

MINERALS TECHNOLOGIES INC  
Form 10-Q  
November 04, 2016

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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 2, 2016

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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non- accelerated Filer Smaller Reporting Company

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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 20, 2016
Common Stock, \$0.10 par value	34,934,626



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. 2,	Sept. 27,
	Oct. 2,	Sept. 27,	Oct. 2,	Sept. 27,
	2016	2015	2016	2015
	(in millions, except per share data)			
Product sales	\$379.7	\$ 410.1	\$1,171.1	\$1,218.8
Service revenue	19.8	40.9	65.6	148.8
Total net sales	399.5	451.0	1,236.7	1,367.6
Cost of goods sold	272.0	302.4	840.8	895.8
Cost of service revenue	12.3	29.7	46.9	110.2
Total cost of sales	284.3	332.1	887.7	1,006.0
Production margin	115.2	118.9	349.0	361.6
Marketing and administrative expenses	42.4	49.9	134.2	145.4
Research and development expenses	5.9	6.2	17.9	17.8
Acquisition related transaction and integration costs	1.9	2.4	5.1	8.5
Restructuring and other items, net	(2.3 )	10.5	27.4	27.3
Income from operations	67.3	49.9	164.4	162.6
Interest expense, net	(13.4 )	(14.5 )	(41.4 )	(45.5 )
Extinguishment of debt costs and fees	-	-	-	(4.5 )
Other non-operating income (deductions), net	(0.6 )	2.8	1.7	5.7
Total non-operating deductions, net	(14.0 )	(11.7 )	(39.7 )	(44.3 )
Income from continuing operations before provision for taxes and equity in earnings	53.3	38.2	124.7	118.3
Provision for taxes on income	11.5	8.4	26.7	25.8
Equity in earnings of affiliates, net of tax	0.7	0.5	1.6	1.4
Consolidated net income	42.5	30.3	99.6	93.9
Less:				
Net income attributable to non-controlling interests	0.9	1.1	2.9	2.9
Net income attributable to Minerals Technologies Inc. (MTI)	\$41.6	\$ 29.2	\$96.7	\$91.0
Earnings per share:				
Basic:				
Income from continuing operations attributable to MTI	\$1.19	\$ 0.84	\$2.78	\$2.62

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Diluted:				
Income from continuing operations attributable to MTI	\$1.18	\$ 0.83	\$2.75	\$2.60
Cash dividends declared per common share	\$0.05	\$ 0.05	\$0.15	\$0.15
Shares used in computation of earnings per share:				
Basic	34.9	34.7	34.8	34.7
Diluted	35.3	35.0	35.1	35.0

See accompanying Notes to Condensed Consolidated Financial Statements.

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IndexMINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months		Nine Months Ended	
	Ended Oct. 2, 2016	Sept. 27, 2015	Oct. 2, 2016	Sept. 27, 2015
	(millions of dollars)			
Consolidated net income	\$42.5	\$ 30.3	\$ 99.6	\$ 93.9
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	1.2	(35.8 )	2.0	(66.1 )
Pension and postretirement plan adjustments	1.2	1.6	3.8	4.6
Cash flow hedges:				
Net derivative gains (losses) arising during the period	0.4	-	(0.3 )	-
Total other comprehensive income (loss), net of tax	2.8	(34.2 )	5.5	(61.5 )
Total comprehensive income including non-controlling interests	45.3	(3.9 )	105.1	32.4
Comprehensive income attributable to non-controlling interest	(0.4 )	(0.2 )	(2.2 )	(1.9 )
Comprehensive income attributable to MTI	\$44.9	\$ (4.1 )	\$ 102.9	\$ 30.5

See accompanying Notes to Condensed Consolidated Financial Statements.

IndexMINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	Oct. 2, 2016*	December 31, 2015**
(millions of dollars)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$199.7	\$ 229.4
Short-term investments, at cost which approximates market	5.1	2.6
Accounts receivable, net	363.9	348.7
Inventories	209.1	194.9
Prepaid expenses and other current assets	32.4	28.0
Total current assets	810.2	803.6
Property, plant and equipment	2,178.3	2,167.3
Less accumulated depreciation and depletion	(1,107.1)	(1,063.0 )
Property, plant and equipment, net	1,071.2	1,104.3
Goodwill	780.3	781.2
Intangible assets	206.4	212.7
Other assets and deferred charges	70.6	78.2
Total assets	\$2,938.7	\$ 2,980.0
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term debt	\$6.3	\$ 6.5
Current maturities of long-term debt	4.6	3.1
Accounts payable	155.8	152.4
Other current liabilities	154.7	156.6
Total current liabilities	321.4	318.6
Long-term debt, net of unamortized discount	1,117.3	1,255.3
Deferred income taxes	242.4	252.0
Other non-current liabilities	216.3	216.4
Total liabilities	1,897.4	2,042.3
Shareholders' equity:		
Common stock	4.8	4.8
Additional paid-in capital	395.4	387.6
Retained earnings	1,384.2	1,292.7
Accumulated other comprehensive loss	(174.7 )	(180.9 )
Less common stock held in treasury	(596.3 )	(593.7 )
Total MTI shareholders' equity	1,013.4	910.5
Non-controlling interest	27.9	27.2
Total shareholders' equity	1,041.3	937.7
Total liabilities and shareholders' equity	\$2,938.7	\$ 2,980.0

\* 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. 2, 2016	Sept. 27, 2015
	(millions of dollars)	
Operating Activities:		
Consolidated net income	\$ 99.6	\$ 93.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	66.6	77.3
Impairment of assets	18.5	21.1
Other non-cash items	8.2	8.2
Net changes in operating assets and liabilities	(28.7 )	(5.8 )
Net cash provided by operating activities	164.2	194.7
Investing Activities:		
Purchases of property, plant and equipment	(48.9 )	(70.5 )
Proceeds from sale of assets	2.9	4.9
Proceeds from sale of short-term investments	4.9	0.6
Purchases of short-term investments	(6.6 )	(4.7 )
Net cash used in investing activities	(47.7 )	(69.7 )
Financing Activities:		
Proceeds from issuance of long-term debt	1.2	10.2
Repayment of long-term debt	(141.2 )	(140.4 )
Net issuance (repayment) of short-term debt	(0.1 )	1.0
Purchase of common shares for treasury	(2.6 )	-
Proceeds from issuance of stock under option plan	4.1	1.3
Excess tax benefits related to stock incentive programs	-	0.3
Dividends paid to non-controlling interest	(1.5 )	(0.9 )
Cash dividends paid	(5.3 )	(5.2 )
Net cash provided by used in financing activities	(145.4 )	(133.7 )
Effect of exchange rate changes on cash and cash equivalents	(0.8 )	(16.0 )
Net decrease in cash and cash equivalents	(29.7 )	(24.7 )
Cash and cash equivalents at beginning of period	229.4	249.6
Cash and cash equivalents at end of period	\$ 199.7	\$ 224.9
Supplemental disclosure of cash flow information:		
Interest paid	\$ 45.6	\$ 45.9
Income taxes paid	\$ 24.1	\$ 29.9

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, 2015. 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 2, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

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.

The Company has 5 reportable segments: Specialty Minerals, Refractories, Performance Materials, Construction Technologies, and Energy Services.

- The Specialty Minerals segment produces and sells the synthetic mineral product precipitated calcium carbonate ("PCC") and processed mineral product quicklime ("lime"), and mines mineral ores then processes and sells natural mineral products, primarily limestone and talc.
- 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 Performance Materials segment is a leading supplier of bentonite and bentonite-related products. This segment also supplies chromite and leonardite and operates more than 25 mining or production facilities worldwide.
- The Construction Technologies segment provides products for non-residential construction, environmental and infrastructure projects worldwide. It serves customers engaged in a broad range of construction projects, including site remediation, concrete waterproofing for underground structures, liquid containment on projects ranging from landfills to flood control, and drilling applications including foundation, slurry wall, tunneling, water well, and horizontal drilling.
- The Energy Services segment provides services to improve the production, costs, compliance, and environmental impact of activities performed in oil and gas industry. This segment offers a range of services for off-shore filtration and well testing to the worldwide oil and gas industry.

