FORM 10-Q

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

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

For the quarterly period ended

MARCH 31, 2001

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 ____X____ NO __________

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

AS OF MAY 1, 2001, THE COMPANY HAD 65,297,822 SHARES OF COMMON STOCK, PAR VALUE $1 PER SHARE, OUTSTANDING.

CABOT CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CABOT CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Three Months Ended March 31

(In millions, except per share amounts)

UNAUDITED

	2001	2000
Revenues:		
Net sales and other operating revenues	$ 458	$ 397
Interest and dividend income	7	1
Total revenues	465	398
Costs and expenses:		
Cost of sales	339	291
Selling and administrative expenses	52	44
Research and technical service	12	11
Interest expense	9	9
Special item	17	--
Total costs and expenses	429	355
Income before income taxes	36	43
Provision for income taxes	(10)	(16)
Equity in net income of affiliated companies	4	2
Minority interest in net income	(2)	(1)
Income from continuing operations	28	28
Discontinued Operations:		
Income from operations of discontinued businesses, net of income taxes	--	13
Gain on sale of businesses, net of income taxes	3	--
Net income	31	41
Dividends on preferred stock, net of tax benefit	(1)	(1)
Net income available to common shares	$ 30	$ 40
Weighted-average common shares outstanding:		
Basic	63	64
Diluted	76	73
Income per common share		
Basic:		
Continuing operations	$ 0.42	$ 0.43
Discontinued operations:		
Income from operations of discontinued businesses	--	0.20
Gain on sale of business	0.05	--
Net income	$ 0.47	$ 0.63
Diluted:		
Continuing operations	$ 0.36	$ 0.39
Discontinued operations:		
Income from operations of discontinued businesses	--	0.18
Gain on sale of business	0.04	--
Net income	$ 0.40	$ 0.57
Dividends per common share	$ 0.11	$ 0.11

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

CABOT CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Six Months Ended March 31

(In millions, except per share amounts)

UNAUDITED

	2001	2000
Revenues:		
Net sales and other operating revenues	$ 853	$ 774
Interest and dividend income	18	2
Total revenues	871	776
Costs and expenses:		
Cost of sales	644	559
Selling and administrative expenses	97	85
Research and technical service	23	21
Interest expense	17	18
Special item	17	--
Other charges, net	--	1
Total costs and expenses	798	684
Income before income taxes	73	92
Provision for income taxes	(21)	(33)
Equity in net income of affiliated companies	8	3
Minority interest in net income	(4)	(3)
Income from continuing operations	56	59
Discontinued Operations:		
Income from operations of discontinued businesses, net of income taxes	--	20
Gain on sale of businesses, net of income taxes	3	--
Net income	59	79
Dividends on preferred stock, net of tax benefit	(2)	(2)
Net income available to common shares	$ 57	$ 77
Weighted-average common shares outstanding:		
Basic	64	64
Diluted	76	73
Income per common share		
Basic:		
Continuing operations	$ 0.85	$ 0.89
Discontinued operations:		
Income from operations of discontinued businesses	--	0.31
Gain on sale of business	0.05	--
Net income	$ 0.90	$ 1.20
Diluted:		
Continuing operations	$ 0.73	$ 0.80
Discontinued operations:		
Income from operations of discontinued businesses	--	0.27
Gain on sale of business	0.04	--
Net income	$ 0.77	$ 1.07
Dividends per common share	$ 0.22	$ 0.22

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

CABOT CORPORATION
CONSOLIDATED BALANCE SHEETS
March 31, 2001 and September 30, 2000

(In millions)

ASSETS

	March 31 2001 (Unaudited)	September 30 2000
Current assets:		
Cash and cash equivalents	$ 444	$ 638
Accounts and notes receivable (net of reserve for doubtful accounts of $3 and $3)	322	280
Inventories:		
Raw materials	90	73
Work in process	48	45
Finished goods	107	83
Other	31	31
Total inventories	276	232
Prepaid expenses	24	23
Deferred income taxes	15	17
Total current assets	1,081	1,190
Investments:		
Equity	78	74
Other	39	27
Total investments	117	101
Property, plant and equipment	1,797	1,794
Accumulated depreciation and amortization	(1,024)	(988)
Net property, plant and equipment	773	806
Other assets:		
Intangible assets, net of amortization	20	21
Deferred income taxes	2	2
Other assets	16	14
Total other assets	38	37
Total assets	$ 2,009	$ 2,134

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

CABOT CORPORATION
CONSOLIDATED BALANCE SHEETS
March 31, 2001 and September 30, 2000

(In millions, except for share amounts)

LIABILITIES & STOCKHOLDERS' EQUITY

	March 31 2001	September 30 2000
	(Unaudited)	
Current liabilities:		
Notes payable to banks	$ 19	$ 20
Current portion of long-term debt	2	48
Accounts payable and accrued liabilities	254	425
Deferred income taxes	1	1
Total current liabilities	276	494
Long-term debt	443	329
Deferred income taxes	93	90
Other liabilities	143	143
Commitments and contingencies (Note E)		
Minority interest	33	31
Stockholders' Equity:		
Preferred Stock:		
Authorized: 2,000,000 shares of $1 par value		
Series A Junior Participating Preferred Stock		
Issued and outstanding: none		
Series B ESOP Convertible Preferred Stock 7.75% Cumulative	75	75
Issued: 75,336 shares, outstanding: 60,153 and 62,285 shares (aggregate redemption value of $60 and $62)		
Less cost of shares of preferred treasury stock	(28)	(24)
Common stock:		
Authorized: 200,000,000 shares of $1 par value		
Issued and outstanding:		
65,338,730 and 67,700,060 shares	65	68
Additional paid-in capital	42	111
Retained earnings	1,083	1,040
Unearned compensation	(25)	(39)
Deferred employee benefits	(55)	(56)
Notes receivable for restricted stock	(21)	(27)
Accumulated other comprehensive loss	(115)	(101)
Total stockholders' equity	1,021	1,047
Total liabilities and stockholders' equity	$ 2,009	$ 2,134

