

MINERALS TECHNOLOGIES INC
Form 10-Q
November 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended October 1, 2017

or

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

Commission File Number 1-11430

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MINERALS TECHNOLOGIES INC.
(Exact name of registrant as specified in its charter)

DELAWARE 25-1190717
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

622 Third Avenue, New York, NY 10017-6707
(Address of principal executive offices, including zip code)

(212) 878-1800
(Registrant's telephone number, including area code)

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, a smaller reporting company, or and 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

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Non- accelerated Filer (Do not check if a 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

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

Class	Outstanding at October 24, 2017
Common Stock, \$0.10 par value	35,366,871

MINERALS TECHNOLOGIES INC.

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PART 1. FINANCIAL INFORMATION

ITEM 1. Financial Statements

MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months		Nine Months Ended	
	Ended Oct. 1, 2017	Oct. 2, 2016	Oct. 1, 2017	Oct. 2, 2016
	(in millions, except per share data)			
Product sales	\$405.4	\$379.7	\$1,187.9	\$1,171.1
Service revenue	19.0	19.8	55.6	65.6
Total net sales	424.4	399.5	1,243.5	1,236.7
Cost of goods sold	293.0	272.0	854.7	840.8
Cost of service revenue	12.2	12.3	36.2	46.9
Total cost of sales	305.2	284.3	890.9	887.7
Production margin	119.2	115.2	352.6	349.0
Marketing and administrative expenses	45.6	42.4	134.1	134.2
Research and development expenses	5.9	5.9	17.8	17.9
Acquisition related transaction and integration costs	0.5	1.9	2.8	5.1
Restructuring and other items, net	0.4	(2.3)	0.9	27.4
Income from operations	66.8	67.3	197.0	164.4
Interest expense, net	(10.5)	(13.4)	(32.5)	(41.4)
Debt modification costs and fees	-	-	(3.9)	-
Other non-operating income (deductions), net	(1.7)	(0.6)	(3.4)	1.7
Total non-operating deductions, net	(12.2)	(14.0)	(39.8)	(39.7)
Income from continuing operations before provision for taxes and equity in earnings	54.6	53.3	157.2	124.7
Provision for taxes on income	12.1	11.5	35.6	26.7
Equity in earnings of affiliates, net of tax	0.4	0.7	0.7	1.6
Consolidated net income	42.9	42.5	122.3	99.6
Less:				
Net income attributable to non-controlling interests	1.2	0.9	3.0	2.9
Net income attributable to Minerals Technologies Inc. (MTI)	\$41.7	\$41.6	\$119.3	\$96.7
Earnings per share:				
Basic:				
Income from continuing operations attributable to MTI	\$1.18	\$1.19	\$3.40	\$2.78

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Diluted:				
Income from continuing operations attributable to MTI	\$1.17	\$1.18	\$3.35	\$2.75
Cash dividends declared per common share	\$0.05	\$0.05	\$0.15	\$0.15
Shares used in computation of earnings per share:				
Basic	35.3	34.9	35.1	34.8
Diluted	35.6	35.3	35.6	35.1

See accompanying Notes to Condensed Consolidated Financial Statements.

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MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

	Three Months		Nine Months Ended	
	Ended		Ended	
	Oct.		Oct.	
	1,	Oct. 2,	1,	Oct. 2,
	2017	2016	2017	2016
	(millions of dollars)			
Consolidated net income	\$42.9	\$ 42.5	\$ 122.3	\$ 99.6
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	8.0	1.2	33.8	2.0
Pension and postretirement plan adjustments	1.0	1.2	3.7	3.8
Unrealized gains (losses) on cash flow hedges	0.1	0.4	(0.2)	(0.3)
Total other comprehensive income (loss), net of tax	9.1	2.8	37.3	5.5
Total comprehensive income including non-controlling interests	52.0	45.3	159.6	105.1
Comprehensive income attributable to non-controlling interest	(1.3)	(0.4)	(3.9)	(2.2)
Comprehensive income attributable to MTI	\$50.7	\$ 44.9	\$ 155.7	\$ 102.9

See accompanying Notes to Condensed Consolidated Financial Statements.

IndexMINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	Oct. 1, 2017*	December 31, 2016**
	(millions of dollars)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$211.7	\$ 188.5
Short-term investments, at cost which approximates market	2.8	2.0
Accounts receivable, net	389.1	341.3
Inventories	221.2	186.9
Prepaid expenses and other current assets	36.0	32.4
Total current assets	860.8	751.1
Property, plant and equipment	2,189.1	2,141.4
Less accumulated depreciation and depletion	(1,130.0)	(1,089.6)
Property, plant and equipment, net	1,059.1	1,051.8
Goodwill	779.6	778.7
Intangible assets	198.4	204.4
Other assets and deferred charges	85.5	77.4
Total assets	\$2,983.4	\$ 2,863.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$6.2	\$ 6.1
Current maturities of long-term debt	6.5	6.8
Accounts payable	181.0	144.9
Other current liabilities	130.0	137.7
Total current liabilities	323.7	295.5
Long-term debt, net of unamortized discount and deferred financing costs	990.2	1,069.9
Deferred income taxes	247.8	238.8
Other non-current liabilities	219.4	228.3
Total liabilities	1,781.1	1,832.5
Shareholders' equity:		
Common stock	4.9	4.8
Additional paid-in capital	420.0	400.0
Retained earnings	1,533.2	1,419.1
Accumulated other comprehensive loss	(184.8)	(221.1)
Less common stock held in treasury	(597.0)	(596.3)
Total MTI shareholders' equity	1,176.3	1,006.5
Non-controlling interests	26.0	24.4
Total shareholders' equity	1,202.3	1,030.9
Total liabilities and shareholders' equity	\$2,983.4	\$ 2,863.4

