9)
Repayments of long-term debt	(10)	(37)
Proceeds from long-term debt	—	4
Increase in notes payable to banks, net	45	2
Proceeds from sales of common stock	1	8
Purchases of common stock	(24)	(4)
Proceeds from cash contribution received from minority interest shareholders	8	—
Cash dividends paid to minority interest stockholders	(13)	(9)
Cash dividends paid to stockholders	(23)	(24)
Cash provided by (used in) financing activities	14	(51)
Effect of exchange rate changes on cash	10	4
Increase (decrease) in cash and cash equivalents	(43)	57
Cash and cash equivalents at beginning of period	154	189
Cash and cash equivalents at end of period	$ 111	$ 246

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

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CABOT CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS’ EQUITY
Six Months Ended March 31, 2008
(In millions, except shares in thousands)
UNAUDITED

	Preferred Stock, Net of Treasury Stock		Common Stock, Net of Treasury Stock								
	Shares	Cost	Shares	Cost	Additional Paid-in Capital	Retained Earnings	Deferred Employee Benefits	Notes Receivable for Restricted Stock	Accumulated Other Comprehensive Income	Total Stockholders’ Equity	Total Comprehensive Income
Balance at September 30, 2007	—	$ —	65,280	$ 60	$ —	$ 1,119	$ (34)	$ (19)	$ 68	$ 1,194	
Net income						47					47
Foreign currency translation adjustment									51		51
Change in unrealized gain on derivative instruments									2		2
Other comprehensive income											53
Comprehensive income										100	$ 100
Common dividends paid						(23)				(23)	
Issuance of stock under employee compensation plans, net of forfeitures			138	—	3			—		3	
Amortization of share-based compensation					14					14	
Purchase and retirement of common and treasury stock			(934)	—	(17)	(11)				(28)	
Preferred stock conversion										—	
Preferred dividends paid to Employee Stock Ownership Plan, net of tax benefit										—	
Principal payment by Employee Stock Ownership Plan under guaranteed loan							2			2	
Notes receivable for restricted stock—payments and forfeitures								—		—	
Balance at March 31, 2008	—	$ —	64,484	$ 60	$ —	$ 1,132	$ (32)	$ (19)	$ 121	$ 1,262	

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

CABOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008
UNAUDITED

A. Basis of Presentation

The consolidated financial statements include the accounts of Cabot Corporation and its majority-owned and controlled U.S. and non-U.S. subsidiaries (“Cabot” or the “Company”). 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 Annual Report on Form 10-K for the fiscal year ended September 30, 2007 (“2007 10-K”).

The financial information submitted herewith is unaudited and reflects all adjustments which are, in the opinion of management, necessary to provide a fair statement of the results for the interim periods ended March 31, 2008 and 2007. 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.

The presentation of dividends received from equity affiliates and increase in deferred income taxes payable in the fiscal 2007 consolidated statement of cash flows has been changed to conform to the fiscal 2008 cash flow presentation. The change required the reclassification of $7 million to the “Cash dividends received from equity affiliates” and $1 million to “Deferred tax (provision) benefit” line from the “Other” line within cash flows from operating activities. This reclassification had no impact on cash flows from operating, financing or investing activities.

B. Significant Accounting Policies

Revenue Recognition

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

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

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

The Company offers certain of its customers cash discounts and volume rebates as sales incentives. The discounts and volume rebates are recorded as a reduction of sales at the time revenue is recognized and are estimated based on historical experience and contractual obligations. Cabot reviews its estimates for discounts and volume rebates, and the assumptions underlying the estimates are modified to reflect changes in facts and circumstances as appropriate.

Shipping and handling charges related to sales transactions are recorded as sales revenue when billed to customers or included in the sales price in accordance with Emerging Issues Task Force (“EITF”) 00-10, “Accounting for Shipping and Handling Fees and Costs.” Shipping and handling costs are included in cost of sales.

Cabot maintains allowances for doubtful accounts based on an assessment of the collectibility of specific customer accounts, the aging of accounts receivable and other economic information on both a historical and prospective basis. Customer account balances are charged against the allowance when it is probable the receivable will not be recovered. Changes in the allowance during the periods ended March 31, 2008 and 2007 were not material. There is no off-balance sheet credit exposure related to customer receivable balances.

CABOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
March 31, 2008
UNAUDITED

Goodwill and Other Intangible Assets

Goodwill is comprised of the cost of business acquisitions in excess of the fair value assigned to the net tangible and identifiable intangible assets acquired. Goodwill is not amortized but is reviewed for impairment at least annually. The annual review consists of the comparison of each reporting unit's carrying value to its fair value, which is performed as of March 31. The fair value of a reporting unit is based on discounted estimated future cash flows. The assumptions used to estimate fair value include management's best estimates of future growth rates, capital expenditures, discount rates and market conditions over an estimate of the remaining operating period. If an impairment exists, a loss is recorded to write-down the value of goodwill to its implied fair value.

Financial Instruments

Cabot's financial instruments consist primarily of cash and cash equivalents, short-term and long-term debt, and derivative instruments. The carrying values of Cabot's financial instruments approximate fair value with the exception of long-term debt that has not been designated with a fair value hedge. This portion of long-term debt is recorded at face value. The fair values of derivative instruments are based on quoted market prices. Derivative financial instruments are used to manage certain of Cabot's foreign currency and interest rate exposures, which exist as part of the Company's on-going business operations. Cabot does not enter into financial instruments for speculative purposes, nor does Cabot hold or issue any financial instruments for trading purposes. Derivative financial instruments are accounted for in accordance with Statement of Financial Accounting Standard ("FAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by FAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities – An Amendment of FAS 133" ("FAS 133"), and are measured and recorded at fair value on the consolidated balance sheets. Cabot formally documents the relationships between hedging instruments and hedged items, as well as its risk management objective.

Hedge accounting is followed for derivatives that have been designated and qualify as fair value, cash flow or net investment hedges. For fair value hedges, the Company records in earnings (i) changes in the fair value of highly effective derivatives and (ii) changes in the fair value of the hedged liabilities that are attributable to the hedged risks. For cash flow hedges, changes in the fair value of the effective portion of the derivatives' gains or losses are reported in other comprehensive income, and changes in the fair value of the ineffective portion are reported in earnings. For net investment hedges, changes in the fair value of the effective portion of the derivatives' gains or losses are reported as foreign currency translation gains or losses in other comprehensive income, while changes in the ineffective portion are reported in earnings. The gains or losses on derivative instruments reported in other comprehensive income are reclassified to earnings in the period in which earnings are affected by the underlying item. From time to time, the Company may enter into certain derivative instruments that may not be designated as hedges under FAS 133. Although these derivatives do not qualify for hedge accounting, Cabot believes that such instruments are closely correlated with the underlying exposure, thus managing the associated risk. The gains or losses from changes in the fair value of derivative instruments that are not designated as hedges are recognized in earnings.

Income Tax Uncertainties

Upon the Company's October 1, 2007 adoption of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement 109" ("FIN 48"), the Company recorded a cumulative effect of less than $1 million increase to retained earnings.

FIN 48 requires that the Company records its obligation for uncertain tax positions based on an assessment of whether the position is more likely than not to be sustained by the taxing authorities. If this threshold is not met, the full amount of the uncertain tax position is recorded as a liability. If the threshold is met, the tax benefit that is recognized is the largest amount that is greater than 50 percent likely of being realized upon ultimate settlement. This analysis presumes the taxing authorities' full knowledge of the positions taken and all relevant facts, but does not consider the time value of money. The Company also accrues for interest and penalties on its uncertain tax positions and includes such charges in its income tax provision in the consolidated statements of income.

Last-In, First-Out ("LIFO") Liquidation

During the three and six months ended March 31, 2008, inventory quantities were reduced at the Company's U.S. Supermetals site. This reduction led to a liquidation of LIFO inventory quantities carried at lower costs that were prevailing in prior years, as compared with the cost of purchases made in the current fiscal year through March 31, 2008. This resulted in a decrease of cost of goods sold of $3 million and $4 million, respectively, and an increase of net income by approximately $2 million and $3 million, or $0.03 and $0.04 per share, respectively, for the three and six months ended March 31, 2008.

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C. Share-Based Compensation

During the second quarter of 2008, the Company recorded a charge of $3 million for the accelerated vesting of restricted stock awards related to the retirement of the Company's former CEO.

D. Goodwill and Other Intangible Assets

The carrying amount of goodwill attributable to each reportable segment with goodwill balances and the changes in those balances during the six months ended March 31, 2008 are as follows:

	Carbon Black Business	Metal Oxides Business	Total
	(Dollars in millions)		
Balance at September 30, 2007	$ 23	$ 11	$ 34
Foreign currency translation adjustment	2	2	4
Balance at March 31, 2008	$ 25	$ 13	$ 38

As required by FAS No. 142, "Goodwill and Other Intangibles," ("FAS 142") impairment tests are performed at least annually. The Company performed its annual FAS 142 impairment assessment as of March 31, 2008 and determined that there was no impairment.

Cabot does not have any indefinite-lived intangible assets. As of March 31, 2008 and September 30, 2007, Cabot had $3 million and $4 million of finite-lived intangible assets, respectively. Intangible assets are amortized over their estimated useful lives, which range from ten to fourteen years, with a weighted average period of ten years. Amortization relative to these intangibles is expected to aggregate to less than $1 million per year over the next five years.

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CABOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
March 31, 2008
UNAUDITED

E. Employee Benefit Plans

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

	Three Months Ended March 31							
	2008		2007		2008		2007	
	Pension Benefits				Postretirement Benefits			
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
	(Dollars in millions)							
Service cost	$ 1	$ 2	$ 1	$ 2	$—	$ —	$—	$ —
Interest cost	2	3	2	3	2	—	2	—
Expected return on plan assets	(2)	(4)	(3)	(2)	—	—	—	—
Amortization of prior service cost	—	—	—	—	(1)	—	(1)	—
Amortization of actuarial loss	—	—	—	—	—	—	—	—
Net periodic benefit cost	$ 1	$ 1	$—	$ 3	$ 1	$ —	$ 1	$ —

	Six Months Ended March 31							
	2008		2007		2008		2007	
	Pension Benefits				Postretirement Benefits			
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
	(Dollars in millions)							
Service cost	$ 2	$ 3	$ 2	$ 3	$ 1	$ —	$ 1	$ —
Interest cost	4	6	4	6	3	—	3	—
Expected return on plan assets	(4)	(7)	(5)	(5)	—	—	—	—
Amortization of prior service cost	—	—	—	—	(1)	—	(1)	—
Amortization of actuarial loss	—	1	—	1	—	—	—	—
Net periodic benefit cost	$ 2	$ 3	$ 1	$ 5	$ 3	$ —	$ 3	$ —

CABOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
March 31, 2008
UNAUDITED

F. Restructuring

North America - Closure of Waverly, West Virginia Carbon Black Facility

In June 2007, Cabot announced that it would close its carbon black manufacturing facility in Waverly, West Virginia. The decision to close the facility was driven by changes in the North American tire market. The plant was closed on March 31, 2008 but will continue to ship product to customers for the next several months. The total charges related to closing the plant are expected to be approximately $24 million, which includes an anticipated net gain on the sale of land where the facility is located of less than $1 million. Through March 31, 2008, Cabot has recorded approximately $21 million of charges associated with this restructuring, including $7 million in the second quarter of fiscal 2008. Cabot anticipates that the remaining $2 million of charges will be incurred primarily during the remainder of fiscal 2008 and fiscal 2009 in connection with closure, demolition and site remediation. The $7 million of charges recorded in the second quarter of fiscal 2008 includes approximately $5 million for accelerated depreciation of the facility assets and approximately $2 million for severance and related benefits. All plant closure charges are related to the rubber blacks and performance products product lines. As of March 31, 2008, Cabot has $2 million of reserves remaining related to this plant closure for severance and related benefits and expects to make additional cash payments of $2 million in both fiscal 2008 and fiscal 2009.

Global - Cost Reduction Initiatives

In September 2006, Cabot announced a global restructuring plan principally aimed at reducing the fundamental cost structure of its rubber blacks and performance products product lines. Additionally, during fiscal 2007, due partly to ongoing weakness in the Supermetals Business, the decision was made to terminate the employment of several employees in that business. These activities have been substantially completed.

Cabot has made less than $1 million of cash payments related to severance and employee benefits during the second quarter of fiscal 2008 and expects to make additional cash payments of approximately $1 million during the remainder of fiscal 2008. As of March 31, 2008, Cabot has approximately $1 million of remaining reserves related to these initiatives for severance and related benefits.

Altona, Australia – Closure of Carbon Black Facility

In October 2004, Cabot initiated a plan to shut down its Altona, Australia carbon black manufacturing facility due to an indication by Cabot’s raw materials supplier that it would cease supply in September 2005, as well as the decline of the carbon black business in Australia. Production at this facility ceased on October 3, 2005. During the first quarter of fiscal 2008, Cabot completed the sale of the land on which the facility had been located. The gain on the sale of the land was approximately $18 million, before tax and net of settlement costs, which was recorded in cost of sales in the accompanying consolidated statements of income. Payments of $1 million were made in the second quarter of fiscal 2008 in connection with severance and related benefits and completion of site restoration. As of March 31, 2008, there was no reserve for this restructuring.

As of March 31, 2008, the Company has reserves for certain restructuring activities recorded in the consolidated financial statements. These include reserve balances for the previously announced Waverly, West Virginia plant closure and the global cost reduction initiatives. The reserves for these activities are included in accrued expenses in the accompanying consolidated balance sheets.