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

CABOT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended March 31, 2001 and 2000

(In millions)

UNAUDITED

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 59	$ 79
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	59	64
Deferred tax expense (benefit)	(1)	7
Equity in income of affiliated companies, net of dividends received	(8)	(2)
Special items	10	--
Gain on sale of business, net of income taxes	(3)	--
Non-cash compensation	11	8
Other, net	3	2
Changes in assets and liabilities, net of the effect of the consolidation of equity affiliates:		
Increase in accounts and notes receivable	(45)	(66)
(Increase) decrease in inventory	(45)	7
Decrease in accounts payable and accrued liabilities	(22)	(13)
Increase in prepayments and other assets	(3)	(16)
Increase (decrease) in income taxes payable	(156)	12
Decrease in other liabilities	--	(12)
Other, net	--	2
Cash provided by (used in) operating activities	(141)	72
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of business	5	--
Additions to property, plant and equipment	(36)	(53)
Purchase of investments	(4)	--
Proceeds from sale of property, plant and equipment	2	1
Cash used in investing activities	(33)	(52)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	129	17
Repayments of long-term debt	(63)	(7)
Increase (decrease) in short-term debt	(1)	14
Purchases of preferred and common stock	(77)	(12)
Sales and issuances of preferred and common stock	3	3
Cash dividends paid to stockholders	(16)	(16)
Employee loan repayments	6	2
Cash provided by (used in) financing activities	(19)	1
Effect of exchange rate changes on cash	(1)	(3)
Increase (decrease) in cash and cash equivalents	(194)	18
Cash and cash equivalents at beginning of period	638	35
Cash and cash equivalents at end of period	$ 444	$ 53

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

CABOT CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Six Months Ended March 31, 2001

(In millions)

UNAUDITED

	Preferred Stock	Preferred Treasury Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss
Balance at September 30, 2000	$ 75	$ (24)	$ 68	$ 111	$ 1,040	$ (101)
Net income					59	
Foreign currency translation adjustments						(20)
Change in unrealized gain on available-for-sale securities						6
Total comprehensive income						
Common dividends paid					(15)	
Issuance of stock under employee compensation plans, net of tax benefit				3		
Issuance of common stock to CRISP				1		
Purchase and retirement of common stock			(3)	(80)		
Purchase of treasury stock - preferred		(4)				
Preferred dividends paid to Employee Stock Ownership Plan, net of tax					(1)	
Principal payment by Employee Stock Ownership Plan under guaranteed loan						
Amortization of unearned compensation				7		
Note Receivable - issuances, payments and forfeitures						
Balance at March 31, 2001	$ 75	$ (28)	$ 65	$ 42	$ 1,083	$ (115)

	Unearned Compensation	Deferred Employee Benefits	Notes Receivable for Restricted Stock	Total Stockholders' Equity	Total Comprehensive Income
Balance at September 30, 2000	$ (39)	$ (56)	$ (27)	$ 1,047	
Net income					$ 59
Foreign currency translation adjustments					(20)
Change in unrealized gain on available-for-sale securities					6
Total comprehensive income					$ 45
Common dividends paid					
Issuance of stock under employee compensation plans, net of tax benefit					
Issuance of common stock to CRISP					
Purchase and retirement of common stock					
Purchase of treasury stock - preferred					
Preferred dividends paid to Employee Stock Ownership Plan, net of tax					
Principal payment by Employee Stock Ownership Plan under guaranteed loan		1			
Amortization of unearned compensation	14				
Note Receivable - issuances, payments and forfeitures			6		
Balance at March 31, 2001	$ (25)	$ (55)	$ (21)	$ 1,021	

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

CABOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2001
UNAUDITED

A. BASIS OF PRESENTATION

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

The unaudited consolidated financial statements have been prepared in accordance with the requirements of Form 10-Q and consequently do not include all disclosures required by Form 10-K. Additional information may be obtained by referring to Cabot's Form 10-K for the year ended September 30, 2000.

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, 2001 and 2000. All such adjustments are of a normal recurring nature. The results for interim periods are not necessarily indicative of the results to be expected for the fiscal year.

B. SPECIAL ITEMS AND BUSINESS DEVELOPMENTS

During the quarter a $17 million charge was recorded, related to the retirement of Cabot's Chief Executive Officer. Included in the charge is a $10 million non-cash charge to accelerate the vesting of common stock issued under the company's long term incentive compensation plan and an accrual for a $7 million cash payment. The cash payment was made during the third quarter.

On March 16, 2001, Cabot UK Holdings Limited, a wholly owned subsidiary of Cabot Corporation, announced an open offer for approximately 3.5 million shares of Cabot India Limited, at 100 Rupees per share. Cabot India Limited is a majority owned subsidiary of Cabot Corporation and its shares are traded on the Mumbai Stock Exchange and the National Stock Exchange of India. The tender offer is for the 40% ownership of Cabot India Limited currently held by minority interest shareholders. The offer period is expected to end on June 16, 2001.

