CABOT CORP
Form 10-Q
August 07, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

or

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

Commission file number 1-5667

Cabot Corporation

(Exact name of registrant as specified in its charter)

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

Two Seaport Lane

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

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

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

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

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

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

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

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

The Company had 62,229,151 shares of common stock, $1.00 par value per share, outstanding as of August 3, 2017.

CABOT CORPORATION

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Part I. Financial Information

Item 1. Financial Statements
CABOT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

UNAUDITED

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In millions, except per share amounts) | | | |
| Net sales and other operating revenues | $705 | $621 | $1,994 | $1,792 |
| Cost of sales | 546 | 461 | 1,509 | 1,383 |
| Gross profit | 159 | 160 | 485 | 409 |
| Selling and administrative expenses | 63 | 64 | 191 | 197 |
| Research and technical expenses | 14 | 13 | 40 | 40 |
| Income (loss) from operations | 82 | 83 | 254 | 172 |
| Interest and dividend income | 3 | 1 | 7 | 4 |
| Interest expense | (13) | (13) | (39) | (40) |
| Other income (expense) | (6) | 3 | (5) | (8) |
| Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies | 66 | 74 | 217 | 128 |
| (Provision) benefit for income taxes | (16) | (15) | (32) | (21) |
| Equity in earnings of affiliated companies, net of tax | 3 | 1 | 6 | 2 |
| Net income (loss) | 53 | 60 | 191 | 109 |
| Net income (loss) attributable to noncontrolling interests, net of tax | 8 | 4 | 18 | 12 |
| Net income (loss) attributable to Cabot Corporation | $45 | $56 | $173 | $97 |
| | | | | |
| Weighted-average common shares outstanding: | | | | |
| Basic | 62.4 | 62.4 | 62.3 | 62.4 |
| Diluted | 62.7 | 62.9 | 62.8 | 62.9 |
| | | | | |
| Earnings per common share: | | | | |
| Basic | $0.71 | $0.90 | $2.75 | $1.55 |
| Diluted | $0.71 | $0.88 | $2.74 | $1.53 |
| | | | | |
| Dividends per common share | $0.315 | $0.30 | $0.915 | $0.74 |

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

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CABOT CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

UNAUDITED

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In millions) | | | |
| Net income (loss) | $53 | $60 | $191 | $109 |
| Other comprehensive income (loss), net of tax | | | | |
| Foreign currency translation adjustment, net of tax provision (benefit) of $(4), $—, $(1) and $— | 54 | (13) | (15) | 5 |
| Pension and other postretirement benefit liability adjustments | | | | |
| Pension and other postretirement benefit liability adjustments arising during the period, net of tax | — | — | — | (1) |
| Amortization of net loss and prior service credit included in net periodic benefit cost, net of tax | — | (1) | 2 | — |
| Other comprehensive income (loss) | 54 | (14) | (13) | 4 |
| Comprehensive income (loss) | 107 | 46 | 178 | 113 |
| Net income (loss) attributable to noncontrolling interests, net of tax | 8 | 4 | 18 | 12 |
| Foreign currency translation adjustment attributable to noncontrolling interests, net of tax | 3 | (3) | — | (5) |
| Comprehensive income (loss) attributable to noncontrolling interests, net of tax | 11 | 1 | 18 | 7 |
| Comprehensive income (loss) attributable to Cabot Corporation | $96 | $45 | $160 | $106 |

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

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CABOT CORPORATION

CONSOLIDATED BALANCE SHEETS

ASSETS

UNAUDITED

| | June 30, 2017 | September 30, 2016 |
|---|---|---|
| | (In millions) | |
| Current assets: | | |
| Cash and cash equivalents | $198 | $ 200 |
| Accounts and notes receivable, net of reserve for doubtful accounts of $9 and $8 | 517 | 456 |
| Inventories: | | |
| Raw materials | 83 | 66 |
| Work in process | 2 | 1 |
| Finished goods | 272 | 237 |
| Other | 41 | 38 |
| Total inventories | 398 | 342 |
| Prepaid expenses and other current assets | 51 | 49 |
| Total current assets | 1,164 | 1,047 |
| Property, plant and equipment, net | 1,267 | 1,290 |
| Goodwill | 153 | 152 |
| Equity affiliates | 55 | 53 |
| Intangible assets, net | 137 | 140 |
| Assets held for rent | 103 | 97 |
| Deferred income taxes | 254 | 216 |
| Other assets | 45 | 40 |
| Total assets | $3,178 | $ 3,035 |