Details of the restructuring activity and the reserve for all of these plans during the three months ended March 31, 2008 are as follows:

	Severance and Employee Benefits	Sale of Altona Land	Accelerated Depreciation	Total
	(Dollars in millions)			
Reserve at December 31, 2007	$ 4	$ —	$ —	$ 4
Charges	2	—	5	7
Costs charged against assets	—	—	(5)	(5)
Proceeds from sale	—	—	—	—
Cash paid	(3)	—	—	(3)
Reserve at March 31, 2008	$ 3	$ —	$ —	$ 3

CABOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
March 31, 2008
UNAUDITED

Details of the restructuring activity and the reserve for all of these plans during the six months ended March 31, 2008 are as follows:

	Severance and Employee Benefits	Sale of Altona Land	Accelerated Depreciation	Total
	(Dollars in millions)			
Reserve at September 30, 2007	$ 4	$ —	$ —	$ 4
Charges (benefits)	3	(18)	11	(4)
Costs charged against assets	—	—	(11)	(11)
Proceeds from sale	—	18	—	18
Cash paid	(4)	—	—	(4)
Reserve at March 31, 2008	$ 3	$ —	$ —	$ 3

Restructuring activity during the three months ended March 31, 2008 includes the costs associated with the Waverly, West Virginia plant closure, the previously announced global cost reduction initiatives and the Altona, Australia plant closure. Restructuring activity was recorded in the consolidated statements of income as follows:

	Three Months Ended March 31	
	2008	2007
	(Dollars in millions)	
Cost of sales	$ 7	$ 1
Selling and administrative expense	—	1
Total	$ 7	$ 2

Restructuring activity during the six months ended March 31, 2008 includes the costs associated with the Waverly, West Virginia plant closure, the previously announced global cost reduction initiatives and a $1 million write-down of the value of a former carbon black manufacturing facility in Hanau, Germany, offset by the gain on the sale of land in Altona, Australia. Restructuring activity was recorded in the consolidated statements of income as follows:

	Six Months Ended March 31	
	2008	2007
	(Dollars in millions)	
Cost of sales	$ (4)	$ 3
Selling and administrative expense	—	1
Total	$ (4)	$ 4

G. Commitments and Contingencies

Guarantee Agreements

Cabot has provided certain indemnities pursuant to which it may be required to make payments to an indemnified party in connection with certain transactions and agreements. In connection with certain acquisitions and divestitures, Cabot has provided routine indemnities with respect to such matters as environmental, tax, insurance, product and employee liabilities. In connection with various other agreements, including service and supply agreements, Cabot may provide routine indemnities for certain contingencies and routine warranties. Cabot is unable to estimate the maximum potential liability for these types of indemnities as a maximum obligation is not explicitly stated in most cases and the amounts, if any, are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be reasonably estimated. The durations of the indemnities vary, and in many cases are indefinite. Cabot has not recorded any liability for these indemnities in the consolidated financial statements, except as otherwise disclosed.

Contingencies

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

Environmental Liabilities

As of March 31, 2008, Cabot had approximately $10 million reserved for environmental matters primarily related to divested businesses. This reserve represents Cabot's 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 clean up required, alternative clean up methods available, abilities of other responsible parties to contribute and its interpretation of laws and regulations applicable to each site. At March 31, 2008, $3 million of the $10 million reserve is recognized on a discounted basis and is being accreted up to the undiscounted liability through interest expense over the expected cash flow period. Cash payments related to these liabilities were approximately $1 million and $2 million during the quarter and six months ended March 31, 2008, respectively.

Respirator Liabilities

Cabot has exposure in connection with a safety respiratory products business that a subsidiary acquired from American Optical Corporation ("AO") in an April 1990 asset transaction. The subsidiary manufactured respirators under the AO brand and disposed of that business in July 1995. In connection with its acquisition of the business, the subsidiary agreed, in certain circumstances, to assume a portion of AO's liabilities, including costs of legal fees together with amounts paid in settlements and judgments, allocable to AO respiratory products used prior to the 1990 purchase by the Cabot subsidiary. As more fully described in the 2007 10-K, the Company's respirator liabilities involve claims for personal injury, including asbestosis and silicosis and, more recently, coal worker's pneumoconiosis, allegedly resulting from the use of AO respirators that are alleged to have been negligently designed or labeled. As of March 31, 2008, there were approximately 55,000 claimants in pending cases asserting claims against AO in connection with respiratory products. Cabot has a reserve to cover its expected share of liability for existing and future respirator liability claims. The book value of the reserve is being accreted up to the undiscounted liability through interest expense over the expected cash flow period, which is through 2052, and, at March 31, 2008, is approximately $17 million (or $26 million on an undiscounted basis). Cash payments related to this liability were $1 million for both the quarter and six months ended March 31, 2008.

Carbon Black Antitrust Litigation

During fiscal years 2003 and 2004, the Company, Phelps Dodge Corporation, Columbian Chemicals Co., Degussa Engineered Carbons, LP, Degussa AG, and Degussa Corporation (referred to collectively as the "Defendants") were named in nine actions filed in Superior Court of the State of California on behalf of a purported class of indirect purchasers of carbon black in the state of California. During fiscal years 2004 and 2005, the Defendants were named in actions filed in state courts in the states of Florida, Kansas, Tennessee, South Dakota, North Carolina and New Jersey on behalf of indirect purchasers of carbon black in these states. Each of these complaints asserted that the Defendants conspired to fix, raise, maintain or stabilize prices for carbon black (the "state actions"). The plaintiffs in the state actions sought damages, including treble damages, in an unspecified amount and attorneys' fees. The North Carolina and New Jersey state actions were dismissed in 2004 and 2005, respectively. In October 2007, Cabot settled the California state actions, which were accrued for as of September 30, 2007, and final court approval of this settlement was received during the quarter ended March 31, 2008. An agreement in principle to settle the Tennessee and Kansas actions was also reached during the quarter. Cabot believes it has valid defenses to all of the remaining state action claims and will continue to assert them vigorously. While the outcome of litigation is uncertain, the Company does not believe that the ultimate disposition of these matters will have a material adverse effect on the Company's consolidated financial position.

Beryllium Claims

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

During the last several years, several individuals who have resided or worked for many years in the immediate vicinity of the Company's former beryllium facility located in Reading, Pennsylvania have brought suits against Cabot and NGK for personal injury allegedly caused by beryllium particle emissions produced at that facility. As of March 31, 2008, six personal injury claims against Cabot were pending in state court in Pennsylvania. Discovery is ongoing in these personal injury cases. In addition, since October 2003, individuals in separate cases have asserted claims for medical monitoring in numerous Pennsylvania state court actions. The plaintiffs alleged contact with beryllium in various ways, including residence or employment in the area surrounding the Reading facility, employment at the Reading facility or contact with individuals who worked at the Reading facility. Of the approximately 50 such cases that were pending as of December 31, 2007, four were dismissed in January 2008 and the remaining cases were dismissed by the trial court in April 2008.

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As of March 31, 2008, there were also three beryllium product liability cases pending in California state courts. All of these cases are stayed by court order pending the testing of the plaintiffs for beryllium exposure.

Cabot is one of four named defendants in *Anthony v. Small Tube Manufacturing Corp. et al.*, a class action complaint filed in September 2006 on behalf of certain present and former employees of the U.S. Gauge Inc. facility in Sellersville, Pennsylvania, and currently pending in the United States District Court for the Eastern District of Pennsylvania. U.S. Gauge is a company alleged to have purchased beryllium-containing products from Cabot. The class action alleges that the present and former employees were exposed to beryllium dust and fumes during the machining of beryllium-containing products purchased from Cabot and that they are, therefore, entitled to receive medical monitoring. Cabot has asserted claims against the other defendants and another party. Cabot and the other defendants have filed a motion for summary judgment against the class plaintiff's claims in the case.

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

Cabot believes it has valid defenses to all of these beryllium actions and will assert them vigorously in the various venues in which claims have been asserted. In addition, there is a contractual indemnification obligation running from NGK to Cabot in connection with many of these matters. While the outcome of litigation is uncertain, the Company does not believe that the ultimate disposition of these matters will have a material adverse effect on the Company's consolidated financial position.

AVX

On March 8, 2004, AVX Corporation ("AVX") filed an action against the Company in the United States District Court for the District of Massachusetts. This complaint alleged that Cabot violated the federal antitrust laws in connection with the tantalum supply agreement between Cabot and AVX by tying the purchase of one type of tantalum product by AVX to the purchase of other types. Discovery ended in late December 2007. No trial date has been set. The parties filed cross-motions for summary judgment; oral argument on the motion is scheduled to be heard in June, 2008.

On September 6, 2005, AVX filed a lawsuit in the Superior Court of Massachusetts for Suffolk County alleging that Cabot improperly administered a tantalum supply agreement with AVX. In particular, AVX claims that Cabot has not provided all of the price relief due to AVX pursuant to "most favored nation" ("MFN") pricing provisions in the agreement. AVX is seeking a declaration of the rights of the parties to the agreement, an accounting of monies paid, due or owing under the MFN provisions, and an award of any sums not paid that should have been. Cabot has filed an answer and counterclaims against AVX asserting that AVX has underpaid for product in accordance with a proper construction of the MFN provisions. This action was moved to the Business Litigation Section of the Superior Court of Massachusetts in November 2005. Discovery in this case is ongoing, but most recently AVX has claimed that it is owed approximately $24 million in additional MFN credit. In April 2007, Cabot and AVX filed cross-motions for partial summary judgment on certain disputed issues in the litigation. On December 31, 2007, the Court issued an order allowing AVX's motion for partial summary judgment on one significant legal issue involving interpretation of the agreement, but denied AVX's motion and Cabot's cross-motion in all other respects, including AVX's motion to dismiss Cabot's affirmative defenses. Cabot believes that it has valid defenses to all of AVX's claims against the Company, including the one where partial summary judgment was granted, and will continue to assert them, and its various counterclaims, vigorously. In addition, if necessary, Cabot has the right to appeal the Court's order allowing AVX's motion for partial summary judgment. While the outcome of litigation is uncertain, the Company does not believe that the ultimate disposition of these matters will have a material adverse effect on the Company's consolidated financial position.

Other

In 2001, Cabot entered into agreements (the "Project Agreements") with Private Power LLC ("Private Power") relating to co-generation projects at Cabot's Ville Platte and Franklin (Canal) plants in Louisiana. Shortly after the Project Agreements were entered into, disputes arose regarding the scope of the projects and each party's respective rights under the Project Agreements. In December 2002, Cabot filed a suit in Massachusetts state court seeking a declaration that Cabot had not terminated the Project Agreements. Private Power filed counterclaims, which were eventually amended to include claims for breach of contract and allegations of bad faith. In August 2007, Cabot amended its complaint to add breach of contract and bad faith claims. In April 2008, the parties entered into a two-stage mediation/arbitration agreement with an agreed upon range of outcomes. The mediation is scheduled to take place in June

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2008, to be followed by binding arbitration if the dispute is not resolved at the mediation. The Company believes it has valid defenses to all of Private Power's claims and will continue to assert them vigorously. While the outcome of litigation is uncertain, the Company does not believe that the ultimate disposition of this matter will have a material adverse effect on the Company's consolidated financial position.

The Company has various other lawsuits, claims and contingent liabilities arising in the ordinary course of its business and in respect of the Company's divested businesses. In the opinion of the Company, although final disposition of some or all of these other suits and claims may impact the Company's financial statements in a particular period, they should not, in the aggregate, have a material adverse effect on the Company's consolidated financial position.

H. Earnings Per Share

Basic and diluted earnings per share ("EPS") were calculated as follows:

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
	(Dollars in millions, except per share amounts)			
Basic EPS:				
Income available to common shares (numerator)	$ 11	$ 30	$ 47	$ 84
Weighted average common shares outstanding	65	64	65	64
Less: contingently issuable shares[1]	(3)	(3)	(3)	(3)
Adjusted weighted average common shares (denominator)	62	61	62	61
Basic EPS	$ 0.18	$ 0.49	$ 0.74	$ 1.37
Diluted EPS:				
Income available to common shares	$ 11	$ 30	$ 47	$ 84
Dividends on preferred stock, net of tax benefit[2]	—	1	—	1
Income available to common shares plus assumed conversions (numerator)	$ 11	$ 31	$ 47	$ 85
Adjusted weighted average common shares outstanding	62	61	62	61
Effect of dilutive securities:				
Assumed conversion of preferred stock[2]	—	6	—	6
Common shares issuable[3][4]	2	2	2	2
Adjusted weighted average shares (denominator)	64	69	64	69
Diluted EPS	$ 0.17	$ 0.45	$ 0.73	$ 1.24

(1) Represents outstanding unvested restricted stock issued under Cabot's equity incentive plans.
(2) There was $1 million in dividends paid on preferred stock for the three and six months ended March 31, 2007. These preferred shares were converted to common stock during the fourth quarter of fiscal 2007. Accordingly, there were no dividends paid during the three or six months ended March 31, 2008.
(3) Represents incremental shares for the assumed vesting of outstanding unvested restricted stock and exercise of stock options outstanding under Cabot's equity incentive plans.
(4) For the three and six months ended March 31, 2008, options to purchase approximately 221,900 shares of common stock were not included in the calculation of diluted earnings per share because those options' exercise prices were greater than the average market price of Cabot common stock during both periods. For the three and six months ended March 31, 2007, there were no options to purchase shares of common stock excluded from the calculation of diluted earnings per share.

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I. Financial Information by Segment

Cabot is organized into four reportable segments: the Carbon Black Business, the Metal Oxides Business, the Supermetals Business, and the Specialty Fluids Business. The following table provides financial information by segment for the three and six months ended March 31, 2008 and 2007:

	Carbon Black	Metal Oxides	Supermetals	Specialty Fluids	Segment Total	Unallocated and Other (1)	Consolidated Total
	(Dollars in millions)						
Three months ended March 31, 2008							
Net sales and other operating revenues(2)	$ 630	$ 73	$ 57	$ 16	$ 776	$ 10	$ 786
Income (loss) before taxes(3)	$ 36	$ 8	$ (2)	$ 5	$ 47	$ (24)	$ 23
Three months ended March 31, 2007							
Net sales and other operating revenues(2)	$ 493	$ 68	$ 53	$ 10	$ 624	$ 13	$ 637
Income (loss) before taxes(3)	$ 57	$ 10	$ (2)	$ 3	$ 68	$ (27)	$ 41
Six months ended March 31, 2008							
Net sales and other operating revenues(2)	$1,191	$ 143	$ 109	$ 32	$1,475	$ 22	$ 1,497
Income (loss) before taxes(3)	$ 57	$ 16	$ (1)	$ 12	$ 84	$ (28)	$ 56
Six months ended March 31, 2007							
Net sales and other operating revenues(2)	$ 978	$ 133	$ 130	$ 26	$1,267	$ 25	$ 1,292
Income (loss) before taxes(3)	$ 111	$ 19	$ 14	$ 11	$ 155	$ (39)	$ 116

(1) Unallocated and Other includes certain items and eliminations that are not allocated to the operating segments. Management does not consider these items necessary for an understanding of the operating results of these segments and such amounts are excluded in the segment reporting to the Chief Operating Decision Maker.