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 not yet selected a transition method and is currently evaluating the impact of this ASU on the Company’s consolidated financial statements and related disclosures. The Company expects to complete this analysis in early 2017.

Inventory – Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU No. 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory.” Under this accounting guidance, inventory will be measured at the lower of cost and net realizable value and other options that currently exist for market value will be eliminated. ASU No. 2015-11 defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. No other changes were made to the current guidance on inventory measurement. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017 with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company’s financial statements.

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; however, the Company does not expect the adoption of this guidance to have a material impact on the Company’s financial statements.

Investments – Equity Method and Joint Ventures

In March 2016, the FASB issued ASU 2016-07, “Simplifying the Transition to the Equity Method of Accounting”, which eliminates the requirement for an investor to retroactively apply the equity method when its increase in ownership interest (or degree of influence) in an investee triggers equity method accounting. ASU 2016-07 is effective for all entities for interim and annual periods in fiscal years beginning after December 15, 2016. The adoption of this guidance is not expected to have a material impact on the Company’s financial statements.

Stock Compensation – Improvements to Employee Share-Based Payment Accounting

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting”, which is intended to improve the accounting for share-based payment transactions as part of the FASB’s simplification initiative. The ASU changes seven aspects of the accounting for share-based payment award transactions, including: (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flows; (3) forfeitures; (4) minimum statutory tax withholding requirements; (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes; (6) practical expedient – expected term (nonpublic only); and (7) intrinsic value (nonpublic only). The ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those years for public business entities. Early adoption is permitted in any interim or annual period provided that the entire ASU is adopted. The Company is currently evaluating the impact of this ASU on the Company’s consolidated financial statements and related disclosures.

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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. 2, 2016	Sept. 27, 2015	Oct. 2, 2016	Sept. 27, 2015
	(in millions, except per share data)			
Net income attributable to MTI	\$ 41.6	\$ 29.2	\$ 96.7	\$ 91.0
Weighted average shares outstanding	34.9	34.7	34.8	34.7
Dilutive effect of stock options and stock units	0.4	0.3	0.3	0.3
Weighted average shares outstanding, adjusted	35.3	35.0	35.1	35.0
Basic earnings per share attributable to MTI	\$ 1.19	\$ 0.84	\$ 2.78	\$ 2.62
Diluted earnings per share attributable to MTI	\$ 1.18	\$ 0.83	\$ 2.75	\$ 2.60

Options to purchase 10,239 shares and 395,545 shares of common stock for the three-month and nine-month periods ended October 2, 2016 and September 27, 2015, 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.

## Note 3. Restructuring and Other Items, net

During 2014, the Company announced a restructuring program that will result in a 10% permanent reduction of its workforce. The reductions include 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 2015, the Company incurred impairment charges of \$5.3 million and \$21.1 million, respectively, for underutilized equipment which was abandoned by the Company for its Coiled Tubing business, within the Energy Services segment. During the third quarter and first nine months of 2015, the Company recorded restructuring charges of \$5.2 million and \$6.2 million, respectively, for lease termination costs, reduction in force, and inventory write-offs associated with exiting the Coiled Tubing service line and restructuring other on-shore service lines within the Energy Services segment.

During the third quarter and first nine months of 2016, the Company incurred additional restructuring charges of \$(2.3) million and \$27.4 million, respectively, 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 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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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

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

(millions of dollars)	Three Months Ended		Nine Months Ended	
	Oct. 2, 2016	Sept. 27, 2015	Oct. 2, 2016	Sept. 27, 2015
Restructuring Charges	\$ 0.6	\$ 5.2	\$ 11.8	\$ 6.2
Impairment of Assets	-	5.3	18.5	21.1
Other	(2.9 )	-	(2.9 )	-
Total restructuring and other items, net	\$ (2.3 )	\$ 10.5	\$ 27.4	\$ 27.3

At October 2, 2016, the Company had \$3.9 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 2016.

The following table is a reconciliation of our restructuring liability balance as of October 2, 2016:

	(millions of dollars)
Restructuring liability, December 31, 2015	\$ 7.9
Additional provisions	11.8
Cash payments	(15.5 )
Other	(0.3 )
Restructuring liability, October 2, 2016	\$ 3.9

## Note 4. Income Taxes

As of October 2, 2016, the Company had approximately \$10.2 million of total unrecognized income tax benefits. Included in this amount were a total of \$7.3 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 increase of approximately \$0.1 million and \$0.2 million during the three and nine months ended October 2, 2016, respectively, and had an accrued balance of \$1.1 million of interest and penalties as of October 2, 2016.

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 \$11.5 million and \$26.7 million during the three and nine months ended October 2, 2016, respectively. The effective tax rate was 21.4% as compared to 21.8% in the prior year. The lower 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:

	October 2, 2016	December 31, 2015
	(millions of dollars)	
Raw materials	\$ 81.3	\$ 73.4
Work-in-process	5.8	5.4
Finished goods	91.1	86.1
Packaging and supplies	30.9	30.0
Total inventories	\$ 209.1	\$ 194.9

## 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 \$780.3 million, and \$781.2 million as of October 2, 2016 and December 31, 2015, respectively. The net change in goodwill since December 31, 2015 was attributable to the effects of foreign exchange.

Acquired intangible assets subject to amortization as of October 2, 2016 and December 31, 2015 were as follows:

	Weighted Average Useful Life (Years)	October 2, 2016		December 31, 2015	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
		(millions of dollars)			
Tradenames	34	\$ 199.8	\$ 13.8	\$ 199.8	\$ 9.3
Technology	12	18.8	3.4	18.8	2.5
Patents and trademarks	17	6.4	4.7	6.4	4.4
Customer relationships	30	4.5	1.2	4.5	0.6
	28	\$ 229.5	\$ 23.1	\$ 229.5	\$ 16.8

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 2016, \$7.9 million for 2017–2020 and \$172.9 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 2, 2016 was \$271 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 a liability of \$0.5 million at October 2, 2016 and is recorded in other non-current liabilities 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:

	October 2, 2016	December 31, 2015
	(millions of dollars)	
Term Loan Facility due May 9, 2021, net of unamortized discount and deferred financing costs of \$10.3 million and \$17.4 million, respectively	\$ 1,110.3	\$ 1,246.4
China Loan Facilities	11.6	12.0
Total	\$ 1,121.9	\$ 1,258.4
Less: Current maturities	4.6	3.1
Long-term debt	\$ 1,117.3	\$ 1,255.3

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 to the credit agreement to reprice the \$1.378 billion then outstanding on the Term Facility. As amended, the Term Facility has a \$1.078 billion floating rate tranche and a \$300 million fixed rate tranche. The maturity date for loans under the Term Facility was not changed by the amendment. The loans outstanding under 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 amendment, loans under the variable 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 3.00% 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 variable rate tranche of the Term Facility was issued at par and has a 1% required amortization per year. 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 quarter period 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 2016, the Company repaid \$140 million on its Term Facility. As of October 2, 2016, there were no loans and \$12.1 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, for a combined 94.8 million RMB and \$1.8 million. As of October 2, 2016, on a combined basis, \$11.6 million was outstanding. Principal will be repaid in accordance with the payment schedules ending in 2019. The Company repaid \$1.2 million on these loans in 2016.