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

CABOT CORPORATION

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

UNAUDITED

| | June 30, 2017 | September 30, 2016 |
|---|---|---|
| | (In millions, except share and per share amounts) | |
| Current liabilities: | | |
| Notes payable | $ 7 | $ 7 |
| Accounts payable and accrued liabilities | 394 | 364 |
| Income taxes payable | 27 | 25 |
| Current portion of long-term debt | 251 | 1 |
| Total current liabilities | 679 | 397 |
| Long-term debt | 665 | 914 |
| Deferred income taxes | 47 | 41 |
| Other liabilities | 283 | 285 |
| Redeemable preferred stock | 27 | 26 |
| Commitments and contingencies (Note G) | | |
| Stockholders' equity: | | |
| Preferred stock: | | |
| Authorized: 2,000,000 shares of $1 par value | — | — |
| Issued and Outstanding : None and none | | |
| Common stock: | | |
| Authorized: 200,000,000 shares of $1 par value | | |
| Issued: 62,433,746 and 62,449,425 shares | | |
| Outstanding: 62,229,151 and 62,210,711 shares | 62 | 62 |
| Less cost of 204,595 and 238,714 shares of common treasury stock | (6) | (7) |
| Additional paid-in capital | — | — |
| Retained earnings | 1,655 | 1,544 |
| Accumulated other comprehensive income (loss) | (338) | (325) |
| Total Cabot Corporation stockholders' equity | 1,373 | 1,274 |
| Noncontrolling interests | 104 | 98 |
| Total stockholders' equity | 1,477 | 1,372 |
| Total liabilities and stockholders' equity | $ 3,178 | $ 3,035 |

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

CABOT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

| | Nine Months Ended June 30, | |
|---|---|---|
| | 2017 | 2016 |
| | (In millions) | |
| Cash Flows from Operating Activities: | | |
| Net income (loss) | $ 191 | $ 109 |
| Adjustments to reconcile net income (loss) to cash provided by operating activities: | | |
| Depreciation and amortization | 115 | 122 |
| Long-lived asset impairment charge | — | 23 |
| Deferred tax benefit | (26 ) | (13 ) |
| Equity in net income of affiliated companies | (6 ) | (2 ) |
| Non-cash compensation | 10 | 13 |
| Tax benefit from stock based compensation awards | (8 ) | (2 ) |
| Other non-cash (income) expense | (2 ) | 3 |
| Changes in assets and liabilities: | | |
| Accounts and notes receivable | (64 ) | 42 |
| Inventories | (57 ) | 61 |
| Prepaid expenses and other current assets | (7 ) | 9 |
| Accounts payable and accrued liabilities | 34 | (56 ) |
| Income taxes payable | 3 | (8 ) |
| Other liabilities | (9 ) | (14 ) |
| Cash dividends received from equity affiliates | 9 | 8 |
| Cash provided by operating activities | 183 | 295 |
| | | |
| Cash Flows from Investing Activities: | | |
| Additions to property, plant and equipment | (86 ) | (80 ) |
| Proceeds from the sale of land | — | 16 |
| Change in assets held for rent | (5 ) | (6 ) |
| Other | 2 | — |
| Cash used in investing activities | (89 ) | (70 ) |
| | | |
| Cash Flows from Financing Activities: | | |
| Repayments under financing arrangements | (3 ) | (3 ) |
| Increase in notes payable, net | 2 | — |
| Proceeds from (repayments of) issuance of commercial paper, net | — | (11 ) |
| Repayments of long-term debt | (1 ) | (1 ) |
| Purchases of common stock | (43 ) | (27 ) |
| Proceeds from sales of common stock | 21 | 6 |
| Tax benefit from stock based compensation awards | 8 | 2 |

| | | |
|---|---|---|
| Cash dividends paid to noncontrolling interests | (13 ) | (16 ) |
| Cash dividends paid to common stockholders | (57 ) | (47 ) |
| Cash used in financing activities | (86 ) | (97 ) |
| Effects of exchange rate changes on cash | (10 ) | 17 |
| Increase (decrease) in cash and cash equivalents | (2 ) | 145 |
| Cash and cash equivalents at beginning of period | 200 | 77 |
| Cash and cash equivalents at end of period | $198 | $222 |