* Unaudited

** Condensed from audited financial statements

See accompanying Notes to Condensed Consolidated Financial Statements.

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IndexMINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended	
	Oct. 1, 2017	Oct. 2, 2016
	(millions of dollars)	
Operating Activities:		
Consolidated net income	\$ 122.3	\$ 99.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	67.0	66.6
Impairment of assets	-	18.5
Non-cash debt modification fees	1.8	-
Other non-cash items	8.9	8.2
Net changes in operating assets and liabilities	(49.4)	(28.7)
Net cash provided by operating activities	150.6	164.2
Investing Activities:		
Purchases of property, plant and equipment	(54.2)	(48.9)
Proceeds from sale of assets	1.3	2.9
Proceeds from sale of short-term investments	2.8	4.9
Purchases of short-term investments	(3.5)	(6.6)
Other investing activities	(0.9)	-
Net cash used in investing activities	(54.5)	(47.7)
Financing Activities:		
Proceeds from issuance of long-term debt	-	1.2
Repayment of long-term debt	(84.9)	(141.2)
Net repayment of short-term debt	(0.2)	(0.1)
Purchase of common shares for treasury	(0.7)	(2.6)
Proceeds from issuance of stock under option plan	14.4	4.1
Excess tax benefits related to stock incentive programs	(3.6)	-
Dividends paid to non-controlling interests	(2.4)	(1.5)
Cash dividends paid	(5.3)	(5.3)
Net cash used in financing activities	(82.7)	(145.4)
Effect of exchange rate changes on cash and cash equivalents	9.8	(0.8)
Net increase (decrease) in cash and cash equivalents	23.2	(29.7)
Cash and cash equivalents at beginning of period	188.5	229.4
Cash and cash equivalents at end of period	\$ 211.7	\$ 199.7
Supplemental disclosure of cash flow information:		
Interest paid	\$ 28.9	\$ 45.6
Income taxes paid	\$ 35.5	\$ 24.1

See accompanying Notes to Condensed Consolidated Financial Statements.

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MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared by management of Minerals Technologies Inc. (the "Company", "MTI", "we" or "us") in accordance with the rules and regulations of the United States Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. Therefore, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. In the opinion of management, all adjustments, consisting solely of normal recurring adjustments necessary for a fair presentation of the financial information for the periods indicated, have been included. The results for the three-month and nine-month periods ended October 1, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

Company Operations

The Company is a resource-and technology-based company that develops, produces and markets worldwide a broad range of specialty mineral, mineral-based and synthetic mineral products and supporting systems and services.

During the first quarter of 2017, the Company announced the reorganization of its Performance Materials and Construction Technologies business segments into one operating segment, in order to generate greater alignment, speed decision making and accelerate growth.

The Company now has four reportable segments: Specialty Minerals, Performance Materials, Refractories and Energy Services.

- The Specialty Minerals segment produces and sells the synthetic mineral product precipitated calcium carbonate ("PCC") and mines, processes and sells other natural mineral products, primarily limestone and talc.
- The Performance Materials segment is a leading global supplier of bentonite and bentonite-related products, chromite and leonardite. This segment also provides products for non-residential construction, environmental and infrastructure projects worldwide, serving customers engaged in a broad range of construction projects.
- The Refractories segment produces and markets monolithic and shaped refractory materials and specialty products, services and application and measurement equipment, and calcium metal and metallurgical wire products.
- The Energy Services segment provides services to improve the production, costs, compliance, and environmental impact of activities performed in the oil and gas industry. This segment offers a range of patented and unpatented technologies, products and services for all phases of oil and gas production and refining throughout the world.

Use of Estimates

The Company employs accounting policies that are in accordance with U.S. generally accepted accounting principles and require management to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reported period. Significant estimates include those related to revenue recognition, valuation of accounts receivable, valuation of inventories, valuation of long-lived assets, goodwill and

other intangible assets, pension plan assumptions, valuation of product liability and asset retirement obligation, income tax, income tax valuation allowances, and litigation and environmental liabilities. Actual results could differ from those estimates.

Recently Issued Accounting Standards

Changes to accounting principles generally accepted in the United States of America (U.S. GAAP) are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASUs) to the FASB's Accounting Standards Codification. The Company considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position and results of operations.