(2) Net sales and other operating revenues for the Carbon Black Business include 100% of sales from one equity affiliate, which is eliminated through Unallocated and Other. Unallocated and Other also includes royalties paid by equity affiliates and external shipping and handling fees:

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
	(Dollars in millions)			
Equity affiliate sales	$ (15)	$ (9)	$ (27)	$ (18)
Royalties paid by equity affiliates	4	4	8	7
Shipping and handling fees and other	21	18	41	36
Total	$ 10	$ 13	$ 22	$ 25

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(3) Income (loss) before taxes for Unallocated and Other includes:

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
	(Dollars in millions)			
Interest expense	$ (9)	$ (9)	$ (18)	$ (18)
Certain items[a]	(12)	(17)	(2)	(20)
Equity in net income of affiliated companies[b]	(2)	(3)	(4)	(6)
Other income and foreign currency transaction gains (losses), net[c]	(1)	2	(4)	5
Total	$ (24)	$ (27)	$ (28)	$ (39)

(a) Certain items consist of amounts that are not included in segment profit before taxes ("PBT"). Certain items for the three months ended March 31, 2008 include $7 million for restructuring initiatives as described in Note F, $1 million of charges related to a former carbon black facility and $4 million for costs associated with the transition of the Company's CEO. Certain items for the first six months of fiscal 2008 include a gain of $18 million from the sale of the land in Altona, Australia, offset by charges of $14 million for restructuring initiatives as described in Note F, $1 million of charges related to a former carbon black facility, $4 million for costs associated with the transition of the Company's CEO and $1 million for environmental reserves and legal settlements. Certain items for both the second quarter and the first six months of fiscal 2007 includes charges of $5 million for environmental reserves and legal settlements, as well as a $10 million reserve related to the federal carbon black antitrust litigation, which was settled during fiscal 2007. Additionally, certain items include $2 million and $5 million for restructuring initiatives as discussed in Note F for the second quarter and first six months of fiscal 2007, respectively.

(b) Equity in net income of affiliated companies is included in segment PBT and is removed in Unallocated and Other to reconcile back to income (loss) from operations before taxes.

(c) Other income and foreign currency transaction gains (losses), net, consists of investment income that is not included in segment profit before taxes ("PBT"), and foreign currency losses net of other foreign currency risk management activity.

The Carbon Black Business is primarily comprised of the rubber blacks, performance products and inkjet colorants product lines as well as the business development activities of Cabot Superior MicroPowders ("CSMP"). The revenues from each of these product lines are as follows:

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
	(Dollars in millions)			
Rubber blacks	$ 453	$ 346	$ 863	$ 697
Performance products	165	134	307	257
Inkjet colorants	11	13	19	23
CSMP	1	—	2	1
Total Carbon Black Sales	$ 630	$ 493	$ 1,191	$ 978

The Metal Oxides Business is comprised of the fumed metal oxides and aerogel product lines. The revenues were primarily from the fumed metal oxides product line.

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J. Income Tax Uncertainties

Upon the Company's October 1, 2007 adoption of FIN 48, the total amount of unrecognized tax benefits was $76 million. In addition, accruals of $5 million and $13 million were recorded at that time for penalties and interest, respectively. If the unrecognized tax benefits were recognized at a given point in time, there would be approximately a $40 million favorable impact on the Company's tax provision.

A reconciliation of the beginning and ending amount of unrecognized tax benefits for the three and six months ended March 31, 2008 is as follows:

	Three Months Ended March 31, 2008 (Dollars in millions)
Balance at December 31, 2007	$ 70
Additions based on tax positions related to current year	10
Additions for tax positions of prior years	1
Reductions (including settlements and statute of limitation lapses) for tax positions of prior years	(1)
Balance at March 31, 2008	$ 80

	Six Months Ended March 31, 2008 (Dollars in millions)
Balance at October 1, 2007	$ 76
Additions based on tax positions related to current year	11
Additions for tax positions of prior years	4
Reductions (including settlements and statute of limitation lapses) for tax positions of prior years	(11)
Balance at March 31, 2008	$ 80

The tax years 2003 and 2004 are currently under audit by the U.S. Internal Revenue Service. In addition, certain Cabot subsidiaries are under audit in a number of jurisdictions outside of the U.S. Lastly, certain statutes of limitations are scheduled to expire in the near future. It is reasonably possible that a change in the unrecognized tax benefits may occur within the next twelve months related to the settlement of these audits or the lapse of applicable statutes of limitations; however, the quantification of an estimated range of the impact on the unrecognized tax benefits cannot be made at this time.

Cabot files U.S., state, and non-U.S. income tax returns in jurisdictions with varying statutes of limitations. The 2004 through 2007 tax years generally remain subject to examination by federal and most state tax authorities. In significant non-U.S. jurisdictions, the 2001 through 2007 tax years generally remain subject to examination by their respective tax authorities. The Company's significant non-U.S. tax jurisdictions include the United Kingdom, Germany, Japan, Canada, and the Netherlands.

K. Subsequent Event

On January 11, 2008, the Company entered into an agreement to purchase additional shares of one of its equity affiliates, Cabot Malaysia Sdn. Bhd. ("Cabot Malaysia") for a purchase price of less than $1 million. On April 1, 2008, Cabot received approval from both the shareholders and government and the purchase was completed. As a result of the purchase, Cabot's equity ownership in Cabot Malaysia will increase from 49% to approximately 51%, which will result in Cabot's control of the affiliate and, therefore, consolidation of Cabot Malaysia's operating results in the Company's consolidated financial statements beginning April 1, 2008.

The Company's share of the earnings or losses of Cabot Malaysia are currently reflected through the single line item "Equity in net income of affiliated companies" in the consolidated statements of income and Cabot's investment is included in the line item "Investments: Equity affiliates" in the consolidated balance sheets. Upon consolidation, Cabot's share of the earnings or losses will be reflected through several line items within the consolidated statements of income, while our partners' share of the earnings or losses will be reflected in "Minority interest in net income." Cabot's investment in the entity will be reflected in each of the relevant asset and liability accounts in the consolidated balance sheets. The impact of these changes will be immaterial to the Company's consolidated financial statements.

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L. Newly Issued Accounting Pronouncements

In September 2006, the FASB issued FAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("FAS 158"). FAS 158 requires an employer to recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the projected benefit obligation, in its statement of financial position. FAS 158 also requires an employer to measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end. As of September 30, 2007, Cabot adopted the balance sheet impact of reflecting the funded status of the plan using a June 30 measurement date. As required by FAS 158, on or before September 30, 2009, Cabot will change its measurement date to the Company's September 30 year-end rather than a June 30 measurement date. The Company is continuing to evaluate the impact of the adoption of the change in measurement date related to the second part of FAS 158 on its consolidated financial statements.

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

In February 2007, the FASB issued FAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115" ("FAS 159"). FAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. FAS 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. FAS 159 is effective for fiscal years beginning after November 15, 2007, which will be October 1, 2008 for Cabot. The Company is evaluating the impact of FAS 159 on its consolidated financial statements.

In December 2007, the FASB issued FAS No. 141 (Revised 2007), "Business Combinations" ("FAS 141 (R)"). FAS 141 (R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements, the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of business combinations. FAS 141 (R) is effective on a prospective basis for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, any business combination the Company enters into after September 30, 2009 will be subject to this new standard.

In December 2007, the FASB issued FAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51" ("FAS 160"). FAS 160 establishes accounting and reporting standards for the ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in the parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. FAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. FAS 160 is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008, which will be October 1, 2009 for Cabot. The Company is evaluating the impact of FAS 160 on its consolidated financial statements.

In March 2008, the FASB issued FAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133" ("FAS 161"), which amends and expands the disclosure requirements of FAS 133. FAS 161 enhances required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under FAS 133, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. More specifically, FAS 161 will require qualitative disclosure about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. FAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, which will be January 1, 2009 for Cabot. The principal impact to the Company will be to require the Company to expand its disclosure regarding its derivative instruments.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

I. Critical Accounting Policies and Estimates

The preparation of our financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and related disclosure of contingent assets and liabilities. We consider an accounting estimate to be critical to the financial statements if 1) the estimate is complex in nature or requires a high degree of judgment and 2) different estimates and assumptions were used, the result could have a material impact on the consolidated financial statements. On an ongoing basis, we evaluate our policies and estimates. We base our estimates on historical experience, current conditions and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The estimates that we believe are critical to the preparation of the Consolidated Financial Statements for the three and six months ended March 31, 2008 are presented below. We have other critical accounting policies that are discussed under the "Critical Accounting Policies" heading in management's discussion and analysis in our Fiscal 2007 Annual Report on Form 10-K ("2007 10-K").

Basis of Consolidation

Our consolidated financial statements include our wholly-owned subsidiaries and our majority-owned and controlled subsidiaries. Our partners' share of the earnings or losses of our majority-owned and controlled subsidiaries is reflected in the single line item on our consolidated statements of income called "minority interest in net income", which is usually a deduction in computing our operating results.

Investments in equity affiliates over which we have the ability to exert significant influence, but that we do not control and are not the primary beneficiary of, are accounted for using the equity method of accounting. Our share of the earnings or losses of these equity affiliates is reflected in the single line item on our consolidated statements of income called "equity in net income of affiliated companies".

We periodically review our investments in both our majority and minority owned subsidiaries to determine if they should be consolidated or presented as equity affiliates. Changes in our ownership level or changes to our exposure to economic risks and potential rewards could change our determination of whether to consolidate or deconsolidate such investments. If we change from equity method accounting to consolidation accounting ("consolidate") we would reflect changes in: (i) the primary revenue and expense measures in our consolidated statements of income; and (ii) most of our asset and liability balances in our consolidated balance sheets. If we change from consolidation accounting to equity method accounting ("deconsolidate") we would aggregate both: (i) revenue and expense measures; and (ii) asset and liability balances into a single line item in our consolidated statements of income and consolidated balance sheets, respectively.

Revenue Recognition and Accounts Receivable

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

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

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

We offer certain customers cash discounts and volume rebates as sales incentives. The discounts and volume rebates are recorded as a reduction of sales at the time revenue is recognized based on historical experience and contractual obligations. We review the estimates for discounts and volume rebates, and the assumptions underlying the estimates are modified to reflect changes in facts and circumstances as appropriate. This estimation process does introduce some uncertainty as to the amount of revenue we

recognize. Refinements to the initial estimates can result in increases or decreases to revenue and thus directly impact our earnings and cash flows. Such changes in our estimates have historically not been material.

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

Inventory Valuation

The cost of most raw materials, work in process and finished goods inventories in the U.S. is determined by the last-in, first-out ("LIFO") method. Had we used the first-in, first-out ("FIFO") method instead of the LIFO method for such inventories, the value of those inventories would have been $114 million and $95 million higher as of March 31, 2008 and September 30, 2007, respectively. The cost of other U.S. and all non-U.S. inventories is determined using the average cost method or the FIFO method. In periods of rapidly rising or declining raw material costs, the inventory method we employ can have a significant impact on our profitability. For example, the significant increase in carbon black feedstock costs recently caused our reported cost of sales in our Carbon Black Business to be higher than they would have been had we used an inventory valuation method other than LIFO. Under our current LIFO method, when raw material costs are rising, our most recent higher priced purchases are the first to be charged to cost of sales. If, however, we were using a FIFO method, our purchases from 60 days earlier, which were at lower prices, would instead be the first charged to cost of sales. The opposite result could occur should there be a rapid decline in raw material costs.

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

Goodwill and Other Intangible Assets

We perform an impairment test for goodwill at least annually and when events or changes in business circumstances indicate that the carrying value may not be recoverable. To test whether an impairment exists, the fair value of the applicable reporting unit is estimated based on discounted future cash flows. The calculation of fair value is sensitive to both the estimated future cash flows and the discount rate applied to those cash flows. The assumptions used to estimate the discounted cash flows are based on management's best estimates about selling prices, production and sales volumes, costs, future growth rates, capital expenditures and market conditions over an estimate of the remaining operating period at the reporting unit. The discount rate is based on the weighted average cost of capital that is determined by evaluating the risk-free rate of return, cost of debt and expected equity premiums. If an impairment exists, a loss to write down the value of goodwill to its implied fair value is recorded. While this would have no direct impact on our cash flows, it would reduce our earnings.

Financial Instruments

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

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

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

We carry a variety of different cash and cash equivalents on our consolidated balance sheets. We continually assess the liquidity of cash and cash equivalents and as of March 31, 2008, we have determined that they are readily convertible to cash.

Litigation and Contingencies

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

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

Our current estimate of the cost of our share of existing and future respirator liability claims is based on facts and circumstances existing at this time and is recognized on a discounted basis. Developments that could affect our estimate include, but are not limited to, (i) significant changes in the number of future claims, (ii) changes in the rate of dismissals without payment of pending silica and non-malignant asbestos claims, (iii) significant changes in the average cost of resolving claims, (iv) significant changes in the legal costs of defending these claims, (v) changes in the nature of claims received, (vi) changes in the law and procedure applicable to these claims, (vii) the financial viability of other parties who contribute to the settlement of respirator claims, (viii) a change in the availability of insurance coverage maintained by the entity from whom we acquired the safety respiratory products business, and (ix) a determination that our interpretation of the contractual obligations on which we have estimated our share of liability is inaccurate. While we believe the current best estimate is recorded, we cannot determine the impact of these potential developments on our current estimate of our share of liability for these existing and future claims.

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

Income Taxes

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

Significant judgment is required in determining our worldwide provision for income taxes and recording the related tax assets and liabilities. In the ordinary course of our business, there are operational decisions, transactions, facts and circumstances, and calculations which make the ultimate tax determination uncertain. Furthermore, our tax positions are periodically subject to challenge by taxing authorities throughout the world. We have recorded reserves for taxes and associated interest and penalties that may become payable in future years as a result of audits by tax authorities. Certain of these reserves are for uncertain income tax positions taken on income tax returns which are accounted for in accordance with Financial Accounting Standards Board (“FASB”) Interpretation (“FIN”) No. 48, “Accounting for Uncertainty in Income Taxes—an Interpretation of FASB No. 109” (“FIN 48”), effective October 1, 2007. Reserves for taxes which are not based on income where we believe that the likelihood of an incremental liability being incurred is probable continue to be accounted for in accordance with Statement of Financial Accounting Standard (“FAS”) No. 5, “Accounting for Contingencies” (“FAS 5”). Any significant impact as a result of changes in underlying facts, law, tax rates, tax audit, or review could lead to adjustments to our income tax expense, our effective tax rate, or our cash flow. For example, our results for the first quarter of 2008 included a $7 million net benefit from tax settlements, while our results for the second quarter of fiscal 2008 reflected a change in our estimate of the recoverability of certain tax credits in China.

Additionally, in accordance with FAS 109 “Accounting for Income Taxes” we have established valuation allowances against a variety of deferred tax assets, including net operating loss carry-forwards, foreign tax credits, and other income tax credits. Valuation allowances take into consideration our ability to use these deferred tax assets and reduce the value of such items to the amount that is deemed more likely than not to be recoverable. Our ability to utilize these deferred tax assets is dependent on achieving our forecast of

future taxable operating income over an extended period of time. We review our forecast in relation to actual results and expected trends on a quarterly basis. Failure to achieve our operating income targets may change our assessment regarding the recoverability of our net deferred tax assets and such change could result in a valuation allowance being recorded against some or all of our net deferred tax assets. An increase in a valuation allowance would result in additional income tax expense, lower stockholders' equity and could have a significant impact on our earnings in future periods. The release of valuation allowances in periods when these tax attributes become realizable would reduce our effective tax rate.