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

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CABOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

UNAUDITED

## A. Basis of Presentation

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

The unaudited consolidated financial statements have been prepared in accordance with the requirements of Form 10-Q and consequently do not include all disclosures required by Form 10-K. Additional information may be obtained by referring to Cabot’s Annual Report on Form 10-K for the fiscal year ended September 30, 2016 (“2016 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 June 30, 2017 and 2016. All such adjustments are of a normal recurring nature. The results for interim periods are not necessarily indicative of the results to be expected for the fiscal year.

Effective October 1, 2016, the Company adopted a new accounting standard simplifying the presentation of debt issuance costs by presenting debt issuance costs as a reduction of the corresponding debt liability. In addition, the Company early adopted a new accounting standard that simplifies the presentation of deferred income taxes by classifying all deferred taxes as noncurrent assets or liabilities. These new standards were applied retrospectively. The retrospective application of the standard that simplifies the presentation of debt issuance costs resulted in the reclassification of $1 million and $3 million of unamortized debt issuance costs from Prepaid expenses and other current assets and Other assets, respectively, to Long-term debt within the Consolidated Balance Sheets as of September 30, 2016. The retrospective application of the standard that simplifies the presentation of deferred income taxes resulted in the reclassification of $41 million of current deferred tax assets and $1 million of current deferred tax liabilities to noncurrent deferred tax accounts within the Consolidated Balance Sheets as of September 30, 2016.

## B. Significant Accounting Policies

### Revenue Recognition and Accounts Receivable

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

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

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

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Reinforcement Materials | 54% | 46 % | 53 % | 48 % |
| Performance Chemicals | 34% | 38 % | 35 % | 38 % |
| Purification Solutions | 10% | 13 % | 11 % | 12 % |
| Specialty Fluids | 2 % | 3 % | 1 % | 2 % |

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

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

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

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

Intangible Assets and Goodwill Impairment

The Company records tangible and intangible assets acquired and liabilities assumed in business combinations under the acquisition method of accounting. Amounts paid for an acquisition are allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition. Goodwill is comprised of the purchase price of business acquisitions in excess of the fair value assigned to the net tangible and identifiable intangible assets acquired. Goodwill is not amortized, but is reviewed for impairment annually as of May 31, or when events or changes in the business environment indicate that the carrying value of the reporting unit may exceed its fair value. A reporting unit, for the purpose of the impairment test, is at or below the operating segment level, and constitutes a business for which discrete financial information is available and regularly reviewed by segment management. The reporting units with goodwill balances are Reinforcement Materials, Purification Solutions, and Fumed Metal Oxides. The separate businesses included within Performance Chemicals are considered separate reporting units. As such, the goodwill balance relative to Performance Chemicals is recorded in the Fumed Metal Oxides reporting unit.

For the purpose of the goodwill impairment test, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an initial qualitative assessment identifies that it is more likely than not that the carrying value of a reporting unit exceeds its estimated fair value, an additional quantitative evaluation is performed. Alternatively, the Company may elect to proceed directly to the quantitative goodwill impairment test. If based on the quantitative evaluation the fair value of the reporting unit is less than its carrying amount, a goodwill impairment loss would result. The goodwill impairment loss would be the amount by which the carrying value of the reporting unit, including goodwill, exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit. The fair value of a reporting unit is based on discounted estimated future cash flows. The fair value is also benchmarked against a market approach using the guideline public companies method. The assumptions used to estimate fair value include management’s best estimates of future growth rates, operating cash flows, capital expenditures and discount rates over an estimate of the remaining operating period at the reporting unit level.

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

Realizing the Company’s growth assumptions in the Purification Solutions reporting unit is generally driven by macroeconomic conditions, environmental regulations, technology advances, and global and regional competition. Failure to achieve the Company’s projected growth in environmental and/or specialty applications and/or actions taken by the EPA related to MATS that decrease demand for the Company’s products for mercury removal, could have a negative impact on the financial results and fair value of the Purification Solutions reporting unit, which may lead to impairment.