As of October 2, 2016, the Company had \$36.6 million in uncommitted short-term bank credit lines, of which approximately \$6.3 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.

## Components of Net Periodic Benefit Cost

	Pension Benefits			
	Three Months Ended		Nine Months Ended	
	Oct. 2, 2016	Sept. 27, 2015	Oct. 2, 2016	Sept. 27, 2015
	(millions of dollars)			
Service cost	\$1.7	\$ 2.8	\$ 6.3	\$ 8.1
Interest cost	3.1	3.7	9.8	11.6
Expected return on plan assets	(4.6)	(4.9 )	(13.9 )	(14.9 )
Amortization:				
Prior service cost	0.2	0.1	0.6	0.6
Recognized net actuarial loss	2.5	3.2	7.6	8.9
Net periodic benefit cost	\$2.9	\$ 4.9	\$ 10.4	\$ 14.3

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	Other Benefits			
	Three Months Ended		Nine Months Ended	
	Oct. 2, 2016	Sept. 27, 2015	Oct. 2, 2016	Sept. 27, 2015
	(millions of dollars)			
Service cost	\$0.1	\$ 0.1	\$ 0.3	\$ 0.3
Interest cost	0.1	0.1	0.3	0.3
Amortization:				
Prior service cost	(0.8)	(0.7 )	(2.3 )	(2.3 )
Recognized net actuarial gain	(0.1)	(0.1 )	(0.2 )	(0.1 )
Net periodic benefit cost	\$(0.7)	\$ (0.6 )	\$ (1.9 )	\$ (1.8 )

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 \$9.0 million to its pension plans and \$0.5 million to its other postretirement benefit plans in 2016. As of October 2, 2016, \$7.1 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:

	Three Months			
	Ended		Nine Months Ended	
	Oct. 2, 2016	Sept. 27, 2015	Oct. 2, 2016	Sept. 27, 2015
Amounts Reclassified Out of Accumulated Other Comprehensive Income (Loss)	(millions of dollars)			
Amortization of pension items:				
Pre-tax amount	\$1.8	\$ 2.5	\$ 5.7	\$ 7.1
Tax	(0.6)	(0.9 )	(1.9 )	(2.5 )
Net of tax	\$1.2	\$ 1.6	\$ 3.8	\$ 4.6

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.

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



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	Foreign Currency Translation Adjustment (millions of dollars)	Unrecognized Pension Costs	Net Gain on Cash Flow Hedges	Total
Balance as of December 31, 2015	\$(108.7)	\$ (74.8	) \$ 2.6	\$(180.9)
Other comprehensive income (loss) before reclassifications	2.7	3.8	(0.3	) 6.2
Net current period other comprehensive income(loss)	2.7	3.8	(0.3	) 6.2
Balance as of October 2, 2016	\$(106.0)	\$ (71.0	) \$ 2.3	\$(174.7)

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## 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 2, 2016:

	(millions of dollars)
Asset retirement liability, December 31, 2015	\$ 21.4
Accretion expense	1.2
Additions	0.1
Payments	(1.4 )
Foreign currency translation	0.3
Asset retirement liability, October 2, 2016	\$ 21.6

The asset retirement costs are capitalized as part of the carrying amount of the associated asset. The current portion of the liability of approximately \$2.1 million is included in other current liabilities and the long-term portion of the liability of approximately \$19.5 million is included in other non-current liabilities in the Condensed Consolidated Balance Sheet as of October 2, 2016.

## Note 12. Contingencies

We are 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. The counts in the complaint include both violations of the Illinois Fraudulent Transfer laws, as well as federal RICO violations. The lawsuit seeks money damages, as well as injunctive relief. Fact discovery is scheduled to close in the fourth quarter of 2016 and trial is currently projected for the third quarter of 2017. 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.

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 14 pending asbestos cases. To date, 1,492 silica cases and 48 asbestos cases have been dismissed, not including any lawsuits against AMCOL or American Colloid Company dismissed prior to our acquisition of AMCOL. No new asbestos or silica cases were filed in the third quarter of 2016. No asbestos or silica cases were dismissed during the quarter.

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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. Of the 14 pending asbestos cases all except two allege liability based on products sold largely or entirely prior to the initial public offering, and for which the Company is therefore entitled to indemnification pursuant to such agreements. The two exceptions pertain to a pending asbestos case against American Colloid Company, and one for which no period of alleged exposure has been stated by plaintiffs. 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 4<sup>th</sup> 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 2, 2016.

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 2, 2016.

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

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## 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			Accumulated	Treasury	Non-controlling	Total
	Common Stock	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income (Loss)	Stock	Interests	
	(millions of dollars)						
Balance as of December 31, 2015	\$4.8	\$ 387.6	\$ 1,292.7	\$ (180.9	) \$ (593.7	) \$ 27.2	\$937.7
Net income	-	-	96.7	-	-	2.9	99.6
Other comprehensive income (loss)	-	-	-	6.2	-	(0.7	) 5.5
Dividends declared	-	-	(5.2	) -	-	-	(5.2
Dividends to non-controlling interest	-	-	-	-	-	(1.5	) (1.5
Purchases of common shares	-	-	-	-	(2.6	) -	(2.6
Issuance of shares pursuant to employee stock compensation plans	-	4.1	-	-	-	-	4.1
Income tax benefit arising from employee stock compensation plans	-	0.2	-	-	-	-	0.2
Stock based compensation	-	3.5	-	-	-	-	3.5
Balance as of October 2, 2016	\$4.8	\$ 395.4	\$ 1,384.2	\$ (174.7	) \$ (596.3	) \$ 27.9	\$1,041.3

The income attributable to non-controlling interests for the nine-month periods ended October 2, 2016 and September 27, 2015 was from continuing operations. The remainder of income was attributable to MTI.

## Note 14. Segment and Related Information

The Company has 5 reportable segments: Specialty Minerals, Refractories, Performance Materials, Construction Technologies, and Energy Services. See Note 1 to the Condensed Consolidated Financial Statements. Segment information for the three and nine-month periods ended October 2, 2016 and September 27, 2015 is as follows:

Three Months Ended		Nine Months Ended	
Oct. 2, 2016	Sept. 27, 2015	Oct. 2, 2016	Sept. 27, 2015

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(millions of dollars)

Net Sales				
Specialty Minerals	\$147.3	\$156.5	\$453.5	\$466.9
Refractories	63.4	77.4	206.5	227.7
Performance Materials	119.5	126.5	367.1	383.5
Construction Technologies	49.5	49.7	144.0	140.7
Energy Services	19.8	40.9	65.6	148.8
Total	\$399.5	\$451.0	\$1,236.7	\$1,367.6

Income from Operations				
Specialty Minerals	\$27.8	\$25.0	\$81.1	\$75.2
Refractories	10.1	7.9	27.2	24.5
Performance Materials	22.9	22.7	70.7	72.0
Construction Technologies	7.3	6.1	21.0	18.5
Energy Services	2.6	(7.9 )	(27.0 )	(14.2 )
Total	\$70.7	\$53.8	\$173.0	\$176.0

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A reconciliation of the totals reported for the operating segments to the applicable line items in the condensed consolidated financial statements is as follows:

	Income from operations before provision for taxes on income			
	Three Months Ended		Nine Months Ended	
	Oct. 2, 2016	Sept. 27, 2015	Oct. 2, 2016	Sept. 27, 2015
	(millions of dollars)			
Income from operations for reportable segments	\$ 70.7	\$ 53.8	\$ 173.0	\$ 176.0
Acquisition Related Transaction and Integration Costs	(1.9 )	(2.4 )	(5.1 )	(8.5 )
Unallocated corporate expenses	(1.5 )	(1.5 )	(3.5 )	(4.9 )
Consolidated income from operations	67.3	49.9	164.4	162.6
Non-operating deductions, net	(14.0 )	(11.7 )	(39.7 )	(44.3 )
Income from continuing operations before provision for taxes on income	\$ 53.3	\$ 38.2	\$ 124.7	\$ 118.3