In March, 2001 Cabot exercised an option to purchase 1 million shares of Angus & Ross Plc common stock. In May, 2001 Cabot concluded an agreement to purchase an additional 4 million shares of Angus & Ross Plc common stock. The total purchase price of the 5 million shares was approximately $1 million. The purchase of the additional 4 million shares increased Cabot's ownership in Angus & Ross Plc to approximately 21%. The investment will be accounted for under the equity method starting in the third quarter of fiscal 2001. As part of the agreement, Cabot received an option to purchase an additional 5 million shares of common stock. The option has not yet been exercised.

During fiscal 2000, Cabot approved plans to close several plants. In relation to the plant closings, Cabot recorded an $18 million charge. Included in the charge were accruals of $2 million for severance and termination benefits for approximately 40 employees of the Chemical and Performance Materials Businesses and $7 million for facility closing costs, of which none were paid out in fiscal 2000. The remainder of the charge included $9 million for the impairment of long-lived assets. As of March 31, 2001, $8 million remains in the accrual, of which $2 million relates to severance and $6 million to other facility closing costs. Most of the accrual will be expended during fiscal 2001.

During 1999, Cabot began implementation of initiatives to reduce costs and improve operating efficiencies. In connection with these efforts, Cabot recorded a $26 million charge for capacity utilization and cost reduction initiatives. These initiatives included $16 million for severance and termination benefits for approximately 265 employees, of which $15 million has been paid out as of March 31, 2001. The remaining $1 million is expected to be expended in fiscal 2001.

CABOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
March 31, 2000
UNAUDITED

C. DISCONTINUED OPERATIONS

On September 19, 2000, Cabot completed a transaction to sell its liquefied natural gas (LNG) business for approximately $688 million cash. The sale included Cabot's LNG terminal in Everett, Massachusetts, its LNG tanker, the Matthew, and its equity interest in the Atlantic LNG liquefaction plant in Trinidad. The gain on the sale of the LNG business recorded in the fourth quarter of fiscal 2000, was approximately $309 million, net of taxes of $178 million.

In February, 2001, Cabot received additional cash proceeds of $5 million from the sale. The receipt, net of taxes, is classified as a gain on the sale of LNG in the Consolidated Statement of Income.

On April 4, 2000, Cabot Microelectronics Corporation, then a subsidiary of Cabot, sold 4.6 million shares of its common stock in an initial public offering (IPO). The 4.6 million shares represented approximately 19.5% of Cabot Microelectronics. The net proceeds from the IPO were approximately $83 million. Cabot received an aggregate of approximately $81 million in dividends from Cabot Microelectronics.

On July 25, 2000, a committee of Cabot's Board of Directors voted to spin off its remaining 80.5% equity interest in Cabot Microelectronics by distributing a special dividend of its remaining interest in Cabot Microelectronics to its common stockholders of record as of the close of regular trading on the New York Stock Exchange on September 13, 2000. The tax-free distribution took place on September 29, 2000.

Operating results for fiscal 2000 have been reclassified to present these businesses as discontinued operations.

D. RECLASSIFICATION

Certain amounts were reclassified in fiscal 2000 to conform to the fiscal 2001 presentation.

E. COMMITMENTS AND CONTINGENCIES

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

As of March 31, 2001, Cabot has approximately $36 million reserved for environmental matters, primarily related to divested businesses. The amount represents Cabot's current best estimate of its share of costs likely to be incurred at those sites where costs are reasonably estimable based on its analysis of the extent of cleanup required, alternative cleanup methods available, abilities of other responsible parties to contribute, and its interpretation of applicable laws and regulations at each site. Cabot reviews the adequacy of this reserve as circumstances change at individual sites. Cabot is unable to reasonably estimate the amount of possible loss in excess of the accrued amount.

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

CABOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
March 31, 2001

(Preferred shares in thousands and common shares in millions)

UNAUDITED

F. STOCKHOLDERS' EQUITY

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

	2001
PREFERRED STOCK	
Balance at December 31, 2000	75
Balance at March 31, 2001	75
PREFERRED TREASURY STOCK	
Balance at December 31, 2000	14
Purchased preferred treasury stock	1
Balance at March 31, 2001	15
COMMON STOCK	
Balance at December 31, 2000	66
Purchased and retired common stock	(1)
Balance at March 31, 2001	65

CABOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
March 31, 2001

(Preferred shares in thousands and common shares in millions)

UNAUDITED

F. STOCKHOLDERS' EQUITY (CONTINUED)

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

	2001
PREFERRED STOCK	
Balance at September 30, 2000	75
Balance at March 31, 2001	75
PREFERRED TREASURY STOCK	
Balance at September 30, 2000	13
Purchased preferred treasury stock	2
Balance at March 31, 2001	15
COMMON STOCK	
Balance at September 30, 2000	68
Purchased and retired common stock	(3)
Balance at March 31, 2001	65

CABOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
March 31, 2001

(In millions)

UNAUDITED

G. COMPREHENSIVE INCOME

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

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

	Pre-tax	Tax	After-tax
2000			
Foreign currency translation adjustments	$(13)	$ --	$(13)
Other comprehensive loss	$(13)	$ --	$(13)

CABOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
March 31, 2001

(In millions)

UNAUDITED

G. COMPREHENSIVE INCOME (CONTINUED)

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

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

	Pre-tax	Tax	After-tax
2000			
Foreign currency translation adjustments	$ (26)	$ --	$ (26)
Unrealized holding gain arising during period on marketable equity securities	2	(1)	1
Other comprehensive loss	$ (24)	$ (1)	$ (25)

The balance of related after-tax components comprising accumulated other comprehensive loss is summarized below:

	March 31, 2001	September 30, 2000
Foreign currency translation adjustment	$ (125)	$ (105)
Unrealized gain on marketable equity securities	10	4
Accumulated other comprehensive loss	$ (115)	$ (101)

CABOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
March 31, 2001

(In millions, except per share amounts)

UNAUDITED

H. EARNINGS PER SHARE

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

	2001	2000
BASIC EPS		
Income available to common shares (numerator)	$ 30	$ 40
Weighted-average common shares outstanding	66	67
Less: Contingently issuable shares(1)	(3)	(3)
Adjusted weighted-average shares (denominator)	63	64
Basic EPS	$ 0.47	$ 0.63
DILUTED EPS		
Income available to common shares	$ 30	$ 40
Dividends on preferred stock	1	1
Less: Income effect of assumed conversion of preferred stock	--	--
Income available to common shares plus assumed conversions (numerator)	$ 31	$ 41
Weighted-average common shares outstanding	66	67
Effect of dilutive securities:		
Conversion of preferred stock	9	6
Conversion of incentive stock options(2)	1	--
Adjusted weighted-average shares (denominator)	76	73
Diluted EPS	$ 0.40	$ 0.57

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

(2) Of the options to purchase shares of common stock outstanding at March 31, 2000 1 million shares were not included in the computation of diluted EPS because those options' exercise price was greater than the average market price of the common shares for 2000. As of March 31, 2001, the average fair value of Cabot's stock price exceeds the exercise price of all options outstanding. As such, all options outstanding have been included in the calculation of fully diluted earnings per share.

CABOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
March 31, 2001

(In millions, except per share amounts)

UNAUDITED

H. EARNINGS PER SHARE (CONTINUED)

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

	2001	2000
BASIC EPS		
Income available to common shares (numerator)	$ 57	$ 77
Weighted-average common shares outstanding	67	67
Less: Contingently issuable shares(1)	(3)	(3)
Adjusted weighted-average shares (denominator)	64	64
Basic EPS	$ 0.90	$ 1.20
DILUTED EPS		
Income available to common shares	$ 57	$ 77
Dividends on preferred stock	2	2
Less: Income effect of assumed conversion of preferred stock	--	(1)
Income available to common shares plus assumed conversions (numerator)	$ 59	$ 78
Weighted-average common shares outstanding	67	67
Effect of dilutive securities		
Conversion of preferred stock	9	6
Conversion of incentive stock options(2)	--	--
Adjusted weighted-average shares (denominator)	76	73
Diluted EPS	$ 0.77	$ 1.07

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

(2) Of the options to purchase shares of common stock outstanding at March 31, 2000 1 million shares were not included in the computation of diluted EPS because those options' exercise price was greater than the average market price of the common shares for 2000. As of March 31, 2001, the average fair value of Cabot's stock price exceeds the exercise price of all options outstanding. As such, all options outstanding have been included in the calculation of fully diluted earnings per share.

CABOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
March 31, 2001

(In millions)

UNAUDITED

I. FINANCIAL INFORMATION BY SEGMENT

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

	CHEMICAL BUSINESSES	PERFORMANCE MATERIALS	SPECIALTY FLUIDS	SEGMENT TOTAL	UNALLOCATED AND OTHER	CONSOLIDATED TOTAL
2001						
Net sales and other operating revenues(1)(2)	$ 357	$ 103	$ 5	$ 465	$ (7)	$ 458
Profit (loss) before taxes(3)	$ 35	$ 26	$ (1)	$ 60	$ (24)	$ 36
2000						
Net sales and other operating revenues(1)(2)	$ 339	$ 54	$ 6	$ 399	$ (2)	$ 397
Profit (loss) before taxes(3)	$ 49	$ 8	$ (1)	$ 56	$ (13)	$ 43

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

	2001	2000
Equity affiliate sales	$ (16)	$ (16)
Royalties paid by equity affiliates	1	2
Interoperating segment revenues	(2)	(3)
Shipping and handling fees	10	15
Total	$ (7)	$ (2)

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

	2001	2000
Interest expense	$ (9)	$ (9)
General unallocated income (expense)(4)	6	(2)
Equity in net income of affiliated companies	(4)	(2)
Special item (5)	(17)	--
Total	$ (24)	$ (13)

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

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

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

(4) General unallocated income (expense) includes foreign currency transaction gains (losses), interest income, dividend income, and corporate allocations previously allocated to discontinued segments.

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

CABOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
March 31, 2001

(In millions)

UNAUDITED

I. FINANCIAL INFORMATION BY SEGMENT (CONTINUED)

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

	CHEMICAL BUSINESSES	PERFORMANCE MATERIALS	SPECIALTY FLUIDS	SEGMENT TOTAL	UNALLOCATED AND OTHER	CONSOLIDATED TOTAL
2001						
Net sales and other operating revenues(1)(2)	$ 691	$ 159	$ 12	$ 862	$ (9)	$ 853
Profit (loss) before taxes(3)	$ 76	$ 23	$ --	$ 99	$ (26)	$ 73
2000						
Net sales and other operating revenues(1)(2)	$ 669	$ 105	$ 10	$ 784	$ (10)	$ 774
Profit (loss) before taxes(3)	$ 102	$ 16	$ (3)	$ 115	$ (23)	$ 92

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

	2001	2000
Equity affiliate sales	$ (31)	$ (36)
Royalties paid by equity affiliates	3	3
Interoperating segment revenues	(3)	(5)
Shipping and handling fees	22	28
Total	$ (9)	$ (10)