Restructuring Activities

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

II. Results of Operations

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

Overview

During the second quarter and first six months of fiscal 2008 volumes sold increased compared to the same periods of fiscal 2007. Carbon black feedstock costs increased in both periods of fiscal 2008. Since these feedstock cost increases could not be fully offset by increased pricing, they unfavorably impacted our operating performance when compared to the same periods of fiscal 2007.

- For the second quarter, in the Carbon Black Business, volumes remained stable in the rubber blacks product line and increased in the performance products product line compared to the prior year. Profitability for the segment declined when compared to the second quarter of 2007, due principally to raw material cost increases, including a significant unfavorable effect from the time lag of the feedstock related pricing adjustments in our rubber blacks' supply contracts. Comparatively, this effect was favorable in the second quarter of 2007. The performance of inkjet colorants was weak for both the second quarter and first six months of 2008 due principally to lower volumes than in the same periods of 2007. We continued to experience a sequential trend of improving volumes, however, driven by a market recovery in the small office home office inkjet market segment.
- The Metal Oxides Business experienced increased volumes in both the second quarter and first six months of 2008 as compared to the same periods last year. The impact of higher volumes was more than offset, however, by increased costs, leading to slightly lower profitability in both periods.
- The Supermetals Business experienced higher volumes during the second quarter of 2008 when compared to the second quarter of 2007, however profitability was flat. For the first six months of fiscal 2008, the performance of the Business was unfavorably impacted, compared to the same period of 2007, by the expiration in early fiscal 2007 of a favorable fixed price/fixed volume supply contract.
- During both the second quarter and first six months of 2008, a higher volume of fluid sold in the Specialty Fluids Business more than offset lower rental volumes, leading to improved profitability.

Second Quarter and First Six Months Fiscal Year 2008 versus Second Quarter and First Six Months Fiscal Year 2007—Consolidated

Net Sales and Gross Profit

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
	(Dollars in millions)			
Net sales and other operating revenues	$ 786	$ 637	$1,497	$1,292
Gross profit	$ 118	$ 138	$ 234	$ 287

The $149 million increase in net sales from the second quarter of 2007 to the second quarter of 2008 was due primarily to increased selling prices ($77 million), the positive impact of foreign currency translation on our selling prices ($55 million) and increased volumes ($14 million). For the first six months of 2008, the $205 million increase in net sales when compared to the first six

months of 2007 was driven by the positive impact of foreign currency translation on our selling prices ($94 million), increased selling prices ($72 million) and increased volumes ($34 million).

Gross margin was 15% and 16% in the second quarter and first six months of 2008, respectively, compared to 22% in both the second quarter and first six months of 2007. Gross profit decreased by $20 million and $53 million in the second quarter and first six months of 2008, respectively, when compared to the same periods of 2007. The decreases in both periods were driven by significant increases in raw material costs, principally in the Carbon Black Business, that could not be offset by increased selling prices and higher volumes.

In addition to the above, during the second quarter of 2008 we recorded $8 million, pre-tax, of restructuring related charges in the consolidated statement of income as cost of sales. This is compared to $6 million, pre-tax, of charges related to environmental reserves and legal settlements and restructuring that were recorded in the consolidated statement of income as cost of sales during the second quarter of 2007. For the first six months of 2008 we recorded $3 million, pre-tax, of income related to restructuring in the consolidated statement of income as cost of sales. This income was driven by the sale of land at our former facility in Altona, Australia that more than offset other restructuring related charges. This is compared to $8 million, pre-tax, of charges related to restructuring and environmental reserves and legal settlements that were recorded in the consolidated statement of income as cost of sales during the same period of 2007.

Selling and Administrative Expenses

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
	(Dollars in millions)			
Selling and administrative expenses	$ 66	$ 73	$ 123	$ 127

Selling and administrative expenses decreased by $7 million in the second quarter of fiscal 2008 and by $4 million in the first six months of 2008 when compared to the same periods of 2007. This decrease was principally driven by a favorable comparison of $10 million, pre-tax, of charges related to the federal carbon black antitrust litigation described in our 2007 10-K that were recorded in the consolidated statement of income as selling and administrative expenses in the second quarter and first six months of 2007 that did not reoccur in the same periods of 2008. This favorable comparison more than offset the unfavorable impact of foreign currency translation on our selling and administrative expenses during both the second quarter and first six months of 2008.

Research and Technical Expenses

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
	(Dollars in millions)			
Research and technical expenses	$ 19	$ 17	$ 35	$ 32

Research and technical spending increased by $2 million in the second quarter of 2008 and by $3 million in the first six months of 2008 when compared with the same periods of 2007. The increase in both periods was primarily the result of increased technical service spending to support our customers, the timing of research expenses and the continued development of our specialty products portfolio, particularly in the Metal Oxides Business.

Interest Expense

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
	(Dollars in millions)			
Interest expense	$ (9)	$ (9)	$ (18)	$ (18)

Interest expense was flat in both the second quarter and first six months of 2008 compared to the same periods of 2007. Despite an overall increase in borrowings, a more favorable mix of interest rates led to the flat comparison.

Other Income (Expense)

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
	(Dollars in millions)			
Other Income (Expense)	$ (2)	$ (1)	$ (4)	$ 1

Other income (expense) unfavorably impacted our results by an increase of $1 million in the second quarter of fiscal 2008 and by an increase of $5 million in the first six months of fiscal 2008 when compared to the same periods of 2007. The variance in both periods is primarily due to losses on foreign currency transactions.

Effective Tax Rate

Income tax expense was $11 million in both the second quarter of 2008 and the second quarter of 2007. While the tax expense was flat period to period, the tax rate increased from 28% to 48% primarily due to the reversal of a portion of tax credits in China, which had been previously approved and recorded in the first quarter of fiscal 2008. This reversal resulted from changes to governmental regulations in China during the second quarter.

For the first six months of 2008 income tax expense was $5 million as compared to $30 million in the first six months of fiscal 2007. The decrease in expense was driven by a combination of reduced earnings plus the benefits from tax settlements and other China tax credits during fiscal 2008.

We are currently under audit by the Internal Revenue Service for tax years 2003-2004 and are under audit in a number of jurisdictions outside of the U.S. It is likely that some of these audits will be resolved in fiscal 2008, which may impact our effective tax rate going forward. We expect our tax rate for net income from continuing operations for fiscal 2008 to be between 26% and 28%, exclusive of discrete items such as audit settlements and/or tax reserve releases.

Minority Interest in Net Income, net of tax

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
	(Dollars in millions)			
Minority interest in net income, net of tax	$ (3)	$ (2)	$ (8)	$ (7)

Net Income

We reported net income for the second quarter and first six months of 2008 of $11 million ($0.17 per diluted common share after-tax) and $47 million ($0.73 per diluted common share after-tax), respectively, compared to net income of $30 million ($0.45 per diluted common share after-tax) and $84 million ($1.24 per diluted common share after-tax), respectively, in the same periods of 2007. The following earnings summary highlights the after-tax impact per diluted common share of certain items which are described below under “Certain Items”:

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
	(Amounts per diluted common share)			
Net income	$ 0.17	$ 0.45	$ 0.73	$ 1.24
Certain items:				
Environmental reserves and legal settlements	—	(0.06)	(0.01)	(0.06)
Carbon Black antitrust litigation	—	(0.09)	—	(0.09)
CEO transition costs	(0.04)	—	(0.04)	—
Restructuring initiatives:				
Global	—	(0.02)	—	(0.04)
Altona, Australia	—	—	0.20	(0.01)
North America	(0.08)	—	(0.15)	—
Europe	(0.01)	—	(0.02)	—
Total certain items	$ (0.13)	$ (0.17)	$(0.02)	$ (0.20)

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Second Quarter and First Six Months Fiscal Year 2008 versus Second Quarter and First Six Months Fiscal Year 2007—By Business Segment

The following discussion of our results includes information on our four reportable segments and product line sales, and segment PBT. This discussion has been prepared on a basis consistent with segment reporting as outlined in Note I of the Consolidated Financial Statements. Cabot's chief operating decision-maker uses total segment operating profit before taxes to measure Cabot's consolidated operating results, and segment operating profit before taxes to assess segment performance and allocate resources. Segment PBT includes equity in net income of affiliated companies, royalties paid by equity affiliates, minority interest and allocated corporate costs and excludes interest expense, foreign currency transaction gains and losses, interest income, dividend income, as well as certain items that have not been allocated to a segment as they are significant and unusual or infrequent. Segment PBT is a non-GAAP financial measure and is not intended to replace income (loss) from continuing operations, the most directly comparable GAAP financial measure. We believe segment PBT assists investors by allowing them to evaluate changes in the operating results of our portfolio of businesses before non-operating factors and before items that are unusual or infrequent that affect net income. Furthermore, disclosure of segment PBT is required in our financial statements under FAS 131. A reconciliation of segment PBT and income (loss) from continuing operations is set forth in Note I of the Notes of our Consolidated Financial Statements.

When explaining the changes in our PBT period on period, we use several terms. The term "fixed costs" means fixed manufacturing costs, including utilities. The term "inventory related changes" means differences attributable to items such as (i) inventory obsolescence and valuation reserves; (ii) utilization variances; and (iii) other increases or decreases in costs associated with the production of inventory. The term "product mix" refers to the various types and grades, or mix, of products sold in a particular business or product line during the period, and the positive or negative impact of that mix on the variable margin and profitability of the business or product line. The term "market segment mix" refers to the various market segments into which a particular business or product line sold its products during the period, and the positive or negative impact of that mix on the variable margin and profitability of the business or product line.

Total segment PBT, certain items, other unallocated items, and income from operations before income taxes for the three and six months ended March 31, 2008 and 2007 are set forth in the table below. The details of certain items and other unallocated items are shown below and in Note I of our Consolidated Financial Statements. These items are not included in segment PBT.

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
	(Dollars in millions)			
Total segment PBT	$ 47	$ 68	$ 84	$ 155
Certain items	(12)	(17)	(2)	(20)
Other unallocated items	(12)	(10)	(26)	(19)
Income from operations before income taxes	$ 23	$ 41	$ 56	$ 116

Other Unallocated Items:

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
	(Dollars in millions)			
Interest expense	$ (9)	$ (9)	$ (18)	$ (18)
Equity in net income of affiliated companies	(2)	(3)	(4)	(6)
Foreign currency transaction losses	—	1	(1)	1
Other unallocated income	(1)	1	(3)	4
Total other unallocated income	$ (12)	$ (10)	$ (26)	$ (19)

Total segment PBT decreased by $21 million and $71 million in the second quarter and first six months of 2008, respectively, when compared to the same periods of 2007. The decreases were driven by higher raw material costs ($112 million and $164 million, respectively), principally in the Carbon Black Business, that could not be fully offset by higher prices ($86 million in the second quarter and $82 million in the first six months) and higher volumes ($6 million and $15 million, respectively). Additionally, inventory related changes unfavorably impacted total segment PBT by $2 million in both the second quarter and first six months of 2008 when compared to the same periods of 2007.

Certain Items:

Details of the certain items for the second quarter and first six months ended March 31, 2008 and 2007 are as follows:

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
	(Dollars in millions)			
Environmental reserves and legal settlements	$ —	$ (5)	$ (1)	$ (5)
Carbon Black antitrust litigation	—	(10)	—	(10)
CEO transition costs	(4)	—	(4)	—
Restructuring initiatives:				
Global	—	(2)	—	(4)
Altona, Australia	—	—	18	(1)
North America	(7)	—	(13)	—
Europe	(1)	—	(2)	—
Total certain items, pre-tax	$ (12)	$ (17)	$ (2)	$ (20)

Pre-tax charges related to certain items decreased by $5 million in the second quarter of 2008 from the same period of 2007. The decrease was driven by charges related to the federal carbon black antitrust litigation and environmental reserves and legal settlements in the second quarter of 2007 that did not reoccur in the second quarter of 2008. These positive factors were partially offset by increased restructuring charges and costs associated with the CEO transition during the second quarter of 2008 as compared to the second quarter of 2007. For the first six months of 2008, pre-tax charges related to certain items decreased by $18 million when compared to the same period of 2007. The decrease was principally related to charges from the federal carbon black antitrust litigation and environmental reserves and legal settlements in the first six months of 2007 that did not reoccur in the same period of 2008 and income related to the sale of land at our former facility in Altona, Australia during the first six months of 2008.

Carbon Black Business

Segment sales and PBT for the Carbon Black Business for the second quarter and first six months ended March 31, 2008 and 2007 are as follows:

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
	(Dollars in millions)			
Rubber blacks	$ 453	$ 346	$ 863	$ 697
Performance products	165	134	307	257
Inkjet colorants	11	13	19	23
CSMP	1	—	2	1
Segment Sales	$ 630	$ 493	$ 1,191	$ 978
Segment PBT	$ 36	$ 57	$ 57	$ 111

The $137 million increase in sales for the Carbon Black Business from the second quarter of 2007 to the second quarter of 2008 was driven by increased selling prices ($78 million), the positive impact of foreign currency translation on our selling prices ($50 million) and increased volumes ($7 million). During the second quarter of 2008, volumes were stable in the rubber blacks product line and increased by 5% in the performance products product line, compared to the second quarter of 2007. For the first six months of 2008, the $213 million increase in sales for the Carbon Black Business, compared to the same period in 2007, was driven by increased selling prices ($84 million), the positive impact of foreign currency translation on our selling prices ($86 million) and increased volumes ($41 million).

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The $21 million and $54 million decreases in PBT from the second quarter and first six months of 2007 to the second quarter and first six months of 2008, respectively, were driven by raw material cost increases ($109 million and $160 million, respectively) and higher fixed costs ($6 million and $11 million, respectively). These factors were only partially offset in both periods by increased selling prices and favorable product mix ($86 million and $91 million, respectively), the favorable impact of inventory related changes ($3 million and $7 million, respectively), the positive impact of foreign currency translation ($3 million and $4 million, respectively) and higher volumes ($2 million and $16 million, respectively).