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MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” which will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The guidance is effective for the interim and annual periods beginning on or after December 15, 2017. The guidance permits the use of either a retrospective or cumulative effect transition method. The Company has elected to use the cumulative effect transition method. The Company has completed a high level accounting diagnostic and is in the process of contract review and continues to evaluate the impact of this ASU on the Company’s consolidated financial statements and related disclosures. At this time, the Company does not believe the adoption of this guidance will have a material impact on the Company’s consolidated financial statements and are reviewing the additional disclosure requirements upon adoption.

Leases

In February 2016, the FASB issued ASU 2016-02, “Leases”, which requires lessees to recognize most leases on-balance sheet, thereby increasing their reported assets and liabilities, in some cases very significantly. Lessor accounting remains substantially similar to current U.S. GAAP. ASU 2016-02 is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2018. ASU 2016-02 mandates a modified retrospective transition method for all entities. The Company is currently evaluating the impact of this ASU on the Company’s consolidated financial statements and related disclosures. Based on the current status of this assessment, the adoption of this guidance is not expected to have a material impact on the Company’s financial statements.

Intangibles – Goodwill and Other

In January 2017, the FASB issued ASU 2017-04, “Intangibles-Goodwill and Other: Simplifying the Test for Goodwill Impairment”, which no longer requires an entity to perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, goodwill will be measured using the difference between the carrying amount and the fair value of the reporting unit. The guidance is effective for the interim and annual periods beginning on or after December 15, 2019, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company’s financial statements.

Compensation – Retirement Benefits

In March 2017, the FASB issued ASU 2017-07, “Compensation – Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”, which requires companies to present the service cost component of the net benefit cost in the same line items in which they report compensation cost. All other components of net periodic benefit cost will be presented outside operating income. The guidance is effective for the interim and annual periods beginning on or after December 15, 2017. The adoption of this guidance is not expected to have a material impact on the Company’s financial statements.

Adoption of ASU 2016-09, Stock Compensation- Improvements to Employee Share-Based Payment Accounting

On January 1, 2017, the Company adopted the provisions of ASU 2016-09, “Stock Compensation – Improvements to Employee Share-Based Payment Accounting”, an amendment to account standards codification (“ASC”) 718, which simplifies several aspects of accounting for share-based payments, including accounting for income taxes, forfeitures, statutory withhold rates as well as presentation on the statement of cash flows. The Company has elected to adopt the standard on a prospective basis. As a result of this adoption, the Company recognizes excess tax benefits in the current account period. The cash flow benefit of the excess tax benefit is included as an operating activity in the Condensed Consolidated Statement of Cash Flows for the period ended October 1, 2017. Additionally, taxes paid for shares withheld for tax-withholding purposes are reported as financing activities in the Condensed Consolidated Statements of Cash Flows. Previously, this activity was included in operating activities. Prior year Condensed Consolidated Statement of Cash Flows has not been restated. In accordance with the standard, the Company will continue to account for forfeitures using an estimated forfeiture rate.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2. Earnings Per Share (EPS)

Basic earnings per share are based upon the weighted average number of common shares outstanding during the period. Diluted earnings per share are based upon the weighted average number of common shares outstanding during the period assuming the issuance of common shares for all potentially dilutive common shares outstanding.

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months		Nine Months Ended	
	Ended Oct. 1, 2017	Oct. 2, 2016	Oct. 1, 2017	Oct. 2, 2016
	(in millions, except per share data)			
Net income attributable to MTI	\$ 41.7	\$ 41.6	\$ 119.3	\$ 96.7
Weighted average shares outstanding	35.3	34.9	35.1	34.8
Dilutive effect of stock options and stock units	0.3	0.4	0.5	0.3
Weighted average shares outstanding, adjusted	35.6	35.3	35.6	35.1
Basic earnings per share attributable to MTI	\$ 1.18	\$ 1.19	\$ 3.40	\$ 2.78
Diluted earnings per share attributable to MTI	\$ 1.17	\$ 1.18	\$ 3.35	\$ 2.75

Options to purchase 184,569 shares and 10,239 shares of common stock for the three-month and nine-month periods ended October 1, 2017 and October 2, 2016, respectively, were not included in the computation of diluted earnings per share because they were anti-dilutive, as the exercise prices of the options were greater than the average market price of the common shares.

In the first quarter of 2017, the Company adopted the provisions of ASU 2016-09, "Stock Compensation – Improvements to Employee Share-Based Payment Accounting". Under the new guidance excess income tax benefits are no longer included in the calculation of assumed proceeds. As such, the dilutive effect of stock options and stock units for the period ended October 1, 2017 is reflective of the new guidance.

Note 3. Restructuring and Other Items, net

During 2014, the Company announced a restructuring program which resulted in a 10% permanent reduction of its workforce. The reductions included elimination of duplicate corporate functions, deployment of our shared service model, and consolidation and alignment of various corporate functions and regional locations across the Company.