The Company's sales by product category are as follows:

	Three Months Ended		Nine Months Ended	
	Oct. 2, 2016	Sept. 27, 2015	Oct. 2, 2016	Sept. 27, 2015
	(millions of dollars)			
Paper PCC	\$95.3	\$ 106.1	\$295.5	\$315.9
Specialty PCC	16.4	15.8	50.2	48.5
Talc	13.9	13.9	42.7	41.9
Ground Calcium Carbonate	21.7	20.7	65.1	60.6
Refractory Products	51.0	60.5	163.3	178.3
Metallurgical Products	12.4	16.9	43.2	49.4
Metalcasting	63.1	63.4	191.1	200.3
Household, Personal Care and Specialty Products	42.1	43.0	131.4	126.6
Basic Minerals and Other Products	14.3	20.1	44.6	56.6
Environmental Products	24.6	21.7	64.5	55.2
Building Materials and Other Products	24.9	28.0	79.5	85.5
Energy Services	19.8	40.9	65.6	148.8
Total	\$399.5	\$ 451.0	\$1,236.7	\$1,367.6



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REVIEW REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders  
Minerals Technologies Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Minerals Technologies Inc. and subsidiaries as of October 2, 2016, the related condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended October 2, 2016 and September 27, 2015, and the related condensed consolidated statements of cash flows for the nine-month periods ended October 2, 2016 and September 27, 2015. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Minerals Technologies Inc. and subsidiaries as of December 31, 2015, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 19, 2016, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2015 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

New York, New York  
November 4, 2016

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

Executive Summary

Consolidated sales for the third quarter of 2016 were \$399.5 million as compared with \$451.0 million in the prior year, down 11%, primarily due to continued weak market conditions in the oil and gas sector and our exit from several service lines in our Energy Services segment. Consolidated income from operations was \$67.3 million as compared with \$49.9 million in the prior year. Net income was \$41.6 million as compared to \$29.2 million in the third quarter of 2015. Diluted earnings from continuing operations in the third quarter ended October 2, 2016 were \$1.18 per share as compared with \$0.83 per share in the prior year.

The Company continued to advance the execution of its growth strategies of geographic expansion and new product innovation and development. Our businesses in China grew 8 percent in the third quarter over prior year and our long-term targets in the region remain on track. We presently have two PCC satellites under construction in China with a total annual capacity of 110,000 tons. The Company continued to see progress in its major growth strategy of developing and commercializing new products. We have twenty-six commercial contracts for FulFill® globally. Earlier this year, we also formed an EcoPartnership in China with the Sun Paper Group and Tsinghua University's School of Environment to pilot innovation with our NewYield™ process technology aimed at reducing soil and ground water pollution by converting a waste stream from the papermaking process into a useable filler for paper.

Long term debt as of October 2, 2016 was \$1,117.3 million. During the first nine months of 2016, we repaid \$140 million of our long-term debt. Cash, cash equivalents and short-term investments were \$205 million as of October 2, 2016. Our intention continues to be to use excess cash flow primarily to repay debt and to continue to de-lever as quickly as possible.

Outlook

Looking forward, we remain cautious about the state of the global economy and the impact it will have on our product lines.

The Company will continue to focus on innovation and new product development and other opportunities for sales growth from its existing businesses, as follows:

- Develop multiple high-filler technologies under the FulFill® platform of products, to increase the fill rate in freesheet paper and continue to progress with commercial discussions and full-scale paper machine trials.
- Develop products and processes for waste management and recycling opportunities to reduce the environmental impact of the paper mill, reduce energy consumption and improve the sustainability of the papermaking process, including our New Yield™ products.
- Further penetration into the packaging segment of the paper industry.
- Increase our sales of PCC for paper by further penetration of the markets for paper filling at both freesheet and groundwood mills, particularly in emerging markets.
- Expand the Company's PCC coating product line using the satellite model.
- Increase our presence and gain penetration of our bentonite based foundry customers for the Metalcasting industry in emerging markets, such as China and India.
- Increase our presence and market share in global pet care products, particularly in emerging markets.
- Deploy new products in pet care such as lightweight litter.
- Promote the Company's expertise in crystal engineering, especially in helping papermakers customize PCC morphologies for specific paper applications.
- Expand PCC produced for paper filling applications by working with industry partners to develop new methods to increase the ratio of PCC for fiber substitutions.

- Develop unique calcium carbonate and talc products used in the manufacture of novel biopolymers, a new market opportunity.
- Deploy new talc and GCC products in paint, coating and packaging applications.
- Deploy value-added formulations of refractory materials that not only reduce costs but improve performance.

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- Expand our solid core wire product line into BRIC, Middle Eastern and other Asian countries.
- Deploy our laser measurement technologies into new applications.
- Expand our refractory maintenance model to other steel makers globally.
- Increase our presence and market share in Asia and in the global powdered detergent market.
- Continue the development of our proprietary Enersol® products for agricultural applications worldwide.
- Pursue opportunities for our products in environmental and building and construction markets in the Middle East, Asia Pacific and South America regions.
- Increase our presence and market share for geosynthetic clay liners within the Environmental Products product line.
- Increase our presence and market penetration in filtration and well testing within the Energy Services segment.
- Increase global market share in services for the floating production storage and offloading (FPSO) market.
- Deploy operational excellence principles into all aspects of the organization, including system infrastructure and lean principles.
- Continue to explore selective small bolt-on type acquisitions to fit our core competencies in minerals and fine particle technology.

However, there can be no assurance that we will achieve success in implementing any one or more of these opportunities.

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Three months ended October 2, 2016 as compared with three months ended September 27, 2015

Consolidated Income Statement Review

	Three Months Ended		Growth	
	Oct. 2, 2016	Sept. 27, 2015		%
	(Dollars in millions)			
Net sales	\$399.5	\$ 451.0	-11	%
Cost of sales	284.3	332.1	-14	%
Production margin	115.2	118.9	-3	%
Production margin %	28.8 %	26.4 %		
Marketing and administrative expenses	42.4	49.9	-15	%
Research and development expenses	5.9	6.2	-5	%
Acquisition related transaction and integration costs	1.9	2.4	-21	%
Restructuring and other items, net	(2.3 )	10.5	*	
Income from operations	67.3	49.9	35	%
Operating margin %	16.8 %	11.1 %		
Interest expense, net	(13.4 )	(14.5 )	-8	%
Other non-operating income (deductions), net	(0.6 )	2.8	*	
Total non-operating deductions, net	(14.0 )	(11.7 )	20	%
Income from continuing operations before provision for taxes and equity in earnings	53.3	38.2	40	%
Provision for taxes on income	11.5	8.4	37	%
Effective tax rate	21.6 %	22.0 %		
Equity in earnings of affiliates, net of tax	0.7	0.5	40	%
Net income	42.5	30.3	40	%
Net income attributable to non-controlling interests	0.9	1.1	-18	%
Net income attributable to Minerals Technologies Inc. (MTI)	41.6	29.2	42	%

\* Not meaningful

## Net Sales

	Three Months Ended October 2, 2016			Three Months Ended September 27, 2015		
	Net Sales	% of Total Sales	% Growth	Net Sales	% of Total Sales	
	(Dollars in millions)					
U.S.	\$229.0	57.3	% -14	% \$ 264.9	58.7	%
International	170.5	42.7	% -8	% 186.1	41.3	%

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Total sales	\$399.5	100.0	%	-11	%	\$ 451.0	100.0	%
Specialty Minerals Segment	\$147.3	36.9	%	-6	%	\$ 156.5	34.7	%
Refractories Segment	63.4	15.9	%	-18	%	77.4	17.2	%
Performance Materials Segment	119.5	29.9	%	-6	%	126.5	28.0	%
Construction Technologies Segment	49.5	12.4	%	0	%	49.7	11.0	%
Energy Services Segment	19.8	5.0	%	-52	%	40.9	9.1	%
Total sales	\$399.5	100.0	%	-11	%	\$ 451.0	100.0	%

Total sales decreased \$51.5 million or 11% from the previous year to \$399.5 million. Weak market conditions in the oil and gas sector, our exit from several service lines in our Energy Services segment and weaker conditions in the steel sector accounted for approximately 70% of the sales decline. In addition, foreign exchange had an unfavorable impact on our sales of \$5.4 million or one percent.