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

	2001	2000
Interest expense	$ (17)	$ (18)
General unallocated income (expense)(4)	16	(2)
Equity in net income of affiliated companies	(8)	(3)
Special item (5)	(17)	--
Total	$ (26)	$ (23)

(1) Segment sales for certain operating segments within Chemical Businesses include 100% of equity affiliate sales and transfers of materials at cost and market-based prices.
(2) Unallocated and other reflects an adjustment for equity affiliate sales and interoperating segment revenues and includes royalties paid by equity affiliates offset by external shipping and handling costs.
(3) Segment profit is a measure used by Cabot's chief operating decision-makers to measure consolidated operating results and assess segment performance. It includes equity in net income of affiliated companies, royalties paid by equity affiliates, minority interest, and corporate governance costs, and excludes foreign currency transaction gains (losses), interest income (expense) and dividend income.
(4) General unallocated income (expense) includes foreign currency transaction gains (losses), interest income, dividend income, and corporate allocations previously allocated to discontinued segments.
(5) Results for the second quarter of fiscal 2001 include a charge related to the retirement of the Chief Executive Officer. Included in the charge is $10 million relating to the accelerated vesting of shares issued under the Long Term Incentive Compensation Plan and a $7 million cash payment.

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

I. RESULTS OF OPERATIONS

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

THREE MONTHS ENDED MARCH 31, 2001 VERSUS
THREE MONTHS ENDED MARCH 31, 2000

Net income from continuing operations for the second quarter of fiscal 2001 was $28 million ($0.36 per diluted common share) compared to $28 million ($0.39 per diluted common share) in the same quarter a year ago. Included in this quarter's results is a $17 million ($0.16 per diluted share) special charge related to the retirement of Cabot's Chief Executive Officer, consisting of a $10 million non-cash charge to accelerate the vesting of stock issued under the Company's long term incentive compensation plan and an accrual for a $7 million cash payment.

Companywide sales increased 15% from $397 million last year to $458 million this year due to higher prices in the Chemical Businesses and higher volumes and prices in the Performance Materials segment. Overall operating profit before taxes and the special charge of $17 million increased 23% from $43 million in the second quarter of fiscal 2000 to $53 million in the second quarter of fiscal 2001. Higher prices and lower production costs in the Chemical Businesses absorbed the effects of higher feedstock costs and resulted in improved margins. In addition, the Company benefited from higher tantalum margins resulting from customer contracts entered into in the second quarter of fiscal 2001.

Sales for the Chemical Businesses increased to $357 million. Operating profit decreased from $49 million to $35 million. The $14 million, or 29%, decrease in profitability is primarily attributed to slower industrial growth in North America, increased carbon black feedstock costs, higher natural gas costs, and unfavorable currency movements.

For the second quarter of fiscal 2001, global carbon black volumes decreased 6% versus the second quarter of last year. Sales volumes were flat in both South America and Europe though a weaker North American economy led to a 16% decrease in volumes in that region. Similarly, Asia Pacific experienced a 3% decrease in volumes. Carbon black was negatively impacted by increased feedstock costs. Feedstock costs were 25% higher in the second quarter of this year versus the same quarter a year ago due to increases in oil and natural gas prices.

Overall volumes in the Fumed Metal Oxides business declined by 8% due to decreased demand from traditional markets including the silicone rubber and construction industries. However, higher prices offset lower volumes resulting in a 9% increase in sales year over year. Results were negatively impacted by higher energy prices and manufacturing costs in North America.

Cabot's inkjet colorants business continues to gain commercial acceptance of a variety of products. Accordingly, the business reported a $1 million improvement in operating profit in the second quarter of 2001.

Performance Materials sales were $103 million in the second quarter of fiscal 2001 compared with $54 million in fiscal 2000. Demand for tantalum products continues to remain strong. Volumes of tantalum sold were 26% higher in the second quarter of 2001 than in the same quarter a year ago. As a result of the customer contracts entered into during the second fiscal quarter of 2001, average prices increased approximately 56% year over year. At the same time, total costs increased approximately 67% due to higher volumes and higher ore costs. It is anticipated that Cabot's earnings in the tantalum

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

business will increase by approximately 50% in fiscal 2001, year over year. In fiscal 2002, Cabot expects earnings from the tantalum business to increase by approximately three times over estimates for fiscal 2001.

Specialty Fluids sales in the second quarter were $5 million versus $6 million last year. Lower volumes and prices were offset by lower operating costs resulting in flat operating results in the second quarter of fiscal 2001 versus the same quarter in 2000. Sales to date have been generated from the production and sale of cesium formate as well as spodumene, tantalum and fine cesium chemicals. During the second quarter, cesium formate was used in two successful drill-in applications involving challenging high pressure, high temperature wells in the North Sea. It is anticipated that these wells will undergo production flow tests in the near future.

Interest income in the second quarter of this year was $6 million higher than in the same quarter last year due to an increase in Cabot's cash position related to the sales proceeds of the Liquefied Natural Gas business.

Research and technical service spending was $12 million for the second quarter versus $11 million for the second quarter of last year. Selling and administrative expenses were $52 million for the second quarter of fiscal 2001, an 18% increase from $44 million spent last year. The increase is largely due to non-capitalized expenses associated with the development and implementation of our Enterprise Resource Planning system, accounting for stock-based incentive compensation and our e-commerce initiative which has been expanded this year. Selling and administrative expenses and research and technical service spending remained flat as a percentage of sales. They represented 11% and 3%, respectively, of sales in both the current quarter and corresponding quarter of fiscal 2000.

In February 2001, Cabot received $3 million, net of tax, ($0.04 per diluted common share) of additional proceeds from the September 2000 sale of the Liquefied Natural Gas business.