During the third quarter and first nine months of 2016, the Company incurred additional restructuring charges for lease termination costs, inventory write-offs and impairment of assets relating to its exit from the Nitrogen and Pipeline product lines and restructuring of other onshore services within the Energy Services segment as a result of the significant reduction in oil prices and overcapacity in the onshore oil service market. Included in the \$2.3 million income recorded in the third quarter of 2016 were gains on previously impaired assets of \$2.9 million. The Company expects to realize annualized savings from this restructuring program of \$11.5 million.

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(Unaudited)

The following table outlines the amount of restructuring charges recorded within the Condensed Consolidated Statements of Income.

	Three Months			
	Ended		Nine Months Ended	
	Oct.		Oct.	
	1,	Oct. 2,	Oct. 1,	Oct. 2,
	2017	2016	2017	2016
	(millions of dollars)			
Restructuring Charges	\$1.3	\$0.6	\$1.8	\$11.8
Impairment of Assets	-	-	-	18.5
Other	(0.9)	(2.9)	(0.9)	(2.9)
Total restructuring and other items, net	\$0.4	\$(2.3)	\$0.9	\$27.4

At October 1, 2017, the Company had \$1.2 million included within accrued liabilities within our Condensed Consolidated Balance Sheets for cash expenditures needed to satisfy remaining obligations under these workforce reduction initiatives. The Company expects to pay these amounts by the end of December 2017.

The following table is a reconciliation of our restructuring liability balance as of October 1, 2017:

	(millions of dollars)	
Restructuring liability, December 31, 2016	\$	3.6
Additional provisions		1.8
Cash payments		(4.2)
Restructuring liability, October 1, 2017	\$	1.2

Note 4. Income Taxes

As of October 1, 2017, the Company had approximately \$14.5 million of total unrecognized income tax benefits. Included in this amount were a total of \$11.8 million of unrecognized income tax benefits that, if recognized, would affect the Company's effective tax rate. While it is expected that the amount of unrecognized tax benefits will change in the next 12 months, the Company does not expect the change to have a significant impact on the results of operations or the financial position of the Company.

The Company's accounting policy is to recognize interest and penalties accrued relating to unrecognized income tax benefits as part of its provision for income taxes. The Company had a net decrease of approximately \$0.1 million during the three months ended October 1, 2017, an increase of \$0.2 million during the nine months ended October 1, 2017, and had an accrued balance of \$1.4 million of interest and penalties as of October 1, 2017.

The Company operates in multiple taxing jurisdictions, both within and outside the U.S. In certain situations, a taxing authority may challenge positions that the Company has adopted in its income tax filings. The Company, with a few exceptions (none of which are material), is no longer subject to income tax examinations by tax authorities for years prior to 2010.

Provision for taxes was \$12.1 million and \$35.6 million during the three and nine-months ended October 1, 2017, respectively. The effective tax rate was 22.6% as compared to 21.4% in the prior year. The higher effective tax rate was primarily due to a change in the mix of earnings and non-deductible acquisition costs in the prior year.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 5. Inventories

The following is a summary of inventories by major category:

	Oct. 1, 2017	December 31, 2016
	(millions of dollars)	
Raw materials	\$ 83.8	\$ 70.6
Work-in-process	6.3	5.4
Finished goods	95.1	80.5
Packaging and supplies	36.0	30.4
Total inventories	\$ 221.2	\$ 186.9

Note 6. Goodwill and Other Intangible Assets

Goodwill and other intangible assets with indefinite lives are not amortized, but instead are assessed for impairment at least annually. The carrying amount of goodwill was \$779.6 million and \$778.7 million as of October 1, 2017 and December 31, 2016, respectively. The net change in goodwill since December 31, 2016 was attributable to the effects of foreign exchange.

Acquired intangible assets subject to amortization as of October 1, 2017 and December 31, 2016 were as follows:

	Weighted Average Useful Life (Years)	Oct. 1, 2017		Dec. 31, 2016	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
		(millions of dollars)			
Tradenames	34	\$ 199.8	\$ 19.4	\$ 199.8	\$ 15.3
Technology	12	18.8	4.5	18.8	3.6
Patents and trademarks	17	6.4	5.2	6.4	4.8
Customer relationships	30	4.5	2.0	4.5	1.4
	28	\$ 229.5	\$ 31.1	\$ 229.5	\$ 25.1

The weighted average amortization period for acquired intangible assets subject to amortization is approximately 28 years. Estimated amortization expense is \$2.0 million for the remainder of 2017, \$7.9 million per year for 2018–2021 and \$164.8 million thereafter.

Note 7. Derivative Financial Instruments

As a multinational corporation with operations throughout the world, the Company is exposed to certain market risks. The Company uses a variety of practices to manage these market risks, including, when considered appropriate, derivative financial instruments. The Company's objective is to offset gains and losses resulting from interest rates and foreign currency exposures with gains and losses on the derivative contracts used to hedge them. The Company uses derivative financial instruments only for risk management and not for trading or speculative purposes.