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Approximately \$229.0 million of sales were generated within the United States and \$170.5 million of sales originated in international regions.

Operating Costs and Expenses

Cost of sales was \$284.3 million and 71.2% of sales as compared with \$332.1 million and 73.6% of sales in the prior year. Improved productivity and cost improvements offset the impact of weak market conditions within the Energy Services segment.

Marketing and administrative costs were \$42.4 million and 10.6% of sales compared to \$49.9 million and 11.1% of sales in prior year.

Research and development expenses were \$5.9 million and represented 1.5% of sales compared with \$6.2 million and 1.4% of sales in the prior year.

The Company incurred charges of \$1.9 million and \$2.4 million for acquisition-related integration costs during the three months ended October 2, 2016 and September 27, 2015, respectively.

During the three months ended October 2, 2016, the Company recorded income of \$2.3 million relating to net gains on previously impaired assets. During the three months end September 27, 2015, the Company recorded a \$10.5 million charge for impairment of assets and restructuring costs related to our Coil Tubing product line in our Energy Services segment.

Income from Operations

The Company recorded income from operations of \$67.3 million as compared to \$49.9 million in the prior year. Operating income during the three months ended October 2, 2016, includes a \$2.3 million gain on the sale of assets and \$1.9 million of acquisition-related integration costs. Operating income during the three months ended September 27, 2015, includes acquisition-related integration costs of \$2.4 million, and restructuring and other charges of approximately \$10.5 million.

Non-Operating Income (Deductions)

In the third quarter of 2016, non-operating deductions were \$14.0 million as compared with \$11.7 million in the prior year and were primarily comprised of \$13.4 million of net interest expense as compared to \$14.5 million of net interest expense in the prior year. Net interest expense in the third quarter of the prior year was partially offset by foreign exchange gains.

Provision for Taxes on Income

Provision for taxes on income was \$11.5 million as compared to \$8.4 million in the prior year. The effective tax rate was 21.6% as compared to 22.0% in prior year. The lower effective tax rate was primarily due to a change in the mix of earnings, higher depletion deductions and non-deductible acquisition costs in the prior year.

Net income attributable to Minerals Technologies Inc. (MTI)

Net income attributable to MTI was \$41.6 million during the three months ended October 2, 2016 compared with \$29.2 million in the prior year.





IndexSegment Review

The following discussions highlight the operating results for each of our five segments.

Specialty Minerals Segment	Three Months Ended		Growth	
	Oct. 2, 2016	Sept. 27, 2015		
	(millions of dollars)			
Net Sales				
Paper PCC	\$ 95.3	\$ 106.1	-10	%
Specialty PCC	16.4	15.8	4	%
PCC Products	\$ 111.7	\$ 121.9	-8	%
Talc	\$ 13.9	\$ 13.9	0	%
Ground Calcium Carbonate	21.7	20.7	5	%
Processed Minerals Products	\$ 35.6	\$ 34.6	3	%
Total net sales	\$ 147.3	\$ 156.5	-6	%
Income from operations	\$ 27.8	\$ 25.0	11	%
% of net sales	18.9 %	16.0 %		

Worldwide sales in the Specialty Minerals segment were \$147.3 million as compared with \$156.5 million in the prior year, a decrease of \$9.2 million, or 6%.

Worldwide net sales of PCC, which is primarily used in the manufacturing process of the paper industry, decreased 8% to \$111.7 million from \$121.9 million in the prior year. Paper PCC sales decreased 10% to \$95.3 million from \$106.1 million. This decrease was primarily due to several previously announced paper mill closures in the U.S. This was partially offset by an increase in PCC sales in China of 7 percent over last year due to the ramp-up of two new facilities there since the second quarter of 2015 and the successful startup of a 100,000 ton satellite in the third quarter of 2016. Sales of Specialty PCC increased 4% to \$16.4 million from \$15.8 million in the prior year due to higher volumes.

Net sales of Processed Minerals products increased 3% to \$35.6 million primarily due to a 5% increase in Ground Calcium Carbonate sales.

Income from operations for Specialty Minerals was \$27.8 million compared with \$25.0 million in the prior year. Income from operations as a percentage of sales improved primarily due to improved productivity, raw material and energy savings as well as cost and expense control.

Refractories Segment	Three Months Ended		Growth	
	Oct. 2, 2016	Sept. 27, 2015		
	(millions of dollars)			
Net Sales				
Refractory Products	\$ 51.0	\$ 60.5	-16	%
Metallurgical Products	12.4	16.9	-27	%
Total net sales	\$ 63.4	\$ 77.4	-18	%
Income from operations	\$ 10.1	\$ 7.9	28	%

% of net sales                      15.9 %      10.2 %

Net sales in the Refractories segment decreased 18% to \$63.4 million from \$77.4 million in the prior year. Sales of refractory products and systems to steel and other industrial applications decreased 16% to \$51.0 million due to decreased volumes stemming from weaker market conditions in the global steel industry and lower equipment sales in the current year. Sales of metallurgical products decreased 27% to \$12.4 million due to decreased volumes.

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Income from operations increased to \$10.1 million from \$7.9 million in the prior year. Included in income from operations for the Refractories segment is a \$2.1 million gain on the sale of previously impaired assets. Operating income margins were strong for the segment at 15.9% of sales compared with 10.2% of sales last year due to the aforementioned gain on sale as well as improved productivity combined with supply chain savings and lower overhead expenses.

Performance Materials Segment	Three Months Ended		Growth	
	Oct. 2, 2016	Sept. 27, 2015		
	(millions of dollars)			
Net Sales				
Metalcasting	\$ 63.1	\$ 63.4	0	%
Household, Personal Care and Specialty Products	42.1	43.0	-2	%
Basic Minerals and Other products	14.3	20.1	-29	%
Total net sales	\$ 119.5	\$ 126.5	-6	%
Income from operations	\$ 22.9	\$ 22.7	1	%
% of net sales	19.2	% 17.9	%	%

Net sales in the Performance Materials segment decreased 6% to \$119.5 million from \$126.5 million in the prior year. This decline was primarily due to lower shipments of bulk chromite because of weak global steel market conditions and lower drilling product sales to the oil and gas industry.

Income from operations was \$22.9 million and 19.2% of sales as compared to 17.9% of sales in the prior year. The increase in operating margins was due primarily to productivity gains coupled with lower clay mining costs.

Construction Technologies Segment	Three Months Ended		Growth	
	Oct. 2, 2016	Sept. 27, 2015		
	(millions of dollars)			
Net Sales				
Environmental Products	\$ 24.6	\$ 21.7	13	%
Building Materials and Other Products	24.9	28.0	-11	%
Total net sales	\$ 49.5	\$ 49.7	0	%
Income from operations	\$ 7.3	\$ 6.1	20	%
% of net sales	14.7	% 12.3	%	%

Net sales in the Construction Technologies segment decreased slightly to \$49.5 million from \$49.7 million in the prior year. Environmental Products increased 13% to \$24.6 million due to higher volume in specialty geo-synthetic clay liners, including Resistex™ products in the third quarter. This was offset by 11% lower sales in Building Materials And Other Products due primarily to smaller scale water proofing projects completed this year compared to last year in the western United States and Europe.