In fiscal 2000, Cabot initiated a reorganization of its international legal entity structure. As a result of the reorganization, Cabot's overall effective income tax rate decreased from 36% in fiscal 2000 to 29% in fiscal 2001.

During fiscal 2000, Cabot approved plans to close several plants. In relation to the plant closings, Cabot recorded an $18 million charge. Included in the charge were accruals of $2 million for severance and termination benefits and $7 million for facility closing costs. As of March 31, 2001, $8 million is accrued, of which $2 million relates to severance and the remaining $6 million to facility closing costs. Most of the $8 million will be expended during fiscal 2001.

During 1999, Cabot began implementation of initiatives to reduce costs and improve operating efficiencies. In connection with these efforts, Cabot recorded a $26 million charge for capacity utilization and cost reduction initiatives. These initiatives included $16 million for severance and termination benefits for approximately 265 employees, of which $15 million has been paid out as of March 31, 2001. The remaining $1 million is expected to be expended during fiscal 2001.

SIX MONTHS ENDED MARCH 31, 2001 VERSUS
SIX MONTHS ENDED MARCH 31, 2000

Net income from continuing operations for the first six months of fiscal 2001 was $56 million compared to $59 million for the first half of fiscal 2000. Included in these results from operations for the first half of fiscal 2001 is a $17 million special charge related to the retirement of Cabot's Chief Executive Officer.

Sales increased 10% from $774 million last year to $853 million this year due to strong volumes and pricing in the Performance Materials segment and higher prices in the carbon black business. However, operating profit before taxes and a special charge of $17 million decreased slightly from $92 million in the first half of fiscal 2000 to $90 million in the first half of fiscal 2001. Increased feedstock costs in the Chemical Businesses and higher raw material costs in the

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

Performance Materials business were the primary drivers behind the decrease in profitability. Increased pricing in the Performance Materials business did not begin to offset higher ore costs until the second quarter of fiscal 2001.

Sales for the Chemical Businesses increased to $691 million. Operating profit decreased from $102 million to $76 million. The $26 million, or 25%, decrease in profitability is primarily attributed to slower industrial growth in North America, increased oil-based feedstock and natural gas costs, and unfavorable currency trends.

Performance Materials sales were $159 million, a 51% increase from $105 million in the first six months of fiscal 2000. Operating profit increased 44% from $16 million in the first six months of last year to $23 million in the first two quarters of this year driven by higher volumes and higher prices.

Specialty Fluids realized a $2 million improvement in sales for the six-month period ended March 31, 2001. Sales increased from $10 million last year to $12 million this year. Similarly, Specialty Fluids realized a $3 million improvement in profitability for the first half of fiscal 2001, largely as a result of improved pricing and increased volumes.

In February 2001, Cabot received $3 million, net of tax, ($0.04 per diluted common share) of additional proceeds from the September 2000 sale of the Liquefied Natural Gas business.

II. CASH FLOW AND LIQUIDITY

During the first six months of the fiscal year, cash used in operating activities totaled $131 million as compared to cash provided by operating activities of $72 million for the same period last year. The uses of cash during the first quarter of fiscal 2001 included a tax payment related to the September 2000 disposition of the Liquefied Natural Gas business.

Capital spending for the first six months of the year was $36 million. The majority of capital spending related to maintaining existing assets. Cabot plans to spend approximately $160 million on capital expenditures during the fiscal year.

Cash used by financing activities was $29 million in the first half of fiscal 2001 as compared to $1 million provided by financing activities for the same period last year. The key components of the charge in net cash from financing activities were the acquisition of a 3-year EURO note for $129 million, the repayment of $63 million in long-term debt, and the repurchase of $83 million of common stock.

In November 2000, a Cabot subsidiary borrowed 150 million EURO ($129 million) from institutional lenders. The loan is payable in EUROs, bears interest at EURIBOR plus 1.10%, and matures in November 2003.

On October 4, 2000, Cabot purchased $17 million of its Medium Term Notes at par plus accrued interest. The 7.28% Medium Term Notes were issued on October 21, 1997 and were subject to a put at par in 2004.

On September 8, 2000, Cabot's Board of Directors authorized the repurchase of up to 10 million shares of Cabot's common stock, superseding prior authorizations. As of March 31, 2001, approximately 3 million shares have been purchased at an average price of $28 per share under this new authorization.

During the second quarter of fiscal 2001, Cabot entered into a knock-in share repurchase contract with an investment bank. The contract allowed for the purchase of up to 2 million shares of Cabot's common stock at various market prices from April 1, 2001 to April 28, 2001. The contract expired without being triggered.

On March 16, 2001, Cabot UK Holdings Limited, a wholly owned subsidiary of Cabot Corporation, announced an open offer for approximately 3.5 million shares of Cabot India Limited, at 100 Rupees per share. Cabot India Limited is a majority owned subsidiary of Cabot Corporation and its shares are traded on the Mumbai Stock Exchange and the National Stock Exchange of India. The tender

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

offer is for the 40% ownership of Cabot India Limited currently held by minority interest shareholders. The offer period is expected to end June 16, 2001.

As a result of the operating and financing activities during the quarter, Cabot's ratio of total debt (including short-term debt net of cash) to capital decreased from 4% to 2% at March 31, 2001.

Cabot maintains a credit agreement under which it may, under certain conditions, borrow up to $300 million at floating rates. The facility is available through January 3, 2002. As of March 31, 2001, Cabot had no borrowings outstanding under this arrangement. Management expects cash on hand, cash from operations and present financing arrangements, including Cabot's unused line of credit and shelf registration for debt securities, to be sufficient to meet Cabot's cash requirements for the foreseeable future.