By using derivative financial instruments to hedge exposures to changes in interest rates and foreign currencies, the Company exposes itself to credit risk and market risk. Credit risk is the risk that the counterparty will fail to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty, and therefore, it does not face any credit risk. The Company minimizes the credit risk in derivative instruments by entering into transactions with major financial institutions.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates, currency exchange rates, or commodity prices. The market risk associated with interest rate and forward exchange contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Cash flow hedges:

For derivative instruments that are designated and qualify as cash flow hedges, the Company records the effective portion of the gain or loss in accumulated other comprehensive income (loss) as a separate component of shareholders' equity. The Company subsequently reclassifies the effective portion of gain or loss into earnings in the period during which the hedged transaction is recognized in earnings.

The Company utilizes interest rate swaps to limit exposure to market fluctuations on floating-rate debt. During the second quarter of 2016, the Company entered into a floating to fixed interest rate swap for an initial aggregate notional amount of \$300 million. The notional amount at October 1, 2017 was \$214 million. This interest rate swap is designated as a cash flow hedge. The gains and losses associated with this interest rate swap are recorded in accumulated other comprehensive income (loss). The fair value of this swap was an asset of \$2.1 million at October 1, 2017 and is recorded in other non-current assets on the Condensed Consolidated Balance Sheet.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are as follows:

- Market approach - prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- Cost approach - amount that would be required to replace the service capacity of an asset or replacement cost.
- Income approach - techniques to convert future amounts to a single present amount based on market expectations, including present value techniques, option-pricing and other models.

The Company primarily applies the income approach for interest rate derivatives for recurring fair value measurements and attempts to utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value of our interest rate swap contract is determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets and are categorized as Level 2.

Note 8. Long-Term Debt and Commitments

The following is a summary of long-term debt:

	Oct. 1, 2017	December 31, 2016
	(millions of dollars)	
Term Loan Facility-Variable Tranche due February 14, 2024, net of unamortized discount and deferred financing costs of \$23.5 million and \$25.8 million	\$ 684.5	\$ 762.3
Term Loan Facility- Fixed Tranche due May 9, 2021, net of unamortized discount of \$0.5 million and \$0.6 million	299.5	299.4
Japan Loan Facilities	5.8	5.8
China Loan Facilities	6.9	9.2
Total	\$ 996.7	\$ 1,076.7
Less: Current maturities	6.5	6.8
Long-term debt	\$ 990.2	\$ 1,069.9

On May 9, 2014, in connection with the acquisition of AMCOL International Corporation (“AMCOL”), the Company entered into a credit agreement providing for a \$1,560 million senior secured term loan facility (the “Term Facility”) and a \$200 million senior secured revolving credit facility (the “Revolving Facility” and, together with the Term Facility, the “Facilities”).

On June 23, 2015, the Company entered into an amendment (the “First Amendment”) to the credit agreement to reprice the \$1.378 billion then outstanding on the Term Facility. As amended, the Term Facility had a \$1.078 billion floating rate tranche and a \$300 million fixed rate tranche. On February 14, 2017, the Company entered into an amendment (the “Second Amendment”) to the credit agreement to reprice the \$788 million floating rate tranche then outstanding, which extended the maturity and lowered the interest costs by 75 basis points. Following the Second Amendment, the loans outstanding under the floating rate tranche of the Term Facility will mature on February 14, 2024, the loans outstanding under the fixed rate tranche of the Term Facility will mature on May 9, 2021 and the loans outstanding (if any) and commitments under the Revolving Facility will mature and terminate, as the case may be, on May 9, 2019. After the Second Amendment, loans under the floating rate tranche of the Term Facility bear interest at a rate equal to an adjusted LIBOR rate (subject to a floor of 0.75%) plus an applicable margin equal to 2.25% per annum. Loans under the fixed rate tranche of the Term Facility bear interest at a rate of 4.75%. Loans under the Revolving Facility will bear interest at a rate equal to an adjusted LIBOR rate plus an applicable margin equal to 1.75% per annum. Such rates are subject to decrease by up to 25 basis points in the event that, and for so long as, the Company’s net leverage ratio (as defined in the credit agreement) is less than certain thresholds. The floating rate tranche of the Term Facility was issued at par and the fixed rate tranche of the Term Facility was issued at a 0.25% discount in connection with the First Amendment. The variable rate tranche of the Term Facility was issued at a 0.25% discount in connection with the Second Amendment. The variable rate tranche has a 1% required amortization per year. The Company will pay certain fees under the credit agreement, including customary annual administration fees. The loans under the fixed rate tranche of the Term Facility are subject to prepayment premiums in the event of certain prepayments prior to the third anniversary of the effective date of the First Amendment. The obligations of the Company under the Facilities are unconditionally guaranteed jointly and severally by, subject to certain exceptions, all material domestic subsidiaries of the Company (the “Guarantors”) and secured, subject to certain exceptions, by a security interest in substantially all of the assets of the Company and the Guarantors.