Income from operations was \$7.3 million, increased 20% over prior year and represented 14.7% of sales due to increased sales of higher margin Resistex™ products and lower overhead costs.

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Energy Services Segment	Three Months Ended		Growth
	Oct. 2, 2016	Sept. 27, 2015	
	(millions of dollars)		
Net Sales	\$ 19.8	\$ 40.9	-52 %
Income from operations	\$ 2.6	\$ (7.9 )	*
% of net sales	13.1 %	*	

\* Percentage not meaningful

Net sales in the Energy Services segment decreased 52% to \$19.8 million from \$40.9 million in the prior year. The sales decrease was due to weak market conditions in the oil and gas sector and the shutdown of U.S. on-shore service lines, including Nitrogen and Pipeline in the second quarter, as well as the shutdown of the Coiled Tubing service line in August 2015.

Income from operations was \$2.6 million during the three months ended October 2, 2016 as compared to a loss from operations of \$7.9 million in the prior year. Included in the income from operations was income of \$0.2 million of restructuring and other charges, including a gain on sale of previously impaired assets. Included in the loss from operations in the prior year was a charge of \$10.5 million for impairment of assets and other restructuring charges. Going forward Energy Services' primary service offerings will be off-shore filtration and well testing to the worldwide oil and gas industry.

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Nine months ended October 2, 2016 as compared with nine months ended September 27, 2015

Consolidated Income Statement Review

	Nine Months Ended		Growth	
	Oct. 2, 2016	Sept. 27, 2015	%	
	(Dollars in millions)			
Net sales	\$1,236.7	\$1,367.6	-10	%
Cost of sales	887.7	1,006.0	-12	%
Production margin	349.0	361.6	-3	%
Production margin %	28.2 %	26.4 %		
Marketing and administrative expenses	134.2	145.4	-8	%
Research and development expenses	17.9	17.8	1	%
Acquisition related transaction and integration costs	5.1	8.5	-40	%
Restructuring and other items, net	27.4	27.3	0	%
Income from operations	164.4	162.6	1	%
Operating margin %	13.3 %	11.9 %		
Interest expense, net	(41.4 )	(45.5 )	-9	%
Extinguishment of debt cost and fees	-	(4.5 )	*	
Other non-operating income, net	1.7	5.7	-70	%
Total non-operating deductions, net	(39.7 )	(44.3 )	-10	%
Income from continuing operations before provision for taxes and equity in earnings	124.7	118.3	5	%
Provision for taxes on income	26.7	25.8	3	%
Effective tax rate	21.4 %	21.8 %		
Equity in earnings of affiliates, net of tax	1.6	1.4	14	%
Net income	99.6	93.9	6	%
Net income attributable to non-controlling interests	2.9	2.9	0	%
Net income attributable to Minerals Technologies Inc. (MTI)	96.7	91.0	6	%

\* Not meaningful

## Net Sales

	Nine Months Ended October 2, 2016			Nine Months Ended September 27, 2015		
	Net Sales	% of Total Sales	% Growth	Net Sales	% of Total Sales	
	(Dollars in millions)					
U.S.	\$718.7	58.1	% -11	% \$ 806.3	59.0	%
International	518.0	41.9	% -8	% 561.3	41.0	%
Total sales	\$1,236.7	100.0	% -10	% \$ 1,367.6	100.0	%

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Specialty Minerals Segment	\$453.5	36.7	%	-3	%	\$ 466.9	34.1	%
Refractories Segment	206.5	16.7	%	-9	%	227.7	16.6	%
Performance Materials Segment	367.1	29.7	%	-4	%	383.5	28.0	%
Construction Technologies Segment	144.0	11.6	%	2	%	140.7	10.3	%
Energy Services Segment	65.6	5.3	%	-56	%	148.8	10.9	%
Total sales	\$1,236.7	100.0	%	-10	%	\$ 1,367.6	100.0	%

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Total sales decreased \$130.9 million or 10% from the previous year to \$1,236.7 million. This was primarily due to the aforementioned weak market conditions in the oil and gas sector, weaker conditions in the steel sector, announced closures in the North American paper sector and lower bulk shipments of chromite. In addition, foreign exchange had an unfavorable impact on our sales of \$29.4 million or 2 percentage points.

## Operating Costs and Expenses

Production margin for the nine months ended October 2, 2016 was \$349.0 million and represented 28.2% of sales as compared with \$361.6 million and 26.4% of sales in the prior year. Production margins improved due to lower variable manufacturing costs, including productivity gains and cost control. These factors more than offset the impact of weak market conditions in the Energy Services segment.

Marketing and administrative costs were \$134.2 million and 10.9% of sales compared to \$145.4 million and 10.6% of sales in prior year.

Research and development expenses were \$17.9 million and represented 1.4% of sales and \$17.8 million and represented 1.3% of sales for the nine months ended October 2, 2016 and September 27, 2015, respectively.

During the nine months ended October 2, 2016, the Company recorded restructuring and impairment charges of \$27.4 million relating primarily to our Energy Service segment and incurred a charge of \$5.1 million for acquisition-related integration costs.

During the nine months ended September 27, 2015, the Company recorded restructuring and impairment charges of \$27.3 million relating primarily to our Energy Services segment, and recorded an \$8.5 million charge for acquisition-related integration costs.

## Income from Operations

The Company recorded income from operations of \$164.4 million as compared to \$162.6 million in the prior year. Operating income in the current year includes restructuring and impairment of \$27.4 million and acquisition-related integration costs of \$5.1 million. Operating income in the prior year includes acquisition integration costs of \$8.5 million and restructuring and impairment charges of \$27.3 million.

## Non-Operating Deductions

Non-operating deductions decreased by \$4.6 million as compared to prior year and were primarily comprised of \$41.4 million of net interest expense in the current year as compared to \$45.5 million of net interest expense in the prior year. In addition, the Company recorded \$4.5 million of non-cash debt modification costs and other debt modification fees in the prior year relating to repricing the outstanding balance of its senior secured term loan facility.

## Provision for Taxes on Income

Provision for taxes was \$26.7 million as compared to \$25.8 million in the prior year. The effective tax rate was 21.4% as compared to 21.8% in prior year. The lower effective tax rate was primarily due to a change in the mix of earnings, higher depletion deductions and non-deductible acquisition costs in the prior year.

## Net income attributable to Minerals Technologies Inc. (MTI)

Net income attributable to MTI was \$96.7 million during the nine months ended October 2, 2016 as compared with \$91.0 million in the prior year.





IndexSegment Review

The following discussions highlight the operating results for each of our five segments.

Specialty Minerals Segment	Nine Months Ended		Growth	
	Oct. 2, 2016	Sept. 27, 2015		
	(millions of dollars)			
Net Sales				
Paper PCC	\$ 295.5	\$ 315.9	-6	%
Specialty PCC	50.2	48.5	4	%
PCC Products	\$ 345.7	\$ 364.4	-5	%
Talc	\$ 42.7	\$ 41.9	2	%
Ground Calcium Carbonate	65.1	60.6	7	%
Processed Minerals Products	\$ 107.8	\$ 102.5	5	%
Total net sales	\$ 453.5	\$ 466.9	-3	%
Income from operations	\$ 81.1	\$ 75.2	8	%
% of net sales	17.9 %	16.1 %		

Worldwide sales in the Specialty Minerals segment were \$453.5 million as compared with \$466.9 million in the prior year, a decrease of 3%. Foreign exchange had an unfavorable impact on sales of \$7.9 million or 1.7%.