Forward-Looking Information: Included above are statements relating to management's expectations of future profits, the possible achievement of the Company's financial goals and objectives and management's expectations for shareholder value creation initiatives and for the Company's product development program. Actual results may differ materially from the results anticipated in the statements included herein due to a variety of factors, including market supply and demand conditions, fluctuations in currency exchange rates, costs of raw materials, patent rights of others, stock market conditions, demand for our customers' products and competitors' reactions to market conditions, and other factors referred to in the Company's filings with the Securities and Exchange Commission. Timely commercialization of products under development by the Company 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. The Company undertakes no obligation to update forward-looking statements or reflect events or circumstances after the date of this document.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF STOCKHOLDERS.

The Annual Meeting of Stockholders of Cabot Corporation (the "Annual Meeting") was held on March 8, 2001. An election of Directors was held for which Kennett F. Burnes, John S. Clarkeson, Robert P. Henderson, Roderick C.G. MacLeod, and Ronaldo H. Schmitz were nominated and elected to the class of Directors whose terms expire in 2004, and John G.L. Cabot and John F. O'Brien were nominated and elected to the class of Directors whose terms expire in 2003. The following votes were cast for or withheld with respect to each of the nominees.

Director	In Favor Of	Withheld
Kennett F. Burnes	66,959,112	2,236,641
John S. Clarkeson	67,540,478	1,655,275
Robert P. Henderson	67,663,030	1,532,723
Roderick C.G. MacLeod	67,595,218	1,600,535
Ronaldo H. Schmitz	67,753,456	1,442,297
John G.L. Cabot	67,795,941	1,399,812
John F. O'Brien	67,640,559	1,555,194

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

Director	Term of Office Expires
Samuel W. Bodman	2002
Arthur L. Goldstein	2002
Gautam S. Kaji	2002
John H. McArthur	2002
Lydia W. Thomas	2003
Mark S. Wrighton	2003

Effective March 8, 2001, David V. Ragone retired as a member of the Board of Directors, in accordance with the Company's Director Retirement Policy.

The second proposal before the Annual Meeting was a management proposal to adopt the Cabot Corporation Short-Term Incentive Compensation Plan. This proposal was approved by the stockholders. The following votes were cast for or against, or abstained from voting on, this Proposal:

For	Against	Abstained
57,621,417	10,777,564	796,772

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

ITEM 5. OTHER INFORMATION.

On May 11, 2001, Cabot Corporation's Board of Directors elected Kennett F. Burnes as Chairman of the Board. Mr. Burnes was named Chief Executive Officer of Cabot Corporation on March 9, 2001. He succeeds Samuel W. Bodman as Chairman and Chief Executive Officer.

The Board of Directors also voted to increase the quarterly dividend by $0.02 per share, or 18%, to $0.13 per share on all outstanding shares of the Corporation's common stock. The dividend is payable June 8, 2001, to stockholders of record as of the close of business on May 25, 2001.

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

(a) Exhibits

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

Exhibit Number	Description
10*	Cabot Corporation Short-Term Incentive Compensation Plan, filed herewith.

*Management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

No report on Form 8-K was filed by the Company during the three months ended March 31, 2001.

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 14, 2001

/s/ Robert L. Culver

Robert L. Culver
Executive Vice President and
Chief Financial Officer

Date: May 14, 2001

/s/ William T. Anderson

William T. Anderson
Vice President and Controller
(Chief Accounting Officer)

EXHIBIT 10

CABOT CORPORATION

SHORT-TERM INCENTIVE COMPENSATION PLAN

The purpose of this Short-Term Incentive Compensation Plan (the "Plan") is to provide incentives for certain senior executives of Cabot Corporation (the "Company") to achieve a sustained, high level of financial success for the Company. The Plan is intended to comply with the requirements for tax deductibility imposed by Internal Revenue Code Section 162(m) as in effect from time to time ("Section 162(m)") with respect to Awards paid pursuant to the Plan.

I. ADMINISTRATION

The Plan will be administered by the Compensation Committee of the Board of Directors or, if any member of the Compensation Committee is not an "outside director" for the purposes of Section 162(m), by a subcommittee of the Compensation Committee consisting of those members of the Compensation Committee who are "outside directors" for such purposes. The Compensation Committee or subcommittee administering the Plan is referred to herein as the "Committee." The Committee may delegate to other persons administrative functions that do not involve discretion. The Committee shall have the authority to interpret this Plan, and any interpretation or decision by the Committee with regard to any questions arising under the Plan shall be final and conclusive on all participants in the Plan.

II. ELIGIBILITY; PARTICIPANTS

Only officers of the Company shall be eligible to participate in the Plan. The Committee shall select, from among those eligible, the persons who shall from time to time participate in the Plan. Participation by an individual with respect to one award under the Plan shall not entitle the individual to participate with respect to subsequent awards, if any.

III. GRANT OF AWARDS

The term "Award" as used in the Plan means an award opportunity that is granted to a Participant within a specified period after the beginning of the performance period (the "Performance Period") to which the Award relates. A Participant who is granted an Award shall be entitled to a payment, if any, under the Award only if all conditions to payment have been satisfied in accordance with the Plan and the terms of the Award. Except as otherwise specified by the Committee in connection with the grant of an Award, the Performance Period applicable to Awards under the Plan shall be the fiscal year of the Company. Not later than (i) the ninetieth (90th) day after the beginning of the Performance Period, in the case of a Performance Period of 360 days or longer, or (ii) the end of the period constituting the first quarter of the Performance Period, in the case of a Performance Period of less than 360 days, the Committee shall select the Participants, if any, who are to receive Awards for such Performance Period and, in the case of each Award, shall establish the following:

(a) the Performance Goals (as defined in Section IV below) applicable to the Award;

(b) the amount or amounts that will be payable (subject to reduction in accordance with Section V) if the Performance Goals are achieved; and

(c) such other terms and conditions as the Committee deems appropriate with respect to the Award.