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The credit agreement contains certain customary affirmative and negative covenants that limit or restrict the ability of the Company and its restricted subsidiaries to enter into certain transactions or take certain actions. In addition, the credit agreement contains a financial covenant that requires the Company, if on the last day of any fiscal quarter loans or letters of credit were outstanding under the Revolving Facility (excluding up to \$15 million of letters of credit), to maintain a maximum net leverage ratio (as defined in the credit agreement) of, initially, 5.25 to 1.00 for the four fiscal quarters preceding such day. Such maximum net leverage ratio requirement is subject to decrease during the duration of the facility to a minimum level (when applicable) of 3.50 to 1.00. During the first nine months of 2017, the Company repaid \$80 million on its Term Facility. As of October 1, 2017, there were no loans and \$12.0 million in letters of credit outstanding under the Revolving Facility. The Company is in compliance with all the covenants associated with the Revolving Facility as of the end of the period covered by this report.

The Company has four committed loan facilities for the funding of new manufacturing facilities in China, comprised of facilities of 94.8 million RMB, or approximately \$10.3 million, and a \$1.8 million facility. In December 2016, the Company entered into a committed loan facility in Japan in the amount of 680 million Yen (approximately \$5.8 million). As of October 1, 2017, on a combined basis, \$12.6 million was outstanding under these loan facilities. Principal will be repaid in accordance with the payment schedules ending in 2021. The Company repaid \$3.0 million on these loans in the first nine months of 2017.

As of October 1, 2017, the Company had \$36.3 million in uncommitted short-term bank credit lines, of which approximately \$6.2 million was in use.

Note 9. Benefit Plans

The Company and its subsidiaries have pension plans covering the majority of eligible employees on a contributory or non-contributory basis. The Company also provides postretirement health care and life insurance benefits for the majority of its U.S. retired employees. Disclosures for the U.S. plans have been combined with those outside of the U.S. as the international plans do not have significantly different assumptions, and together represent less than 25% of our total benefit obligation.

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Components of Net Periodic Benefit Cost

	Pension Benefits			
	Three Months Ended		Nine Months Ended	
	Oct. 1, 2017	Oct. 2, 2016	Oct. 1, 2017	Oct. 2, 2016
	(millions of dollars)			
Service cost	\$ 1.4	\$ 1.7	\$ 5.5	\$ 6.3
Interest cost	3.0	3.1	9.2	9.8
Expected return on plan assets	(4.5)	(4.6)	(13.6)	(13.9)
Amortization:				
Prior service cost	0.5	0.2	1.7	0.6
Recognized net actuarial loss	2.1	2.5	6.3	7.6
Net periodic benefit cost	\$ 2.5	\$ 2.9	\$ 9.1	\$ 10.4
	Other Benefits			
	Three Months Ended		Nine Months Ended	
	Oct. 1, 2017	Oct. 2, 2016	Oct. 1, 2017	Oct. 2, 2016
	(millions of dollars)			
Service cost	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.3
Interest cost	0.1	0.1	0.2	0.3
Amortization:				
Prior service cost	(0.8)	(0.8)	(2.3)	(2.3)
Recognized net actuarial (gain) loss	(0.1)	(0.1)	(0.2)	(0.2)
Net periodic benefit cost	\$(0.7)	\$(0.7)	\$(2.1)	\$(1.9)

Amortization amounts of prior service costs and recognized net actuarial losses are recorded, net of tax, as increases to accumulated other comprehensive income.

Employer Contributions

The Company expects to contribute approximately \$10 million to its pension plans and \$0.6 million to its other postretirement benefit plans in 2017. As of October 1, 2017, \$5.3 million has been contributed to the pension plans and approximately \$0.1 million has been contributed to the other postretirement benefit plans.

Note 10. Comprehensive Income

The following table summarizes the amounts reclassified out of accumulated other comprehensive income (loss) attributable to the Company:

Nine Months Ended

Amounts Reclassified Out of Accumulated Other Comprehensive Income (Loss)	Three Months Ended			
	Oct. 1, 2017	Oct. 2, 2016	Oct. 1, 2017	Oct. 2, 2016
	(millions of dollars)			
Amortization of pension items:				
Pre-tax amount	\$1.7	\$ 1.8	\$ 5.5	\$ 5.7
Tax	(0.7)	(0.6)	(1.8)	(1.9)
Net of tax	\$1.0	\$ 1.2	\$ 3.7	\$ 3.8

The pre-tax amounts in the table above are included within the components of net periodic pension benefit cost (see Note 9 to the Condensed Consolidated Financial Statements) and the tax amounts are included within provision for taxes on income line within Condensed Consolidated Statements of Income.

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The major components of accumulated other comprehensive income (loss), net of related tax, attributable to MTI are as follows:

	Foreign Currency Translation Adjustment	Unrecognized Pension Costs	Net Gain (Loss) on Cash Flow Hedges	Total
	(millions of dollars)			
Balance as of December 31, 2016	\$ (147.3)	\$ (78.0)) \$ 4.2	\$ (221.1)
Other comprehensive income (loss) before reclassifications	32.8	-	(0.2)) 32.6
Amounts reclassified from AOCI	-	3.7	-) 3.7
Net current period other comprehensive income (loss)	32.8	3.7	(0.2)) 36.3
Balance as of October 1, 2017	\$ (114.5)	\$ (74.3)) \$ 4.0	\$ (184.8)

Note 11. Accounting for Asset Retirement Obligations

The Company records asset retirement obligations for situations in which the Company will be required to incur costs to retire tangible long-lived assets. The fair value of the liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made.