Worldwide net sales of PCC products, which are primarily used in the manufacturing process of the paper industry, decreased 5% to \$345.7 million from \$364.4 million in the prior year. Paper PCC sales decreased 6% to \$295.5 million primarily due to several previously announced paper mill closures in the U.S. and the unfavorable impact of foreign exchange. This was partially offset by an increase in Paper PCC sales in China of 21% over prior year due to primarily to the startup and ramp-up of four new facilities. Sales of Specialty PCC increased 4% to \$50.2 million from \$48.5 million in the prior year due to higher volumes.

Net sales of Processed Minerals products increased 5% to \$107.8 million from \$102.5 million in the prior year. Talc sales increased 2% and Ground Calcium Carbonate sales increased 7% primarily due to increased volumes.

Income from operations was \$81.1 million and 17.9% of net sales compared to \$75.2 million and 16.1% of sales in prior year due to improved profitability in the Processed Minerals product line and cost and expense control.

Refractories Segment	Nine Months Ended		Growth	
	Oct. 2, 2016	Sept. 27, 2015		
	(millions of dollars)			
Net Sales				
Refractory Products	\$ 163.3	\$ 178.3	-8	%
Metallurgical Products	43.2	49.4	-13	%
Total net sales	\$ 206.5	\$ 227.7	-9	%
Income from operations	\$ 27.2	\$ 24.5	11	%
% of net sales	13.2 %	10.8 %		

Net sales in the Refractories segment decreased 9% to \$206.5 million from \$227.7 million in the prior year. Foreign exchange had a negative impact on sales of \$2.3 million or 1%. Sales of refractory products and systems to steel and other industrial applications decreased 8% to \$163.3 million primarily due to lower volumes and the unfavorable impact of foreign exchange. Sales of metallurgical products decreased 13% to \$43.2 million due to decreased volumes.

Income from operations was \$27.2 million and 13.2% of sales as compared with \$24.5 million and 10.8% of sales in the prior year. Included in income from operations for the Refractories segment is a \$2.1 million gain on the sale of previously impaired assets. The remaining increase in income from operations was due to improved productivity combined with supply chain savings and lower overhead costs.

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Performance Materials Segment	Nine Months Ended		Growth	
	Oct. 2, 2016	Sept. 27, 2015		
	(millions of dollars)			
Net Sales				
Metalcasting	\$ 191.1	\$ 200.3	-5	%
Household, Personal Care and Specialty Products	\$ 131.4	126.6	4	%
Basic Minerals and Other products	44.6	56.6	-21	%
Total net sales	\$ 367.1	\$ 383.5	-4	%
Income from operations	\$ 70.7	\$ 72.0	-2	%
% of net sales	19.3 %	18.8 %		

Net sales in the Performance Materials segment decreased 4% to \$367.1 million from \$383.5 million in the prior year. Foreign exchange had an unfavorable impact on sales of \$12.5 million or 3.3%. Weakness in the agricultural sector affected sales in the Metalcasting product line. Sales in Household, Personal Care and Specialty Products increased 4% due to strong Pet Care, Personal Care and Fabric Care sales. Basic minerals and Other Products decreased \$12 million or 21% from prior year due to lower drilling and iron ore pelletizing sales from continued weak oil and gas drilling activity and lower bulk chromite shipments due to weakness in the global steel market.

Income from operations was \$70.7 million and 19.3% of sales as compared with \$72.0 million and 18.8% of sales in the prior year.

Construction Technologies Segment	Nine Months Ended		Growth	
	Oct. 2, 2016	Sept. 27, 2015		
	(millions of dollars)			
Net Sales				
Environmental Products	\$ 64.5	\$ 55.2	17	%
Building Materials and Other Products	79.5	85.5	-7	%
Total net sales	\$ 144.0	\$ 140.7	2	%
Income from operations	\$ 21.0	\$ 18.5	14	%
% of net sales	14.6 %	13.1 %		

Net sales in the Construction Technologies segment increased 2% to \$144.0 million from \$140.7 million in the prior year. Environmental Products increased 17% to \$64.5 million due to higher volumes. Foreign exchange had an unfavorable impact on sales of \$3.0 million or 2%.

Income from operations was \$21.0 million, increased 14% over prior year and represented 14.6% of sales as compared with 13.1% in the prior year due to increased sales of higher margin Resistex™ products and lower overhead costs.

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	Nine Months Ended		
	Oct. 2, 2016	Sept. 27, 2015	Growth
Energy Services Segment	(millions of dollars)		
Net Sales	\$ 65.6	\$ 148.8	-56 %
Income from operations	\$ (27.0 )	\$ (14.2 )	*
% of net sales	*	*	

\* Percentage not meaningful

Net sales in the Energy Services segment decreased 56% to \$65.6 million from \$148.8 million in the prior year. The sales decrease was due to weak market conditions in the oil and gas sector and the shutdown of U.S. on-shore service lines, including Nitrogen and Pipeline in the second quarter, as well as the shutdown of the Coiled Tubing service line in August 2015. As a result, during the first nine months of 2016, the Company incurred \$29.4 million of restructuring charges related to 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.

Loss from operations was \$27.0 million during the nine months ended October 2, 2016. Included in the loss from operations were impairment and restructuring charges of \$29.4 million. Loss from operations during the nine months ended September 27, 2015 was \$14.2 million and included impairment and restructuring charges of \$27.3 million.

Liquidity and Capital Resources

Cash provided from continuing operations in the first nine months of 2016 was \$164 million. Cash flows provided from operations in the first nine months of 2016 were principally used to fund capital expenditures, to repay debt and to pay the Company's dividend to common shareholders. Our intention continues to be to use excess cash flow primarily to repay debt and to de-lever as quickly as possible. As of October 2, 2016, the Company repaid \$140 million in principal amount of its long-term debt in 2016. The aggregate maturities of long-term debt are as follows: remainder of 2016 - \$2.0 million; 2017 - \$6.4 million; 2018 - \$3.2 million; 2019 - \$-- million; 2020 - \$-- million; thereafter - \$1,138.0 million.

On May 9, 2014, in connection with the acquisition of AMCOL International Corporation ("AMCOL"), the Company entered into a credit agreement providing for the \$1.560 billion 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"). The net proceeds of the Term Facility, together with the Company's cash on hand, were used as cash consideration for the acquisition of AMCOL and to refinance certain existing indebtedness of the Company (including the Company's 3.46% Series A Senior Notes due October 7, 2020 and 4.13% Series B Senior Notes due October 7, 2023) and AMCOL and to pay fees and expenses in connection with the foregoing. Loans under the Revolving Facility will be used for working capital and other general corporate purposes of the Company and its subsidiaries.

On June 23, 2015, the Company entered into an amendment to the credit agreement to reprice the \$1.378 billion then outstanding on the Term Facility. As amended, the Term Facility has a \$1.078 billion floating rate tranche and a \$300 million fixed rate tranche. The maturity date for loans under the Term Facility was not changed by the amendment. The loans outstanding under 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 amendment, loans under the variable 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 3.00% 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 variable rate tranche of the Term Facility was issued at par and has a 1% required amortization per year. The fixed rate tranche of the Term Facility was issued at a 0.25% discount. 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 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 quarter period 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. As of October 2, 2016, there were no loans and \$12.1 million in letters of credit outstanding under the Revolving Facility. The Company is in compliance with all the covenants associated with this 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, for a combined 94.8 million RMB and \$1.8 million. As of October 2, 2016, on a combined basis, \$11.6 million was outstanding. Principal will be repaid in accordance with the payment schedules ending in 2019. The Company repaid \$1.2 million on these loans in the first nine months of 2016.