Unit margins declined on our contracted and non-contracted rubber blacks and performance products business in the second quarter and first six months of 2008, when compared to the same periods of 2007, driven by feedstock costs that increased in excess of price increases. Unit margins, however, improved from the first to the second quarter of 2008. Generally, our rubber blacks supply contracts provide for a price adjustment on the first day of each quarter to account for changes in feedstock costs and, in some cases, changes in other relevant costs. The feedstock adjustments are based upon the average of a relevant index over a three-month period. Because of the need to communicate these adjustments to our customers in a timely manner, the contracts typically provide for the adjustments to be calculated in the month preceding the quarter. Accordingly, the calculation is typically based upon the average of the three months preceding the month in which the calculation is made. For example, the price adjustment applicable to the quarter that commenced on January 1 was calculated in December using the relevant index average during the months of September, October and November. Because of this time lag, the actual feedstock costs impacting our results during the second quarter of fiscal 2008 were higher than the costs used to calculate the contract pricing. On an absolute basis, we were unfavorably impacted by $17 million and $26 million, respectively, from the contract related time lag during the second quarter and first six months of fiscal 2008. This compares to favorable impacts of $7 million and $15 million, respectively, during the same periods of 2007.

Metal Oxides Business

Segment sales and PBT for the Metal Oxides Business for the second quarter and first six months ended March 31, 2008 and 2007 are as follows:

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
	(Dollars in millions)			
Fumed metal oxides	$ 72	$ 68	$ 142	$ 133
Aerogel	1	—	1	—
Segment Sales	$ 73	$ 68	$ 143	$ 133
Segment PBT	$ 8	$ 10	$ 16	$ 19

The $5 million increase in sales for the Metal Oxides Business from the second quarter of 2007 to the second quarter of 2008 was driven by the positive impact of foreign currency translation on our selling prices ($3 million) and increased volumes ($2 million). For the first six months of 2008, the $10 million increase in sales for the Metal Oxides Business, compared to the same period of 2007, was driven by the positive impact of foreign currency translation on our selling prices ($6 million) and increased volumes ($5 million). During the second quarter and first six months of 2008, stronger volumes in the niche and electronics market segments of our fumed metal oxides product line more than offset softness in the silicones market segment.

The $2 million decrease in PBT from the second quarter of 2007 to the second quarter of 2008 was driven by higher fixed costs, principally higher utility costs ($3 million), higher raw material costs ($1 million) and the unfavorable impact of inventory related changes ($1 million). These factors were only partially offset by increased volumes ($2 million) and a favorable product and market segment mix ($1 million). During the second quarter of 2008, we were forced to shut down production at our fumed silica facility in China for nearly three weeks due to extreme weather conditions, unfavorably impacting profitability by approximately $1 million. During the first six months of 2008, PBT decreased by $3 million when compared to the first six months of 2007. This decrease was driven principally by higher fixed costs ($4 million), in particular higher utility costs, higher raw material costs ($2 million) and the unfavorable impact of inventory related changes ($2 million). These unfavorable factors were only partially offset by increased volumes ($3 million), a favorable product and market segment mix ($1 million) and the positive impact of foreign currency translation ($1 million).

Supermetals Business

Segment sales and PBT for the Supermetals Business for the second quarter and first six months ended March 31, 2008 and 2007 are as follows:

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
	(Dollars in millions)			
Segment sales	$ 57	$ 53	$ 109	$ 130
Segment PBT	$ (2)	$ (2)	$ (1)	$ 14

Sales for the Supermetals Business in the second quarter of 2008 increased by $4 million when compared to the second quarter of 2007. The increase was driven by higher volumes ($7 million), principally driven by customer inventory build, and the positive effect of foreign currency translation on our selling prices ($1 million). These factors were only partially offset by lower selling prices ($4 million). Sales decreased by $21 million in the first six months of 2008 compared to the first six months of 2007 driven by lower volumes ($7 million) and lower pricing ($15 million), partially offset by the positive impact of foreign currency translation on our selling prices ($1 million).

PBT was flat from the second quarter of 2007 to the second quarter of 2008 as lower fixed and administrative costs ($7 million combined) and higher volumes ($2 million) were offset by lower selling prices ($4 million), the unfavorable impact of inventory related changes ($4 million) and higher raw material costs ($1 million). During the first six months of 2008, PBT declined by $15 million when compared to the first six months of 2007. This decrease was driven by lower pricing ($14 million) and lower volumes ($3 million), associated with the expiration of a favorable fixed price fixed volume supply contract at the end of the first quarter of 2007. Additionally, the Business was unfavorably impacted by inventory related changes ($7 million) and higher raw material costs ($2 million). These unfavorable factors were only partially offset by lower fixed and administrative costs ($11 million).

Specialty Fluids Business

Segment sales and PBT for the Specialty Fluids Business for the second quarter and first six months ended March 31, 2008 and 2007 are as follows:

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
	(Dollars in millions)			
Segment sales	$ 16	$ 10	$ 32	$ 26
Segment PBT	$ 5	$ 3	$ 12	$ 11

Sales in the Specialty Fluids Business increased by $6 million in both the second quarter and first six months of fiscal 2008, when compared to the same periods of 2007. These increases were driven by a larger number of jobs completed and a higher volume of fluid sold, which more than offset decreases in rental revenue.

PBT increased from the second quarter of 2007 to the second quarter of 2008 as a higher volume of fluid sold from completed jobs more than offset a reduction in our rental volume. During the first six months of 2008, PBT increased by $1 million when compared to the first six months of 2007 as a higher volume of fluid sold and a favorable price mix more than offset lower rental volumes.

III. Cash Flow and Liquidity

Overview

Our cash balance decreased by $43 million in the first six months of fiscal 2008, from $154 million as of September 30, 2007 to $111 million as of March 31, 2008. During the same period of fiscal 2007, the cash balance increased by $57 million, from $189 million as of September 30, 2006 to $246 million as of March 31, 2007. The following discussion of the changes in our cash balance refers to the various sections of our Consolidated Statements of Cash Flows, which appears in Item 1 of this quarterly report on Form 10-Q.

Cash Flows from Operating Activities

Cash generated by operating activities, which consists of net income adjusted for the various non-cash items included in income, changes in working capital and changes in certain other balance sheet accounts, totaled a use of $10 million in the first six months of fiscal 2008 compared to a source of $173 million in the same period of fiscal 2007. The use of cash in the first six months of fiscal 2008 is primarily due to an increase of working capital of $129 million, offset by net income of $47 million and depreciation and amortization of $84 million. The increase in working capital was primarily driven by an increase in accounts payable and accrued liabilities of $60 million as a result of the timing of raw material deliveries as well as the timing of payments. Inventories increased by $39 million due to the increased value of inventory based on higher carbon black feedstock costs and higher inventory quantities. Additionally, during the first six months of fiscal 2008, accounts receivable increased by $30 million due to feedstock related price increases. The source of cash in the first six months of fiscal 2007 was primarily due to net income of $85 million and depreciation and amortization of $70 million, offset by a slight increase in working capital of $4 million.

Potential Operating Cash Activity

Environmental and Litigation Reserves

Cabot has a $10 million reserve for environmental matters as of March 31, 2008 for remediation costs at various environmental sites. These sites are primarily associated with businesses divested in prior years. We anticipate that the expenditures at these sites will be made over a number of years, and will not be concentrated in any one year. Additionally, we have recorded a $17 million reserve for respirator claims as of March 31, 2008 and we expect to pay a total of approximately $9 million over the next five years. We have other litigation costs associated with lawsuits arising in the ordinary course of business including claims filed against us in connection with certain discontinued operations.

Restructuring

As of March 31, 2008, we have $3 million of total restructuring costs in accrued expenses in the consolidated balance sheets related to the closure of our plant in Waverly, West Virginia and our 2006 cost reduction initiatives. We ceased production at the Waverly, West Virginia plant during the second quarter of fiscal 2008. We have made cash payments of $4 million during fiscal 2008 for restructuring costs. We expect to make additional cash payments related to these restructuring activities of $3 million during the remainder of fiscal 2008 and $2 million during fiscal 2009.

Carbon Black Feedstock Costs

During the second quarter of fiscal 2008 rising carbon black feedstock costs caused both an unfavorable contract lag as well as continued increases of working capital. A further escalation of carbon black feedstock costs could lead to an additional increase in our cash requirements.

Repatriation of Foreign Currency

As of March 31, 2008, we had cash at a Venezuelan subsidiary of approximately $11 million which has been translated at the official exchange rate. We continue to be concerned about our ability to repatriate this cash as we have not received approval to formally exchange this cash at the official rate. Our experience in repatriating a portion of this cash has resulted in discounts of 16% to 61% from the official exchange rate. If we are unable to repatriate this cash at the official exchange rate or if the official exchange rate devalues, we may incur additional reductions to our earnings and cash balances.

Cash Flows from Investing Activities

Cash used in investing activities totaled $57 million during the first six months of fiscal 2008 versus $69 million in the same period of fiscal 2007. The change in cash used in investing activities is primarily attributed to an increase of $23 million for capital spending on property, plant and equipment, offset by net purchases of $20 million for short-term investments in the first six months of fiscal 2007 that did not reoccur in the corresponding period of fiscal 2008. The increase in capital spending was partially offset by proceeds of $18 million received from the sale of the land on which our Altona, Australia carbon black plant was located.

During the first six months of fiscal 2008 capital spending on property, plant and equipment consumed $72 million of cash compared to $49 million in the same period for the prior fiscal year. Capital expenditures in fiscal 2008 included spending for rubber blacks capacity expansion at an existing facility in China, residual spending on our new performance products manufacturing unit in China and new energy centers at other carbon black facilities. During the first six months of fiscal 2007, capital expenditures included the initial expenditures related to the construction of energy centers at three of our carbon black facilities and spending on our new rubber blacks and performance product manufacturing unit in China and new manufacturing unit in Brazil. Capital expenditures for fiscal 2008 are expected to be approximately $200 million compared to $141 million for the full year of fiscal 2007.

Cash Flows from Financing Activities

Cash flows provided by financing activities were $14 million during the first six months of fiscal 2008 as compared to a use of $51 million for the first six months of fiscal 2007. In both years, financing cash flows were primarily driven by changes in our debt position and dividend payments. During the first six months of fiscal 2008, we drew down a net $30 million from our uncommitted working capital facilities in China to increase our liquidity position. The Chinese central bank began imposing lending restrictions beginning in November 2007. At this time we have sufficient resources on hand in light of our continued growth in China. In the first six months of fiscal 2008 we also repaid $10 million of scheduled long-term debt maturities mainly associated with project loans in China. Additionally, we drew down $40 million from our revolving credit facility for general working capital needs in North America. During the first six months of fiscal 2007 the net cash used was primarily due to $37 million in repayments of long-term debt, of

which $7 million related to China debt that matured during the first quarter and $30 million of medium term notes that matured in the second quarter of fiscal 2007. In addition, $24 million of dividend payments were made during the first six months of fiscal 2007.

During the first six months of fiscal 2008 we used $23 million for quarterly dividend payments and $24 million for open market repurchases of our common stock.

As of March 31, 2008, our long-term debt obligations totaled $526 million, of which $39 million will come due in the next twelve months.

We expect cash on hand, cash from operations, present financing arrangements, including Cabot's unused lines of credit, and access to capital markets, to be sufficient to meet our additional cash requirements, including capital expenditures, for the next twelve months and the foreseeable future.

Contractual Obligations

Our 2007 10-K provides a table of long-term contractual obligations. There have not been any material changes to these obligations during the first six months of fiscal 2008.

Off-balance sheet arrangements

Cabot has no material transactions that meet the definition of an off-balance sheet arrangement.

Forward-Looking Information

This report on Form 10-Q contains "forward-looking statements" under the Federal securities laws. These forward-looking statements include statements relating to management's expectations regarding our expected tax rate for fiscal year 2008; the amount and timing of charges and payments associated with restructurings and cost reduction initiatives; the amount and timing of payments associated with environmental remediation and respirator claims; the outcome of pending litigation; capital expenditures for fiscal year 2008; cash requirements and uses of available cash; and our ability to meet cash requirements for the foreseeable future.

Forward-looking statements are based on our current expectations, assumptions, estimates and projections about Cabot's businesses and strategies, market trends and conditions, economic conditions and other factors. These statements are not guarantees of future performance and are subject to risks, uncertainties, potentially inaccurate assumptions, and other factors, some of which are beyond our control or difficult to predict. If known or unknown risks materialize, or should underlying assumptions prove inaccurate, our actual results could differ materially from those expressed in the forward-looking statements.

In addition to factors described elsewhere in this report, the following are some of the factors that could cause our actual results to differ materially from those expressed in the forward-looking statements: lower than expected demand for our products; fluctuations in currency exchange rates; patent rights of others; stock market conditions; the timely commercialization of products under development (which may be disrupted or delayed by technical difficulties, market acceptance, competitors' new products, as well as difficulties in moving from the experimental stage to the production stage); our ability to successfully implement our cost reduction initiatives and organizational restructurings; demand for our customers' products; competitors' reactions to market conditions; the accuracy of the assumptions we used in establishing a reserve for our share of liability for respirator claims; and the outcome of pending litigation. Other factors and risks are discussed in our 2007 10-K.

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

IV. Recently Issued Accounting Pronouncements

In September 2006, the FASB issued FAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("FAS 158"). FAS 158 requires an employer to recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the projected benefit obligation, in its statement of financial position. FAS 158 also requires an employer to measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end. As of September 30, 2007, we adopted the balance sheet impact of reflecting the funded status of the plan using a June 30 measurement date. As required by FAS 158, on or before September 30, 2009, we will change our measurement date to the Company's September 30 year end rather than a June 30 measurement date. We continue to evaluate the impact of the adoption of the change in measurement date related to the second part of FAS 158 on our consolidated financial statements.

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

In February 2007, the FASB issued FAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115” (“FAS 159”). FAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. FAS 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. FAS 159 is effective for us beginning October 1, 2008. We are evaluating the impact of FAS 159 on our consolidated financial statements.

In December 2007, the FASB issued FAS No. 141 (Revised 2007), “Business Combinations” (“FAS 141 (R)”). FAS 141 (R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of business combinations. FAS 141 (R) is effective on a prospective basis for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, any business combination we enter into after September 30, 2009 will be subject to this new standard.

In December 2007, the FASB issued FASB Statement No. 160, “Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51” (“FAS 160”). FAS 160 establishes accounting and reporting standards for the ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in the parent’s ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. FAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. FAS 160 is effective as of the beginning of an entity’s fiscal year that begins after December 15, 2008, which will be October 1, 2009 for Cabot. We are evaluating the impact of FAS 160 on our consolidated financial statements.

In March 2008, the FASB issued FAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133” (“FAS 161”), which amends and expands the disclosure requirements of FAS 133. FAS 161 enhances required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under FAS 133, and how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. More specifically, FAS 161 will require qualitative disclosure about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. FAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, which will be January 1, 2009 for us. The principal impact to us will be to require us to expand our disclosure regarding our derivative instruments.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information about market risks for the period ended March 31, 2008 does not differ materially from that discussed under Item 7A of our fiscal 2007 Annual Report on Form 10-K.