The Company also records liabilities related to land reclamation as a part of asset retirement obligations. The Company mines various minerals using a surface mining process that requires the removal of overburden. In certain areas and under various governmental regulations, the Company is obligated to restore the land comprising each mining site to its original condition at the completion of the mining activity. The obligation is adjusted to reflect the passage of time, mining activities, and changes in estimated future cash outflows.

The following is a reconciliation of asset retirement obligations as of October 1, 2017:

	(millions of dollars)
Asset retirement liability, December 31, 2016	\$ 21.5
Accretion expense	2.4
Payments	(1.8)
Foreign currency translation	0.4
Asset retirement liability, October 1, 2017	\$ 22.5

The asset retirement costs are capitalized as part of the carrying amount of the associated asset. The current portion of the liability of approximately \$1.9 million is included in other current liabilities and the long-term portion of the liability of approximately \$20.6 million is included in other non-current liabilities in the Condensed Consolidated Balance Sheet as of October 1, 2017.

Note 12. Contingencies

The Company is party to a number of lawsuits arising in the normal course of our business.

On May 8, 2013, Armada (Singapore) PTE Limited, an ocean shipping company now in bankruptcy ("Armada") filed a case in federal court in the Northern District of Illinois against AMCOL and certain of its subsidiaries (Armada (Singapore) PTE Limited v. AMCOL International Corp., et al., United States District Court for the Northern District of Illinois , Case No. 13 CV 3455). We acquired AMCOL and its subsidiaries on May 9, 2014. A co-defendant is Ashapura Minechem Limited, a company located in Mumbai, India ("AML"). During the relevant time period, 2008-2010, AMCOL owned slightly over 20% of the outstanding AML stock through December 2009, after which it owned approximately 19%. In 2008, AML entered into two contracts of affreightment ("COA") with Armada for over 60 ship loads of bauxite from India to China. After one shipment, AML made no further shipments, which led Armada to file arbitrations in London against AML, one for each COA. AML did not appear in the London arbitrations and default awards of approximately \$70 million were entered. The litigation filed by Armada against AMCOL and AML relates to these awards, which AML has not paid. The substance of the allegations by Armada is that AML and AMCOL engaged in illegal conduct to thwart Armada's efforts to collect the arbitration award. AMCOL won a motion for judgement on the pleadings that resulted in the successful dismissal of all but one count in the complaint, including a dismissal of all counts alleging violations of Illinois' Fraudulent Transfer laws and federal RICO violations. Armada has filed an appeal of the dismissal and the district court proceedings are stayed pending the appeal. We have accrued an estimate of potential damages for the Armada lawsuit, the amount of which was not material to our financial position, results of operations or cash flows.

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Certain of the Company's subsidiaries are among numerous defendants in a number of cases seeking damages for exposure to silica or to asbestos containing materials. The Company currently has three pending silica cases and 22 pending asbestos cases. To date, 1,493 silica cases and 50 asbestos cases have been dismissed, not including any lawsuits against AMCOL or American Colloid Company dismissed prior to our acquisition of AMCOL. Two new asbestos cases were filed in the third quarter of 2017 and one additional asbestos case was filed subsequent to the close of the quarter. No asbestos or silica cases were dismissed during the quarter. Most of these claims do not provide adequate information to assess their merits, the likelihood that the Company will be found liable, or the magnitude of such liability, if any. Additional claims of this nature may be made against the Company or its subsidiaries. At this time management anticipates that the amount of the Company's liability, if any, and the cost of defending such claims, will not have a material effect on its financial position or results of operations.

The Company has settled only one silica lawsuit, for a nominal amount, and no asbestos lawsuits to date (not including any that may have been settled by AMCOL prior to completion of the acquisition). We are unable to state an amount or range of amounts claimed in any of the lawsuits because state court pleading practices do not require identifying the amount of the claimed damage. The aggregate cost to the Company for the legal defense of these cases since inception continues to be insignificant. The majority of the costs of defense for these cases, excluding cases against AMCOL or American Colloid, are reimbursed by Pfizer Inc. pursuant to the terms of certain agreements entered into in connection with the Company's initial public offering in 1992. The Company is entitled to indemnification, pursuant to agreement, for sales prior to the initial public offering. Of the 22 pending asbestos cases, 15 of the non-AMCOL cases are subject to indemnification, in whole or in part, because the plaintiffs claim liability based on sales of products that occurred either entirely before the initial public offering, or both before and after the initial public offering. In the six remaining non-AMCOL cases, the plaintiffs have not alleged dates of exposure. The remaining case is an AMCOL case, which makes no allegation with respect to periods of exposure. Our experience has been that the Company is not liable to plaintiffs in any of these lawsuits and the Company does not expect to pay any settlements or jury verdicts in these lawsuits.