The Company uses assumptions and estimates in determining the fair value of assets acquired and liabilities assumed in a business combination. The determination of the fair value of intangible assets requires the use of significant judgment with regard to assumptions used in the valuation model. The Company estimates the fair value of identifiable acquisition-related intangible assets principally based on projections of cash flows that will arise from these assets. The projected cash flows are discounted to determine the fair value of the assets at the dates of acquisition.

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

Long-lived Assets Impairment

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

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

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

Property, Plant and Equipment

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

Income Tax in Interim Periods

The Company records its tax provision or benefit on an interim basis using an estimated annual effective tax rate. This rate is applied to the current period ordinary income or loss to determine the income tax provision or benefit allocated to the interim period. Losses from jurisdictions for which no benefit can be recognized and the income tax effects of unusual or infrequent items are excluded from the estimated annual effective tax rate and are recognized in the impacted interim period.

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

Inventory Valuation

Inventories are stated at the lower of cost or market. The cost of all carbon black inventories in the U.S. is determined using the last-in, first-out (“LIFO”) method. Had the Company used the first-in, first-out (“FIFO”) method instead of the LIFO method for such inventories, the value of those inventories would have been $31 million and $27 million higher as of June 30, 2017 and September 30, 2016, respectively. The cost of Specialty Fluids inventories that are classified as assets held for rent is determined using the average cost method. The cost of other U.S. and non-U.S. inventories is determined using the first-in, first-out (“FIFO”) method.

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

Pensions and Other Postretirement Benefits

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

Accumulated Other Comprehensive Income (Loss)

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard, “Revenue from Contracts with Customers”, which amends the existing accounting standards for revenue recognition. The standard requires entities to recognize revenue when they transfer promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. This standard is applicable for fiscal years beginning after December 15, 2017 and for interim periods within those years, and early adoption is permitted for the fiscal years beginning after December 15, 2016. The Company expects to adopt this standard on October 1, 2018. The Company is currently evaluating the impact the adoption of this standard may have on its consolidated financial statements.

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

In March 2016, the FASB issued a new standard that amends the accounting standard for stock compensation by simplifying several aspects of the accounting for employee share-based payment transactions, including the related accounting for income taxes, forfeitures, and the withholding of shares to satisfy the employer's tax withholding requirements, as well as classification in the statements of cash flows. The new standard is effective for fiscal years beginning after December 15, 2016, including interim periods within those years, and early adoption is permitted. The Company expects to adopt the standard on October 1, 2017. The adoption of this standard is not expected to materially impact the Company's consolidated financial statements.

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

In January 2017, the FASB issued a new standard that amends and simplifies the accounting standard for goodwill impairment. The new standard removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit. The new standard is effective for annual and any interim impairment tests for periods beginning after December 15, 2019, and early adoption is permitted for any impairment tests performed after January 1, 2017. The Company adopted this standard on January 1, 2017. The adoption of this standard had no impact on the Company’s consolidated financial statements.

In March 2017, the FASB issued a new standard that amends the requirements on the presentation of net periodic pension and postretirement benefit cost. Currently, net benefit costs are reported as employee costs within operating income. The new standard requires the service cost component to be presented with other employee compensation costs. The other components will be reported separately outside of operations. The new standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those years, and early adoption is permitted as of the beginning of any annual period for which an entity’s financial statements (interim or annual) have not been issued. The Company is evaluating this standard and the timing of its adoption. The adoption of this standard is not expected to materially impact the Company’s consolidated financial statements.