Item 4. Controls and Procedures

As of March 31, 2008, we carried out an evaluation, under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Executive Vice President and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based upon that evaluation, our President and Chief Executive Officer and our Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of that date.

There were no changes in our internal control over financial reporting that occurred during our fiscal quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

Respirator Liabilities

We have exposure in connection with a safety respiratory products business that a subsidiary acquired from American Optical Corporation (“AO”) in an April 1990 asset purchase transaction. The subsidiary manufactured respirators under the AO brand and disposed of that business in July 1995. In connection with its acquisition of the business, the subsidiary agreed, in certain circumstances, to assume a portion of AO’s liabilities, including costs of legal fees together with amounts paid in settlements and judgments, allocable to AO respiratory products used prior to the 1990 purchase by the Cabot subsidiary. As more fully described in our 2007 10-K, our respirator liabilities involve claims for personal injury, including asbestosis and silicosis and, more recently, coal worker’s pneumoconiosis, allegedly resulting from the use of AO respirators that are alleged to have been negligently designed or labeled. As of March 31, 2008, there were approximately 55,000 claimants in pending cases asserting claims against AO in connection with respiratory products. We have a reserve to cover our expected share of liability for existing and future respirator liability claims. The book value of the reserve is being accreted up to the undiscounted liability through interest expense over the expected cash flow period, and, at March 31, 2008, is approximately $17 million (or $26 million on an undiscounted basis).

Carbon Black Antitrust Litigation

During fiscal years 2003 and 2004, Cabot, Phelps Dodge Corporation, Columbian Chemicals Co., Degussa Engineered Carbons, LP, Degussa AG, and Degussa Corporation (referred to collectively as the “Defendants”) were named in nine actions filed in Superior Court of the State of California on behalf of a purported class of indirect purchasers of carbon black in the state of California. During fiscal years 2004 and 2005, the Defendants were named in actions filed in state courts in the states of Florida, Kansas, Tennessee, South Dakota, North Carolina and New Jersey on behalf of indirect purchasers of carbon black in these states. Each of these complaints asserted that the Defendants conspired to fix, raise, maintain or stabilize prices for carbon black (the “state actions”). The plaintiffs in the state actions sought damages, including treble damages, in an unspecified amount and attorneys’ fees. The North Carolina and New Jersey state actions were dismissed in 2004 and 2005, respectively. In October 2007, we settled the California state actions, which were accrued for as of September 30, 2007, and final court approval of this settlement was received during the quarter. An agreement in principle to settle the Tennessee and Kansas actions was also reached during the quarter. We believe we have valid defenses to all of the remaining state action claims and will continue to assert them vigorously. While the outcome of litigation is uncertain, we do not believe that the ultimate disposition of these matters will have a material adverse effect on our consolidated financial position.

Other Matters

In 2001, we entered into agreements (the “Project Agreements”) with Private Power LLC (“Private Power”) relating to co-generation projects at Cabot’s Ville Platte and Franklin (Canal) plants in Louisiana. Shortly after the Project Agreements were entered into, disputes arose regarding the scope of the projects and each party’s respective rights under the Project Agreements. In December 2002, we filed a suit in the Massachusetts state court seeking a declaration that we had not terminated the Project Agreements. Private Power filed counterclaims, which were eventually amended to include claims for breach of contract and allegations of bad faith. In August 2007, we amended our complaint to add breach of contract and bad faith claims. In April, 2008, the parties entered into a two-stage mediation/arbitration agreement with an agreed upon range of outcomes. The mediation is scheduled to take place in June, 2008, to be followed by binding arbitration if the dispute is not resolved at the mediation. We believe we have valid defenses to all of Private Power’s claims and will continue to assert them vigorously. While the outcome of litigation is uncertain, we do not believe that the ultimate disposition of this matter will have a material adverse effect on our consolidated financial position.

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

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Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended September 30, 2007.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below sets forth information regarding the Company's purchases of its equity securities during the second quarter ended March 31, 2008.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2008 – January 31, 2008	252,600	$ 30.83	252,000	5,118,557
February 1, 2008 – February 29, 2008	247,300	$ 28.39	240,000	4,878,557
March 1, 2008 – March 31, 2008	318,987	$ 27.48	318,987	4,559,570
Total	818,887		810,987	

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

Included in the shares repurchased from time to time by Cabot under the Board's authorization are shares of common stock repurchased from employees at fair market value to satisfy tax withholding obligations that arise on the vesting of shares of restricted stock and the exercise of stock options. (Shares repurchased from employees in connection with the annual vesting of shares issued under our LTI program, which occurs each May, are separately authorized by the Board and excluded from the standing repurchase authorization.) During the second quarter of fiscal 2008, of the 810,987 shares repurchased pursuant to the Board's authorization, 732,000 were repurchased on the open market and 78,987 were repurchased from employees to satisfy tax withholding obligations. The average price paid for the 810,987 shares was $28.96.

From time to time, we also repurchase shares of unvested restricted stock from employees whose employment is terminated before such shares vest. These shares are repurchased pursuant to the terms of our equity incentive plans and are not included in the shares repurchased under the Board's authorization. During the second quarter of fiscal 2008, we repurchased 7,900 forfeited shares pursuant to the terms of our equity incentive plans. The purchase price for these repurchased shares was the employee's original purchase price for the stock, which under the terms of the Company's long term incentive compensation program since 1999 has been an amount equal to 30% of the fair market value of such shares on the date of grant. The average price per share paid for these forfeited shares was $10.83.

Item 4. Submission of Matters to a Vote of Security Holders

We held our Annual Meeting of Stockholders on March 13, 2008. There was no solicitation in opposition to management's nominees as listed in our proxy statement and all such nominees were elected to the class of directors whose term expires in 2011. In addition, the stockholders ratified the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending September 30, 2008. All of the proposals were routine matters and, therefore, there were no broker non-votes. The results of the voting for each of these proposals were as follows:

Election of Directors Whose Terms Expire in 2011:

	FOR	AGAINST	ABSTAIN
Juan Enriquez-Cabot	57,240,308	1,930,430	84,276
Arthur L. Goldstein	54,900,264	4,242,465	112,285
Gautam S. Kaji	57,149,551	2,020,441	85,022
Henry F. McCance	54,527,342	4,466,693	260,979
Patrick M. Prevost	56,727,133	2,370,618	157,263

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2. *Proposal to Ratify the Appointment of Deloitte & Touche LLP*

For:	58,929,471
Against:	221,394
Abstain:	104,149

In addition to the directors elected at the meeting to the class of directors whose term expires in 2011, the terms of office of the following directors continued after the meeting: John S. Clarkeson, Roderick C.G. MacLeod, John F. O'Brien, Ronaldo H. Schmitz, Lydia W. Thomas, Mark S. Wrighton and Shengman Zhang.

Item 6. Exhibits

The following Exhibits are filed herewith:

Exhibit 3	The By-laws of Cabot Corporation as amended March 14, 2008.
Exhibit 10.1*	Form of Award Certificate/Election Form entered into under 2006 Long-Term Incentive Plan.
Exhibit 31.1	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule15d-14(a) of the Exchange Act.
Exhibit 31.2	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
Exhibit 32	Certifications of the Principal Executive Officer and the Principal Financial Officer pursuant to 18 U.S.C. Section 1350.

* Management contract or compensatory plan or arrangement.

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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 9, 2008	By: /s/ JONATHAN P. MASON
	Jonathan P. Mason
	Executive Vice President and Chief Financial Officer
	(Duly Authorized Officer)
Date: May 9, 2008	By: /s/ JAMES P. KELLY
	James P. Kelly
	Vice President and Controller
	(Chief Accounting Officer)

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Exhibit Index

Exhibit No.	Description
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Exhibit 32	Certifications of the Principal Executive Officer and the Principal Financial Officer pursuant to 18 U.S.C. Section 1350.

* Management contract or compensatory plan or arrangement.

BY-LAWS
OF
CABOT CORPORATION

(As Amended through March 14, 2008)

Section 1. LAW, CERTIFICATE OF INCORPORATION AND BY-LAWS

1.1 These by-laws are subject to the certificate of incorporation of the corporation. In these by-laws, references to law, the certificate of incorporation and by-laws mean the law, the provisions of the certificate of incorporation of the corporation and these by-laws as from time to time in effect.

Section 2. STOCKHOLDERS

2.1 Annual Meeting. The annual meeting of stockholders shall be held on such date and at such time as shall be designated by the board of directors each year (which date and time may subsequently be changed at any time, including the year any such designation occurs).

2.2 Special Meetings. A special meeting of the stockholders may be called at any time by the board of directors. Any such call shall state the place, time, and purposes of the meeting.

2.3 Place of Meeting; Adjournment. Meetings of the stockholders may be held at such place within or without the State of Delaware as may be designated by the board of directors in the call thereof. When any meeting is convened, the officer presiding at such meeting, if directed by the board of directors, may adjourn the meeting for a period of time not to exceed 30 days if (a) no quorum is present for the transaction of business or (b) the board of directors determines that adjournment is necessary or appropriate to enable the stockholders (i) to consider fully information which the board of directors determines has not been made sufficiently or timely available to stockholders or (ii) otherwise to exercise effectively their voting rights. The officer presiding at the meeting in such event shall announce the adjournment and date, time and place of reconvening and shall cause notice thereof to be posted at the place of meeting designated in the notice which was sent to the stockholders, and if such date is more than 10 days after the original date of the meeting the secretary or an assistant secretary shall give notice thereof in the manner provided in Section 2.4 of these by-laws.

2.4 Notice of Meetings. Except as otherwise provided by law, a written notice of each meeting of stockholders stating the place, day and hour thereof and, in the case of a special meeting, the purposes for which the meeting is called, shall be given not less than ten nor more than 60 days before the meeting, to each stockholder entitled to vote thereat, and to each stockholder who, by law, by the certificate of incorporation or by these by-laws, is entitled to notice, by leaving such notice at the stockholder's residence

or usual place of business, or by depositing it in the United States mail, postage prepaid, and addressed to such stockholder at the stockholder's address as it appears in the records of the corporation. Such notice shall be given by the secretary or an assistant secretary, or in the case of their death, incapacity or refusal, by another officer or person designated by the board of directors. As to any adjourned session of any meeting of stockholders, notice of the adjourned meeting need not be given if the time and place thereof are announced at the meeting at which the adjournment was taken except that if the adjournment is for more than 30 days or if after the adjournment a new record date is set for the adjourned session, notice of any such adjourned session of the meeting shall be given in the manner heretofore described. No notice of any meeting of stockholders or any adjourned session thereof need be given to a stockholder if a written waiver of notice, executed before or after the meeting or such adjourned session by such stockholder, is filed with the records of the meeting or if the stockholder attends such meeting without objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any meeting of the stockholders or any adjourned session thereof need be specified in any written waiver of notice.

2.5 Quorum of Stockholders. At any meeting of the stockholders, a quorum as to any matter shall consist of a majority of the votes entitled to be cast on the matter, except where a larger quorum is required by law, by the certificate of incorporation or by these by-laws. If a quorum is present at an original meeting, a quorum need not be present at an adjourned session of that meeting. Shares of its own stock belonging to the corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the corporation, shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of any corporation to vote stock, including but not limited to its own stock, held by it in a fiduciary capacity.

2.6 Required Vote for Election of Directors. When a quorum is present at any meeting, a nominee for director shall be elected if the votes properly cast for such nominee's election exceed the votes properly cast against such nominee's election (abstentions shall not be considered to be votes cast); provided, however, that the directors shall be elected by a plurality of the votes properly cast at any meeting of stockholders for which (i) the corporation receives a notice that a stockholder has nominated a person for election as a director in compliance with the provisions for advance notice of nominations in Section 2.12 of these by-laws and (ii) such nomination has not been withdrawn on or prior to the tenth day preceding the date on which the corporation mails notice of the meeting to the stockholders. If nominees for director are to be elected by a plurality of the votes properly cast, stockholders shall not be permitted to vote against a nominee.

2.7 Required Vote for Other Matters. When a quorum is present at any meeting, a majority of the votes properly cast shall decide the question, except as otherwise required by law, by the certificate of incorporation or by these by-laws. If the corporation issues fractional shares of stock entitled to vote, holders of such fractional shares shall be entitled to exercise voting rights.

2.8 No Action Without Meetings. Any action required or permitted to be taken by stockholders of the corporation must be taken at a duly called annual or special meeting of the corporation and may not be taken by any consent in writing by such stockholders.

2.9 Proxy Representation. Every stockholder may authorize another person or persons to act for him or her by proxy in all matters in which a stockholder is entitled to participate, whether by waiving notice of any meeting, objecting to or voting or participating at a meeting. Every proxy must be signed by the stockholder or by his or her attorney-in-fact. No proxy shall be voted or acted upon after three years from its date unless such proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and, if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the corporation generally. The authorization of a proxy may but need not be limited to specified action; provided, however, that if a proxy limits its authorization to a meeting or meetings of stockholders, unless otherwise specifically provided such proxy shall entitle the holder thereof to vote at any adjourned session but shall not be valid after the final adjournment thereof.

2.10 Inspectors. The directors or the person presiding at the meeting may, but need not, appoint one or more inspectors of election and any substitute inspectors to act at the meeting or any adjournment thereof. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his or her ability. The inspectors, if any, shall determine the number of shares of stock outstanding and the voting power of each, the shares of stock represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes or ballots, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the person presiding at the meeting, the inspectors shall make a report in writing of any challenge, question or matter determined by them and execute a certificate of any fact found by them.

2.11 List of Stockholders. The secretary shall prepare and make, or cause to be prepared and made, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at such meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder. The original or duplicate stock ledger shall be the only evidence as to who are stockholders entitled to examine such list or to vote in person or by proxy at such meeting.

2.12 Notice of Stockholder Business and Nomination. Unless otherwise determined by the board of directors prior to a meeting of the stockholders, the officer presiding at such meeting, determined in accordance with these by-laws, shall determine the order of business and shall have the authority in his or her discretion to regulate the conduct of such meeting, including, without limitation, to impose restrictions on the

persons (other than stockholders of the corporation or their duly appointed proxies) who may attend such meeting, to regulate and restrict the making of statements or asking of questions at such meeting and to cause the removal from such meeting of any person who has disrupted or appears likely to disrupt the proceedings at such meeting.

At a meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before any meeting of the stockholders held pursuant to Section 2.1 of these by-laws, business, including the nomination or election of directors, must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (b) otherwise properly brought before the meeting by or at the direction of the board of directors, or (c) properly brought before the meeting by a stockholder who is a stockholder of record at the time of the giving by such stockholder of the notice provided for in this Section 2.12, who shall be entitled to vote for such business at the meeting and who complies with the requirements of this Section 2.12 with respect to any business sought to be brought before the meeting, including the nomination or election of directors.