Environmental Matters

On April 9, 2003, the Connecticut Department of Environmental Protection issued an administrative consent order relating to our Canaan, Connecticut, plant where both our Refractories segment and Specialty Minerals segment have operations. We agreed to the order, which includes provisions requiring investigation and remediation of contamination associated with historic use of polychlorinated biphenyls ("PCBs") and mercury at a portion of the site. We have completed the required investigations and submitted several reports characterizing the contamination and assessing site-specific risks. We are awaiting regulators' approval of the risk assessment report, which will form the basis for a proposal by the Company concerning eventual remediation.

We believe that the most likely form of overall site remediation will be to leave the existing contamination in place (with some limited soil removal), encapsulate it, and monitor the effectiveness of the encapsulation. We anticipate that a substantial portion of the remediation cost will be borne by the United States based on its involvement at the site from 1942 – 1964, as historic documentation indicates that PCBs and mercury were first used at the facility at a time of U.S. government ownership for production of materials needed by the military. Pursuant to a Consent Decree entered on October 24, 2014, the United States paid the Company \$2.3 million in the 4th quarter of 2014 to resolve the Company's claim for response costs for investigation and initial remediation activities at this facility through October 24, 2014. Contribution by the United States to any future costs of investigation or additional remediation has, by agreement, been left unresolved. Though the cost of the likely remediation remains uncertain pending completion of the phased remediation decision process, we have estimated that the Company's share of the cost of the encapsulation

and limited soil removal described above would approximate \$0.4 million, which has been accrued as of October 1, 2017.

The Company is evaluating options for upgrading the wastewater treatment facilities at its Adams, Massachusetts plant. This work has been undertaken pursuant to an administrative Consent Order originally issued by the Massachusetts Department of Environmental Protection (“DEP”) on June 18, 2002. This order was amended on June 1, 2009 and on June 2, 2010. The amended Order includes the investigation by January 1, 2022 of options for ensuring that the facility's wastewater treatment ponds will not result in unpermitted discharge to groundwater. Additional requirements of the amendment include the submittal by July 1, 2022 of a plan for closure of a historic lime solids disposal area. Preliminary engineering reviews completed in 2005 indicate that the estimated cost of wastewater treatment upgrades to operate this facility beyond 2024 may be between \$6 million and \$8 million. The Company estimates that the remaining remediation costs would approximate \$0.4 million, which has been accrued as of October 1, 2017.

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The Company and its subsidiaries are not party to any other material pending legal proceedings, other than routine litigation incidental to their businesses.

Note 13. Non-controlling interests

The following is a reconciliation of beginning and ending total equity, equity attributable to MTI, and equity attributable to non-controlling interests:

	Equity Attributable to MTI						Non-controlling Interests	Total
	Common Stock (millions of dollars)	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock			
Balance as of December 31, 2016	\$4.8	\$ 400.0	\$1,419.1	\$ (221.1)	\$ (596.3)	\$ 24.4	\$1,030.9	
Net income	-	-	119.3	-	-	3.0	122.3	
Other comprehensive income (loss)	-	-	-	36.3	-	1.0	37.3	
Dividends declared	-	-	(5.3)	-	-	-	(5.3)	
Dividends to non-controlling interests	-	-	-	-	-	(2.4)	(2.4)	
Issuance of shares pursuant to employee stock compensation plans	0.1	14.4	-	-	-	-	14.5	
Stock based compensation	-	5.6	-	-	-	-	5.6	
Purchase of common stock	-	-	-	-	(0.7)	-	(0.7)	
Balance as of October 1, 2017	\$4.9	\$ 420.0	\$1,533.2	\$ (184.8)	\$ (597.0)	\$ 26.0	\$1,202.3	

The income attributable to non-controlling interests for the nine-month periods ended October 1, 2017 and October 2, 2016 was from continuing operations. The remainder of income was attributable to MTI.

Note 14. Segment and Related Information

On a regular basis, the Company reviews its segments and the approach used by the chief operating decision maker to assess performance and allocate resources. Accordingly, in the first quarter of 2017, the Company reorganized the management structure for its Performance Materials and Construction Technologies business units to better reflect the way performance is evaluated and resources allocated. As a result, all of the product lines within these business segments were combined into one operating segment. Presented below are the restated financial results, by product line, of this operating segment for each quarter of 2016 to conform to the current management structure.

	2016 Quarters				Full Year 2016
	First	Second	Third	Fourth	
Net sales					
Metalcasting	\$60.0	\$ 68.0	\$63.1	\$ 66.9	\$ 258.0
Household, Personal Care & Specialty Products	45.3	44.0	42.1	39.8	171.2

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Environmental Products	13.4	26.5	24.6	14.4	78.9
Building Materials	20.4	19.7	16.9	17.1	74.1
Basic Minerals	20.5				