C. Employee Benefit Plans

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

| | Three Months Ended June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2017 | | 2016 | |
| | Pension Benefits | | | | Postretirement Benefits | | | |
| | U.S. | Foreign | U.S. | Foreign | U.S. | Foreign | U.S. | Foreign |
| | (In millions) | | | | | | | |
| Service cost | $1 | $ 2 | $1 | $ 2 | $— | $ — | $— | $ — |
| Interest cost | 1 | 1 | 1 | 2 | 1 | — | 1 | — |
| Expected return on plan assets | (3) | (3) | (2) | (3) | — | — | — | — |
| Amortization of prior service credit | — | — | — | — | (1) | — | (1) | — |
| Amortization of actuarial loss | — | 1 | — | — | — | — | — | — |
| Settlement and curtailment cost (credit) | — | — | — | — | — | — | — | — |
| Net periodic benefit (credit) cost | $(1) | $ 1 | $— | $ 1 | $— | $ — | $— | $ — |

Nine Months Ended June 30,

| | 2017 | | 2016 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|---|---|
| | Pension Benefits | | | | Postretirement Benefits | | | |
| | U.S. | Foreign | U.S. | Foreign | U.S. | Foreign | U.S. | Foreign |
| | (In millions) | | | | | | | |
| Service cost | $1 | $ 7 | $1 | $ 6 | $— | $ — | $— | $ — |
| Interest cost | 3 | 4 | 4 | 6 | 1 | — | 1 | — |
| Expected return on plan assets | (8) | (10) | (8) | (10) | — | — | — | — |
| Amortization of prior service credit | — | — | — | — | (2) | — | (3) | — |
| Amortization of actuarial loss | — | 4 | — | 2 | — | — | — | — |
| Settlement and curtailment cost (credit) | — | — | — | — | — | — | (1) | — |
| Net periodic benefit (credit) cost | $(4) | $ 5 | $(3) | $ 4 | $(1) | $ — | $(3) | $ — |

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D. Goodwill and Intangible Assets

Cabot had goodwill balances of $153 million and $152 million at June 30, 2017 and September 30, 2016, respectively. The carrying amount of goodwill attributable to each reportable segment with goodwill balances and the changes in those balances during the nine month period ended June 30, 2017 are as follows:

| | Reinforcement Materials | Performance Chemicals | Purification Solutions | Total |
|---|---|---|---|---|
| | (In millions) | | | |
| Balance at September 30, 2016 | $52 | $ 9 | $ 91 | $152 |
| Foreign currency impact | 1 | — | — | 1 |
| Balance at June 30, 2017 | $53 | $ 9 | $ 91 | $153 |

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

| | June 30, 2017 | | | September 30, 2016 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Value | Accumulated Amortization | Net Intangible Assets | Gross Carrying Value | Accumulated Amortization | Net Intangible Assets |
| | (In millions) | | | | | |
| Intangible assets with finite lives | | | | | | |
| Developed technologies | $48 | $ (6) | $ 42 | $48 | $ (4) | $ 44 |
| Trademarks | 16 | (1) | 15 | 16 | (1) | 15 |
| Customer relationships | 93 | (13) | 80 | 90 | (9) | 81 |
| Total intangible assets | $157 | $ (20) | $ 137 | $154 | $ (14) | $ 140 |

Intangible assets are amortized over their estimated useful lives, which range from fourteen to twenty-five years, with a weighted average amortization period of approximately nineteen years. Amortization expense for the three month periods ended June 30, 2017 and 2016 was $2 million and $1 million, respectively, and is included in Cost of sales and Selling and administrative expenses in the Consolidated Statements of Operations. Amortization expense for the nine month periods ended June 30, 2017 and 2016 was $6 million and $5 million, respectively, and is included in the Cost of sales and Selling and administrative expenses in the Consolidated Statements of Operations. Total amortization expense is estimated to be approximately $7 million each year for the next five fiscal years.

E. Stockholders' Equity

In January 2015, the Board of Directors authorized Cabot to repurchase up to five million shares of its common stock in the open market or in privately negotiated transactions. Cabot has repurchased 2,934,176 shares of its common stock under this authorization. As of June 30, 2017, 2,065,824 shares remain available for repurchase under the current authorization. The Company retired the repurchased shares and recorded the excess of the purchase price over par value to additional paid-in capital until such amount was reduced to zero and then charged the remainder against retained earnings.

During the first nine months of fiscal 2017 and 2016, Cabot paid cash dividends in the aggregate amount of $0.915 and $0.74, respectively, per share of common stock, with a total cost of $57 million and $47 million, respectively.

Noncontrolling interest

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

| | 2017 | 2016 |
|---|---|---|
| | (In millions) | |
| Balance at September 30 | $ 98 | $ |