In addition to any other applicable requirements, in order for any such business or nomination to be properly brought before the meeting by a stockholder (other than a stockholder proposal included in the corporation's proxy statement pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), the stockholder must have given timely notice thereof in writing to the secretary of the corporation. To be timely, a stockholder's notice must be received at the principal executive offices of the corporation not less than 60 days nor more than 90 days prior to the anniversary date of the immediately preceding annual meeting of stockholders of the corporation; provided, however, in the event that the meeting is called for a date (including any change in a date designated by the board of directors pursuant to Section 2.1) more than 60 days prior to such anniversary date, notice by the stockholder to be timely must be so received not later than the close of business on the 10th day following the day on which notice of the date of such meeting was mailed or public disclosure of the date of such meeting was made, whichever first occurs.

A stockholder's notice to the secretary shall set forth as to each matter the stockholder proposes to bring before the meeting (a) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (b) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (c) the class and number of shares of capital stock of the corporation held of record, owned beneficially and represented by proxy by such stockholder as of the record date for the meeting (if such date shall then have been made publicly available) and as of the date of such notice by the stockholder, (d) any material interest of the stockholder in such business and (e) all other information which would be required to be included in a proxy statement required to be filed with the Securities and Exchange Commission if, with respect to any such item of business or nomination, such stockholder were a participant in a solicitation subject to Regulation 14A under the Exchange Act (the "Proxy Rules").

In addition, if the notice involves the nomination of a director, a stockholder's notice to the secretary shall set forth (a) as to each person whom the stockholder proposes to nominate for election or re-election as a director, (i) the name, age, business address or residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of capital stock of the corporation, if any, which are beneficially owned by the person, (iv) any other information relating to the nominee as would be required to be included in a proxy statement or other filings required to be filed pursuant to the Proxy Rules (including without limitation the consent of the nominee to being named in the proxy statement as a nominee and to serve as a director if elected) and (v) a statement signed by the person confirming that, if elected, he or she will comply with the corporation's Global Ethics and Compliance Standards, Policy on Transactions in Securities, Corporate Governance Guidelines and any other applicable rule, regulation, policy or standard of conduct applicable to the directors; and (b) as to the stockholder giving the notice, (i) a representation that the stockholder intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice and (ii) a description of all arrangements or understandings between such stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by such stockholder. At the request of the board of directors, any person nominated by the board of directors for election as a director shall furnish to the secretary of the corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee.

Notwithstanding anything in the by-laws to the contrary, no business pertaining to this Section shall be conducted at any meeting except in accordance with the procedures set forth in this Section 2.12. The officer presiding at the meeting shall, if the facts warrant, determine and declare to the meeting that any business or nomination, as the case may be, was not properly brought before the meeting in accordance with the provisions of this Section 2.12, and if the presiding officer should so determine, he or she shall so declare to the meeting and any business not properly brought before the meeting shall not be transacted and any defective nomination shall be disregarded.

Section 3. BOARD OF DIRECTORS

3.1 Number. The number of directors which shall constitute the whole board shall be not less than three nor more than 17 in number. Within the foregoing limits, the board of directors shall determine the number of directors, and the number of directors may be increased at any time or from time to time by the directors by vote of a majority of the directors then in office. The number of directors may be decreased to any number permitted by the foregoing at any time by the directors by vote of a majority of the directors then in office. The directors shall be classified, with respect to the time for which they severally hold office, into three classes as nearly equal in number as possible: one class whose term expires at the first annual meeting of stockholders after January 21, 1969 (the "Adoption Date"); one class whose term expires at the second annual meeting of stockholders after the Adoption Date; and another class whose term expires at the third annual meeting of stockholders after the Adoption Date, with each such class to hold office until its successors are elected and qualified. At each annual meeting of

stockholders after the Adoption Date, the successors of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. Directors need not be stockholders.

3.2 Tenure. Except as otherwise provided by law, by the certificate of incorporation or by these by-laws, each director shall hold office until a successor is elected and qualified, or until such director sooner dies, resigns, is removed or replaced.

3.3 Powers. The business and affairs of the corporation shall be managed by or under the direction of the board of directors who shall have and may exercise all the powers of the corporation and do all such lawful acts and things as are not by law, the certificate of incorporation or these by-laws directed or required to be exercised or done by the stockholders.

3.4 Vacancies of Directors. Vacancies and any newly created directorships resulting from any increase in the number of directors may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director. Any director or directors so chosen shall hold office until the next annual meeting of stockholders and until their successors are duly elected and shall qualify, unless they sooner die, resign, or are removed or replaced. The directors shall have and may exercise all their powers notwithstanding the existence of one or more vacancies in their number, subject to any requirements of law or of the certificate of incorporation or of these by-laws as to the number of directors required for a quorum or for any vote or other actions.

3.5 Committees. Subject to Section 3.6 of these by-laws, the board of directors may, by vote of a majority of the whole board, (a) designate, change the membership of or terminate the existence of any committee or committees, each committee to consist of one or more of the directors; (b) designate one or more directors as alternate members of any such committee who may replace any absent or disqualified member at any meeting of the committee; and (c) determine the extent to which each such committee shall have and may exercise the powers of the board of directors in the management of the business and affairs of the corporation, including the power to authorize the seal of the corporation to be affixed to all papers which require it and the power and authority to declare dividends or to authorize the issuance of stock; excepting, however, such powers which by law, by the certificate of incorporation or by these by-laws they are prohibited from so delegating. In the absence or disqualification of any member of such committee and his or her alternate, if any, the member or members thereof present at any meeting and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Except as the board of directors may otherwise determine, any committee may make rules for the conduct of its business, but unless otherwise provided by the board or such rules, its business shall be conducted as nearly as may be in the same manner as is provided by these by-laws for the conduct of business by the board of directors. Each committee shall keep regular minutes of its meetings and report the same to the board of directors upon request.

3.6 Executive Committee. The board of directors shall, by vote of a majority of the whole board, elect from its own number an executive committee, to consist of not less than two members in addition to the chief executive officer, and may from time to time designate or alter, within the limits permitted by this Section 3.6, the duties and powers of such committee, or change its membership.

The executive committee shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation to the extent permitted by Section 141 of the Delaware General Corporation Law, and may authorize the seal of the corporation to be affixed to all papers which may require it, including the power and authority to declare a dividend, to authorize the issuance of stock and to adopt a certificate of ownership and merger; provided that the executive committee shall not have the power or authority in reference to amending the certificate of incorporation of this corporation (except that the executive committee may, to the extent authorized in the vote or votes providing for the issuance of shares of stock adopted by the board of directors, fix the designations and any of the preferences or rights of such shares or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series), adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the corporation’s property and assets, recommending to the stockholders a dissolution of the corporation or a revocation of a dissolution, amending these by-laws, electing or appointing the chief executive officer, treasurer or secretary or filling vacancies in the board of directors or the executive committee. Each member of the executive committee shall hold office until the first meeting of the board of directors following the next annual meeting of the stockholders and until his or her successor is elected and qualified, or until he or she sooner dies, resigns, is removed, is replaced by change of membership, or becomes disqualified by ceasing to be a director. One-third of the members of the executive committee then in office, but in no case less than two members, shall constitute a quorum for the transaction of business, but any meeting may be adjourned from time to time by a majority of the votes cast upon the question, whether or not a quorum is present, and the meeting may be held as adjourned without further notice.

3.7 Regular Meetings. Regular meetings of the board of directors may be held without call or notice at such places within or without the State of Delaware and at such times as the board may from time to time determine; notice of the first regular meeting following any such determination shall be given to absent directors. A regular meeting of the directors may be held without call or notice immediately after and at the same place as the annual meeting of stockholders.

3.8 Special Meetings. Special meetings of the board of directors may be held at any time and at any place within or without the State of Delaware designated in the notice of the meeting, when called by the chairman of the board, the vice chairman of the board, the president, or by two or more directors, reasonable notice thereof being given to each director by the secretary or an assistant secretary or by the chairman of the board, the vice chairman of the board, the president or by any one of the directors calling the meeting.

3.9 Notice. It shall be reasonable and sufficient notice to a director to send notice by mail at least 48 hours or by telegram or telecopy at least 24 hours before the meeting addressed to such director at his or her usual or last known business or residence address or to give notice to a director in person or by telephone at least 24 hours before the meeting. Notice of a meeting need not be given to any director if a written waiver of notice, executed by a director before or after the meeting, is filed with the records of the meeting, or to any director who attends the meeting without protesting prior thereto or at its commencement the lack of notice to such director. Neither notice of a meeting nor a waiver of a notice need specify the purposes of the meeting.

3.10 Quorum. Except as may be otherwise provided by law, by the certificate of incorporation or by these by-laws, at any meeting of the directors a majority of the directors then in office shall constitute a quorum, but in no case less than two directors. Any meeting may be adjourned from time to time by a majority of the votes cast upon the question, whether or not a quorum is present, and the meeting may be held as adjourned without further notice.

3.11 Action by Vote. Except as may be otherwise provided by law, by the certificate of incorporation or by these by-laws, when a quorum is present at any meeting the vote of a majority of the directors present shall be the act of the board of directors.

3.12 Action Without a Meeting. Any action required or permitted to be taken at any meeting of the board of directors or a committee thereof may be taken without a meeting if all the members of the board or of such committee, as the case may be, consent thereto in writing, and such writing or writings are filed with the records of the meetings of the board or of such committee. Such consent shall be treated for all purposes as the act of the board or of such committee, as the case may be.

3.13 Participation in Meetings by Conference Telephone. Members of the board of directors, or any committee designated by such board, may participate in a meeting of such board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other or by any other means permitted by law. Such participation shall constitute presence in person at such meeting.

3.14 Compensation. In the discretion of the board of directors, the directors may be paid their expenses, if any, of attendance at each meeting of the board of directors and may be paid a fixed sum for attendance at each meeting of the board of directors or a stated salary as director. Nothing contained in this section shall be construed to preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

3.15 Interested Directors and Officers.

(a) No contract or transaction between the corporation and one or more of its directors or officers, or between the corporation and any other corporation, partnership, association, or other organization in which one or more of the corporation’s directors or

officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the board or committee thereof which authorizes the contract or transaction, or solely because the vote or votes of such director or officer are counted for such purpose, if:

(1) The material facts as to the relationship or interest of such director or officer and as to the contract or transaction are disclosed or are known to the board of directors or the committee, and the board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or

(2) The material facts as to the relationship or interest of such director or officer and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

(3) The contract or transaction is fair as to the corporation as of the time it is authorized, approved or ratified, by the board of directors, a committee thereof, or the stockholders.

(b) Common or interested directors may be counted in determining the presence of a quorum at a meeting of the board of directors or of a committee which authorizes the contract or transaction.

Section 4. OFFICERS AND AGENTS

4.1 Enumeration; Qualification. The officers of the corporation shall be a president, a treasurer, a secretary and such other officers, if any, as the board of directors from time to time may in its discretion elect or appoint including without limitation a chairman of the board, a vice chairman of the board, a chief financial officer, one or more other vice presidents, a general counsel and a controller. The corporation may also have such agents, if any, as the board of directors from time to time may in its discretion choose. Any two or more offices may be held by the same person. Officers may be required by the board of directors to secure the faithful performance of their duties to the corporation by giving bond in such amount and with sureties or otherwise as the board of directors may determine.

4.2 Powers. Subject to law, to the certificate of incorporation and to the other provisions of these by-laws, each officer shall have, in addition to the duties and powers herein set forth, such duties and powers as are commonly incident to his or her office and such additional duties and powers as the board of directors may from time to time designate.

4.3 Election. The officers may be elected by the board of directors at their first meeting following the annual meeting of the stockholders or at any other time. At any time or from time to time the directors may delegate to any officer their power to elect or appoint any other officer or any agents.

4.4 Tenure. Officers shall hold office until the first meeting of the board of directors following the next annual meeting of the stockholders and until their respective successors are chosen and qualified unless a shorter period shall have been specified by the terms of their election or appointment, or in each case until they sooner die, resign, are removed or become disqualified. Agents shall retain their authority at the pleasure of the directors, or the officer by whom they were appointed or by the officer who then holds agent appointive power.

4.5 Chairman of the Board of Directors, Vice Chairman of the Board of Directors, President and Vice President. Unless the board of directors otherwise specifies, the chairman of the board, or if there is none or in the absence or disability of the chairman of the board, the vice chairman of the board, or if there is none or in the absence or disability of the vice chairman of the board, the president shall preside, or designate the person who shall preside, at all meetings of the stockholders, of the board of directors and of the executive committee.

If there is a chairman of the board, unless the board of directors otherwise specifies, the chairman of the board shall be the chief executive officer of the corporation and as such shall have direct charge of all business operations of the corporation and, subject to the control of the directors, shall have general charge and supervision of the business of the corporation.

If there is a vice chairman of the board, the vice chairman of the board shall have such duties and powers as shall be designated from time to time by the board of directors or by the chief executive officer.

The president shall have such duties and powers as shall be designated from time to time by the board of directors or by the chief executive officer.

Any vice presidents shall have such duties and powers as shall be set forth in these by-laws or as shall be designated from time to time by the board of directors or by the chief executive officer, except that no vice president who is not a citizen of the United States shall be authorized to act as the chairman of the board, president or other chief executive officer of the corporation in the absence or disability of the person designated chairman of the board, president or other chief executive officer of the corporation in accordance with this Section 4.5 for so long as the corporation is required by the U.S. maritime laws to be a U.S. citizen by reason of its interest, direct or indirect, in any vessel documented under the laws of the United States of America.

4.6 Chief Financial Officer. The chief financial officer of the corporation shall be responsible for developing, recommending and implementing financial policies of the corporation and have general responsibility for protecting its financial position. The chief financial officer shall represent the corporation with banks and other financial institutions.

4.7 General Counsel and Assistant General Counsels. The general counsel shall be the chief counseling officer of the corporation in all legal matters and, subject to

the control by the board of directors, the general counsel shall have charge of all matters of legal import to the corporation. The general counsel's relationship to the corporation shall in all respects be that of an attorney to a client. The general counsel shall have charge of all litigation of the corporation and keep advised of the progress of all legal proceedings and claims by and against the corporation, or in which it is interested by reason of its ownership and control of other corporations. The general counsel shall maintain records of all suits and actions of every nature in which the corporation may be a party, or in which it is interested, with sufficient data to show the nature of the case and the proceedings therein, and such records and the papers relating thereto shall be open at all times to the inspection of the directors and the executive officers of the corporation.