Once the Committee has established the terms of an Award in accordance with the foregoing, it shall not thereafter adjust such terms except to reduce payments, if any, under the Award in accordance with Section V. Notwithstanding the foregoing, if achievement under a Performance Goal would be affected by an Identified Item (as hereinafter defined), such Identified Item shall be disregarded if disregarding it would make the Performance Goal easier to achieve and shall be taken into account if taking it into account would make the Performance Goal easier to achieve. For purposes of the Plan, the term "Identified Item" means any of the following to the extent it is objectively determinable (for example, but without limitation, if the item appears as or can be objectively derived from a separate line item in the financial statements of the Company): an extraordinary or non-recurring item, a change in tax laws, an item relating to discontinued operations, an item relating to a divested business or a sale of one or more businesses, a restructuring charge, an accounting change or any other special, unusual or non-recurring gain or loss. Nothing in the rules set forth above for the treatment of Identified Items shall be construed as restricting the ability of the Committee to reduce Award payments under Section V.

IV. PERFORMANCE GOALS

As used in the Plan, the term "Performance Goal" means an objectively determinable goal or target based on any one or any combination of the following (determined, in the case of Company-related measures, on a consolidated basis or on the basis of one or more subsidiaries, divisions or other geographic or business units): (i) sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation or amortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; inventory level or turns; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; stock price; or stockholder return; or (ii) acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; recapitalizations; restructurings; financings (issuance of debt or equity); or refinancings. A Performance Goal need not be based on an increase or improvement under the applicable measure. An Award may specify more than one Performance Goal and, with respect to any Performance Goal, may specify levels of achievement at which different levels of payment may be earned.

V. CERTIFICATION OF PERFORMANCE; PAYMENT UNDER AWARDS

As soon as practicable after the close of a Performance Period, the Committee shall take such steps as are sufficient to satisfy the certification requirement of the regulations under Section 162(m) as to whether and to what extent, if at all, the Performance Goal or Goals applicable to each Award granted for the Performance Period have been satisfied. The Committee shall then determine the actual payment, if any, under each Award. No amount may be paid under an Award unless the Performance Goal or Goals applicable to the payment of such amount have been certified as having been satisfied as set forth above. However, the Committee may, in its sole and absolute discretion and with or without specifying its reasons for doing so, after determining the amount that would otherwise be payable under an Award for a Performance Period, reduce (including to zero) the actual payment, if any, to be made under such Award. The Committee may exercise the discretion described in the immediately preceding sentence either in individual cases or in ways that affect more than one Participant (for example, but without limitation, by disregarding in whole or in part an Identified Item that has been taken into account under Section III above or by taking into account, in whole or in part, an Identified Item that has been disregarded under Section III above).

VI. PAYMENT LIMITS

No Participant may be paid more than $3,000,000 in any fiscal year of the Company under Awards granted under the Plan. In the case of an Award where payment is deferred pursuant to Section IX(b) below, the preceding sentence shall be applied by assuming that payment of the Award was made at the time it would have been paid absent the deferral.

VII. TAX WITHHOLDING

All payments under the Plan shall be subject to reduction for applicable tax and other legally or contractually required withholdings.

VIII. AMENDMENT AND TERMINATION

The Committee may amend the Plan at any time and from time to time; provided, that no amendment for which Section 162(m) would require shareholder approval in order to preserve exemption for Award payments as performance-based compensation shall be effective unless approved by the shareholders of the Company in a manner consistent with the requirements of Section 162(m). The Committee may at any time terminate the Plan.

IX. MISCELLANEOUS

(a) Except as otherwise determined by the Committee at the time it grants an Award, no payment shall be made under an Award unless the Participant is employed by the Company on the last day of the Performance Period applicable to the Award. Notwithstanding the foregoing, if a Participant ceases to be employed by the Company during a Performance Period by reason of death or disability, the Committee may in its discretion authorize payment of any Awards held by such

Participant to the Participant (or his or her estate) at the time other Awards are paid in respect of the Performance Period.

(b) The Committee may, but need not, permit a Participant to defer payment of an Award beyond the date that the Award would otherwise be payable. Any amount deferred under the preceding sentence shall be adjusted for notional interest or other notional earnings on a basis, determined by the Committee, that preserves the eligibility of the Award payment as exempt performance-based compensation under Section 162(m).

(c) No person shall have any claim or right to be granted an Award, nor shall the selection for participation in the Plan for any Participation Period be construed as giving a Participant the right to be retained in the employ of the Company for that Participation Period or for any other period.

(d) The Plan and all Awards under the Plan shall be construed and administered in a manner consistent with the exemption of Award payments as exempt performance based compensation under Section 162(m). Subject to the foregoing, the Committee shall have complete discretion to construe the Plan and all matters arising under the Plan, and its determinations shall be binding on all parties.

(e) The Plan shall be effective as of the date adopted, for the Performance Period ending September 30, 2001, subject to receiving stockholder approval at the 2001 Annual Stockholders Meeting and shall remain in effect for subsequent Performance Periods until terminated by the Company's Board of Directors.