The general counsel shall give to the board of directors and to any officer of the corporation, whenever requested to do so, an opinion upon any question affecting the interests of the corporation and when requested by the chairman of the board, the vice chairman of the board, the president, a vice president, or by the board of directors or the executive committee, shall give an opinion upon any subject that may be referred to the general counsel.

The general counsel may, in his or her discretion, retain such independent attorneys, or law firms, in any and all parts of the world, as the general counsel may deem necessary to assist him or her in the performance of his or her duties and to protect and further the interests of the corporation.

The general counsel shall have power and authority to execute in the name of the corporation any and all bonds or stipulations for costs or other purposes connected with legal proceedings in any of the courts of justice, for the protection or enforcement of the rights and interest of this corporation; and, by instrument in writing, the general counsel may delegate to any such authority like power and authority to execute such bonds or stipulations.

The assistant general counsel, or, if there are more than one, the assistant general counsels, shall, in the order determined by the general counsel, in the absence or disability of the general counsel perform the duties and exercise the powers of the general counsel and shall perform such other duties and have such other powers as the board of directors and the general counsel may from time to time prescribe.

4.8 Treasurer and Assistant Treasurers. The treasurer shall be in charge of the corporate funds and securities and shall keep, or cause to be kept, full and accurate account of receipts and disbursements in books belonging to the corporation and shall deposit or cause to be deposited all monies and other valuable effects in the name and to the credit of the corporation in such depositaries as may be designated by the board of directors. The treasurer shall invest surplus funds in such investments as the treasurer shall deem appropriate and pursuant to this authority may buy and sell securities on behalf of the corporation from time to time. The treasurer shall disburse or cause to be disbursed the funds of the corporation as may be ordered by the board of directors, the chief executive officer, the chief financial officer or such other officer as the chief financial officer may from time to time designate, taking proper vouchers for such disbursements. The treasurer shall be subject to the direction of the chief financial officer.

The assistant treasurer, if any, shall in the absence or disability of the treasurer perform the duties and exercise the powers of the treasurer and shall perform such other duties and have such other powers as the board of directors and the treasurer may from time to time prescribe and shall be subject to the direction of the treasurer.

4.9 Controller and Assistant Controllers. The controller shall be the chief accounting officer of the corporation, shall be in charge of its books of account and accounting records, and shall be in charge of the corporation's accounting policies and procedures. The controller shall be subject to the direction of the chief financial officer. The controller shall, with the approval of the board of directors, arrange for annual audits by independent public accounts.

The assistant controller, if any, shall in the absence or disability of the controller perform the duties and exercise the powers of the controller and shall perform such other duties and have such other powers as the board of directors and the controller may from time to time prescribe and shall be subject to the direction of the controller.

4.10 Secretary and Assistant Secretaries. The secretary shall record all proceedings of the meetings of the stockholders and of the board of directors and its committees in a book or books to be kept for that purpose and shall file therein all actions by written consent of directors. The secretary shall give or cause to be given notice of all meetings of the stockholders and meetings of the board of directors and shall perform such other duties as may be prescribed by the board of directors or by the chief executive officer. The secretary shall keep in safe custody the seal of the corporation and, when authorized by the board of directors, the chief executive officer, or these by-laws, affix the same to any instrument requiring it and, when so affixed, it shall be attested by the secretary's signature or by the signature of an assistant secretary.

The secretary shall have charge of the stock ledger (which may, however, be kept by any transfer agent or agents of the corporation under the direction of the secretary).

The assistant secretary, or if there are more than one, the assistant secretaries, in the order determined by the secretary, shall in the absence or disability of the secretary perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the board of directors and the secretary may from time to time prescribe.

Section 5. RESIGNATIONS AND REMOVALS

5.1 Any director or officer may resign at any time by delivering his or her resignation in writing to the chairman of the board, any vice chairman of the board, the president, or the secretary or to a meeting of the board of directors. Such resignation shall be effective upon receipt unless specified to be effective at some other time, and without in either case the necessity of its being accepted unless the resignation shall so state. A director (including persons elected by directors to fill vacancies in the board)

may be removed from office with cause by the vote of the holders of a majority of the shares issued and outstanding and entitled to vote in the election of directors. The board of directors may at any time remove any officer either with or without cause. The board of directors may at any time terminate or modify the authority of any agent. Except where a right to receive compensation shall be expressly provided in a duly authorized written agreement with the corporation or severance or other benefit plan or arrangement approved by the board of directors, no director or officer resigning and no director or officer removed shall have any right to any compensation as such director or officer for any period following such director's or officer's resignation or removal, or any right to damages on account of such removal, whether such compensation be by the month or by the year or otherwise; unless, in the case of a resignation, the directors, or, in the case of removal, the body acting on the removal, shall in their or its discretion provide for compensation.

Section 6. VACANCIES OF OFFICERS

6.1 If the office of any officer becomes vacant, the directors may elect a successor by vote of a majority of the directors present and voting at a meeting. Such successors shall hold office for the unexpired term, and until their respective successors are chosen and qualified or in each case until they sooner die, resign, are removed or become disqualified. Any vacancy of a directorship shall be filled as specified in Section 3.4 of these by-laws.

Section 7. CAPITAL STOCK

7.1 Stock Certificates. The shares of capital stock of the corporation shall be represented by certificates, provided that the board of directors may provide by resolution or resolutions that some or all of any or all classes or series of stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Every holder of stock represented by certificates shall be entitled to a certificate stating the number and the class and the designation of the series, if any, of the shares held by him or her, in such form as shall, in conformity to law, the certificate of incorporation and the by-laws, be prescribed from time to time by the board of directors. Such certificate shall be signed by the chairman or vice chairman of the board, if any, or the president or a vice president and by the treasurer or an assistant treasurer or by the secretary or an assistant secretary. Any of or all the signatures on the certificate may be a facsimile. In case an officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed on such certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer, transfer agent, or registrar at the time of its issue.

7.2 Loss of Certificates. In the case of the alleged theft, loss, destruction or mutilation of a certificate of stock, a duplicate certificate may be issued in place thereof, upon such terms, including receipt of a bond sufficient to indemnify the corporation against any claim on account thereof, as the board of directors may prescribe.

Section 8. TRANSFER OF SHARES OF STOCK

8.1 Transfer on Books. Subject to the restrictions, if any, stated or noted on the stock certificate, or otherwise in force, shares of stock may be transferred on the books of the corporation by the surrender to the corporation or its transfer agent of the certificate therefor properly endorsed or accompanied by a written assignment and power of attorney properly executed, with necessary transfer stamps affixed, and with such proof of the authenticity of signature as the board of directors or the transfer agent of the corporation may reasonably require. Uncertificated shares of stock may be transferred on the books of the corporation upon receipt of proper transfer instructions from the registered owner of the uncertificated shares, an instruction from an approved source duly authorized by such owner or from an attorney lawfully constituted. Except as may be otherwise required by law, by the certificate of incorporation or by these by-laws, the corporation shall be entitled to treat the record holder of stock as shown on its books as the owner of such stock for all purposes, including the payment of dividends and the right to receive notice and to vote or to give any consent with respect thereto and to be held liable for such calls and assessments, if any, as may lawfully be made thereon, regardless of any transfer, pledge or other disposition of such stock until the shares have been properly transferred on the books of the corporation.

8.2 Record Date and Closing Transfer Books. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the board of directors may fix a record date, which record date shall not precede the date upon which the vote fixing the record date is adopted by the board of directors, and which record date shall not be more than 60 days nor less than ten days before the date of such meeting. If no such record date is fixed by the board of directors, the record date for determining the stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

In order that the corporation may determine the stockholders entitled to receive payment of any dividend declared pursuant to Section 9 of these by-laws or other distribution or allotment of any rights or to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the board of directors may fix a record date, which record date shall not precede the date upon which the vote fixing the record date is adopted, and which record date shall be not more than 60 days prior to such payment, exercise or other action. If no such record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board of directors adopts the vote relating thereto.

Section 9. DIVIDENDS

9.1 Dividends upon the capital stock of the corporation, subject to the provisions of the certificate of incorporation, if any, may be declared by the board of directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the certificate of incorporation.

Section 10. CONTRIBUTIONS

10.1 The directors of this corporation are authorized to make charitable contributions as defined in the United States Internal Revenue Code, as from time to time amended, in such amounts as the directors may determine to be reasonable.

Section 11. CORPORATE SEAL

11.1 Subject to alteration by the directors, the seal of the corporation shall consist of a flat-faced circular die with the word “Delaware” and the name of the corporation cut or engraved thereon, together with such other words, dates or images as may be approved from time to time by the directors. The corporate seal of the corporation may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

Section 12. EXECUTION OF PAPERS

12.1 Except as the board of directors may generally or in particular cases authorize the execution thereof in some other manner, all deeds, leases, transfers, sales of securities, contracts, proxies, bonds, notes, checks, drafts and other obligations, agreements and undertakings made, accepted or endorsed by the corporation shall be signed by the chairman of the board, the vice chairman of the board, the president, any vice president or the treasurer, and, if such papers require a seal, the seal of the corporation shall be affixed thereto and attested by the secretary or an assistant secretary.

Section 13. FISCAL YEAR

13.1 Except as from time to time otherwise provided by the board of directors, the fiscal year of the corporation shall commence on the first day of October of each year.

Section 14. INDEMNIFICATION

14.1 The corporation shall, to the maximum extent permitted from time to time under the law of the State of Delaware, indemnify and upon request shall advance expenses to any person who is or was a party or is threatened to be made a party to any threatened, pending or completed action, suit, proceeding, claim or counterclaim, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was or has agreed to be a director, officer, employee or agent of this corporation or while a director, officer, employee or agent is or was serving at the request of this corporation

as a director, officer, partner, trustee, fiduciary, employee or agent of any corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorney's fees and expenses), judgments, fines, penalties and amounts paid in settlement or incurred in connection with the investigation, preparation to defend or defense of such action, suit, proceeding, claim or counterclaim; provided, however, that the foregoing shall not require this corporation to indemnify or advance expenses to any person in connection with any action, suit, proceeding, claim or counterclaim initiated by or on behalf of such person, other than an action to enforce indemnification rights. Such indemnification shall not be exclusive of other indemnification rights arising under any agreement, vote of directors or stockholders or otherwise and shall inure to the benefit of the heirs and legal representatives of such person. Any such person seeking indemnification under this Section 14.1 shall be deemed to have met the standard of conduct required for such indemnification unless the contrary shall be established. The corporation shall have the power to provide indemnification and advance expenses to any other person, including stockholders purporting to act on behalf of the corporation, to the extent permitted by the law of the State of Delaware.

Section 15. AMENDMENTS

15.1 These by-laws may be altered, amended or repealed by (i) the affirmative vote of the holders of at least 75 percent of the voting power of the then outstanding shares of stock of all classes and series of this corporation entitled to vote generally in the election of directors, voting together as a single class or (ii) a vote of the majority of the directors then in office at any annual, regular or special stockholders or directors meeting, called for that purpose, the notice of which shall specify the subject matter of the proposed new by-law or the alteration, amendment or repeal of an existing by-law or the articles to be affected thereby. Any by-law, whether made, altered, amended or repealed by the stockholders or directors, may be repealed, amended, further amended or reinstated, as the case may be, by either the stockholders or the directors as aforesaid.

EXHIBIT 10.1

CABOT CORPORATION LONG-TERM INCENTIVE PLAN

Award Certificate/Election Form

(United States – Executive Officers)

«Name»

«Locn_Name»

You have been awarded the following as part of the 200_ Long-term Incentive Program under the 2006 Long-term Incentive Plan:

Number of Shares of Cabot Common Stock Awarded:	
Date of the Award	May , 200_
Closing Price Per Share of Stock on Award Date	$
Restricted Stock Purchase Price (Per Share)	$
Stock Option Exercise Price (Per Share)	$
Date Restrictions Lapse/Option Becomes Exercisable	May , 20_ [insert date three years after date of grant]
Date Stock Option Expires	May , 20_ [insert date five years from date of grant]

You must elect the form in which you would like to receive your award by checking the appropriate box below. You may elect to receive a portion of your award in restricted stock and a portion of your award in non-qualified stock options, provided such portions are in 25% increments.

FORM OF AWARD:

☐ **Restricted Stock** (the "Purchased Shares") at the per share price shown above**. Specify the percentage of the shares indicated above that you would like to receive as Restricted Stock (in increments of 25%): __________ (e.g. 0%, 25%, 50%, 75%, 100%).**

☐ **Non-Qualified Stock Option** ("Stock Option") at the per share Stock Option Exercise Price shown above. If you elect the Stock Option, you make no payment until such time as the Stock Option vests and you choose to exercise it**. Specify the percentage of the shares indicated above that you would like to receive as Stock Options (in increments of 25%): __________ (e.g. 0%, 25%, 50%, 75%, 100%). The number of shares subject to the Stock Options will be calculated at a 2:1 ratio to the number of shares of Cabot common stock awarded.**

Provisions, terms and conditions as well as the potential tax implications applicable to Restricted Stock and Stock Options are explained in detail in Sections 3 and 4 of your Award Binder. Please review these sections carefully before making your election. In order to make your Award effective, please select the form of your award, and sign, date, and return this form no later than **May __, 200_** to Cabot Corporation, Attention: Michele Chamberlain, Compensation Department, Two Seaport Lane, Suite 1300, Boston, MA 02210. HR Confidential FAX: (617) 342-6089. If your election is not received by that time you will be deemed to have elected the Stock Option. Your election is irrevocable after **May __, 200_**.

By signing below you hereby accept the Award in the form indicated above subject to the terms set forth in the 2006 Long-term Incentive Plan, the "Description and Terms of the 200_ Award", and other materials and documents in the Award Binder. In addition, you understand that eligibility for an award under the LTI Program is established annually. Therefore, your receipt of an award this year does not mean that you are guaranteed an award in the future.

Signature **Date**

EXHIBIT 31.1

Principal Executive Officer Certification

I, Patrick M. Prevost, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cabot Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2008

/s/ PATRICK M. PREVOST

Patrick M. Prevost

President and Chief Executive Officer

EXHIBIT 31.2

Principal Financial Officer Certification

I, Jonathan P. Mason, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cabot Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2008

/s/ JONATHAN P. MASON

Jonathan P. Mason
Executive Vice President and
Chief Financial Officer

EXHIBIT 32

**Certifications Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002**

In connection with the filing of the Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (the "Report") by Cabot Corporation (the "Company"), each of the undersigned hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

1. The Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ PATRICK M. PREVOST
Patrick M. Prevost
President and Chief Executive Officer
May 9, 2008

/s/ JONATHAN P. MASON
Jonathan P. Mason
Executive Vice President and
Chief Financial Officer
May 9, 2008