As of October 2, 2016, the Company had \$36.6 million in uncommitted short-term bank credit lines, of which approximately \$6.3 million was in use. The credit lines are primarily outside the U.S. and are generally one year in term at competitive market rates at large well-established institutions. The Company typically uses its available credit lines to fund working capital requirements or local capital spending needs. We anticipate that capital expenditures for 2016 should be between \$65.0 million and \$75.0 million, principally related to the construction of PCC plants and other opportunities that meet our strategic growth objectives. We expect to meet our other long-term financing requirements from internally generated funds, committed and uncommitted bank credit lines and, where appropriate, project financing of certain satellite plants.

On April 5, 2016, the Company entered into a floating to fixed interest rate swap for an initial aggregate notional amount of \$300 million to limit exposure to interest rate increases related to a portion of the Company's floating rate indebtedness. The notional amount at October 2, 2016 was \$271 million. This swap hedges a portion of contractual floating rate interest through May 2021. As a result of the swap, the Company's effective fixed interest rate on the notional amount of floating rate indebtedness will be 4.25%.

On September 16, 2015, the Company's Board of Directors authorized the Company's management to repurchase, at its discretion, up to \$150 million of the Company's shares over a two-year period commencing October 3, 2015. During the first nine months of 2016, 54,098 shares have been repurchased under this program for \$2.6 million, or an average price of approximately \$48.91 per share.

The Company is required to make future payments under various contracts, including debt agreements and lease agreements. The Company also has commitments to fund its pension plans and provide payments for other postretirement benefit plans. During the first half of 2016, there were no material changes in the Company's contractual obligations. For an in-depth discussion of the Company's contractual obligations, see "Liquidity and Capital Resources" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

## Cautionary Statement for "Safe Harbor" Purposes under the Private Securities Litigation Reform Act of 1995

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company. This report contains statements that the Company believes may be "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, particularly statements relating to the Company's objectives, plans or goals, future actions, future performance or results of current and anticipated products, sales efforts, expenditures, and financial results. From time to time, the Company also provides forward-looking statements in other publicly-released materials, both written and oral. Forward-looking statements

provide current expectations and forecasts of future events such as new products, revenues and financial performance, and are not limited to describing historical or current facts. They can be identified by the use of words such as “believes,” “expects,” “plans,” “intends,” “anticipates,” and other words and phrases of similar meaning.

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Forward-looking statements are necessarily based on assumptions, estimates and limited information available at the time they are made. A broad variety of risks and uncertainties, both known and unknown, as well as the inaccuracy of assumptions and estimates, can affect the realization of the expectations or forecasts in these statements. Many of these risks and uncertainties are difficult to predict or are beyond the Company's control. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially. Significant factors affecting the expectations and forecasts are set forth under "Item 1A — Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, and in Exhibit 99 to this Quarterly Report on Form 10-Q.

The Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances that arise after the date hereof. Investors should refer to the Company's subsequent filings under the Securities Exchange Act of 1934 for further disclosures.

## 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.

## 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 not yet selected a transition method and is currently evaluating the impact of this ASU on the Company's consolidated financial statements and related disclosures. The Company expects to complete this analysis in early 2017.

## Inventory – Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory." Under this accounting guidance, inventory will be measured at the lower of cost and net realizable value and other options that currently exist for market value will be eliminated. ASU No. 2015-11 defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. No other changes were made to the current guidance on inventory measurement. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017 with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.





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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; however, the Company does not expect the adoption of this guidance to have a material impact on the Company’s financial statements.

Investments – Equity Method and Joint Ventures

In March 2016, the FASB issued ASU 2016-07, “Simplifying the Transition to the Equity Method of Accounting”, which eliminates the requirement for an investor to retroactively apply the equity method when its increase in ownership interest (or degree of influence) in an investee triggers equity method accounting. ASU 2016-07 is effective for all entities for interim and annual periods in fiscal years beginning after December 15, 2016. The adoption of this guidance is not expected to have a material impact on the Company’s financial statements.

Stock Compensation – Improvements to Employee Share-Based Payment Accounting

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting”, which is intended to improve the accounting for share-based payment transactions as part of the FASB’s simplification initiative. The ASU changes seven aspects of the accounting for share-based payment award transactions, including: (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flows; (3) forfeitures; (4) minimum statutory tax withholding requirements; (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes; (6) practical expedient – expected term (nonpublic only); and (7) intrinsic value (nonpublic only). The ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those years for public business entities. Early adoption is permitted in any interim or annual period provided that the entire ASU is adopted. The Company is currently evaluating the impact of this ASU on the Company’s consolidated financial statements and related disclosures.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

On an ongoing basis, we evaluate our estimates and assumptions, including those related to revenue recognition, valuation of receivables, valuation of inventories, valuation of long-lived assets, pension plan assumptions, stock-based compensation assumptions, valuation of product liability and asset retirement obligation, income taxes, income tax valuation allowances and litigation and environmental liabilities. We base our estimates on historical experience and on other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that cannot readily be determined from other sources. There can be no assurance that actual results will not differ from those estimates.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in market prices and foreign currency and interest rates. We are exposed to market risk because of

changes in foreign currency exchange rates as measured against the U.S. dollar. We do not anticipate that near-term changes in exchange rates will have a material impact on our future earnings or cash flows. However, there can be no assurance that a sudden and significant decline in the value of foreign currencies would not have a material adverse effect on our financial condition and results of operations. Approximately 75% of our bank debt bears interest at variable rates, a portion of which is hedged; therefore our results of operations would be affected by interest rate changes to the extent of such outstanding bank debt. An immediate 10 percent change in interest rates would have a material effect on our results of operations over the next fiscal year. A one-percent change in interest rates would cost \$4.4 million in incremental interest charges on an annual basis.

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We do not enter into derivatives or other financial instruments for trading or speculative purposes. When appropriate, we enter into derivative financial instruments, such as forward exchange contracts, hedges and interest rate swaps, to mitigate the impact of foreign exchange rate movements and interest rate movements on our operating results. The counterparties are major financial institutions. Such forward exchange contracts, hedges and interest rate swaps would not subject us to additional risk from exchange rate or interest rate movements because gains and losses on these contracts would offset losses and gains on the assets, liabilities, and transactions being hedged.

In 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 to limit exposure to interest rate increases related to a portion of the Company's floating rate indebtedness. The notional amount at October 2, 2016 was \$271 million. This swap hedges a portion of contractual floating rate interest through May 2021. As a result of the swap, the Company's effective fixed interest rate on the notional amount of floating rate indebtedness will be 4.25%. The fair value of these instruments at October 2, 2016 was a liability of \$0.5 million.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, and under the supervision and with participation of the Company's management, including the Co-Chief Executive Officers and the Chief Financial Officer, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures, pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, the Co-Chief Executive Officers and Chief Financial Officer concluded that as of the end of the period covered by this report the Company's disclosure controls and procedures were effective.

The Company continues to implement a global enterprise resource planning ("ERP") system for the businesses acquired from AMCOL. As of October 2, 2016, most of the domestic and European locations of the acquired businesses were implemented on the new system. The worldwide implementation is expected to be substantially completed over the next nine to twelve months and involves changes in the systems that include internal controls. Although the transition has proceeded to date without material adverse effects, the possibility exists that our migration to the new ERP system could adversely affect the Company's internal controls over financial reporting and procedures. We are reviewing each system as it is being implemented and the controls affected by the implementation of the new systems, and are making appropriate changes to the affected internal controls as we implement the new systems. We believe that the controls as modified are appropriate and functioning effectively.

Changes in Internal Control Over Financial Reporting

Except as described above, there were no changes in the Company's internal control over financial reporting during the quarter ended October 2, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The Company and its subsidiaries are the subject of various pending legal actions in the ordinary course of their businesses. Except as described below, none of such legal proceedings are material.

Armada Litigation

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. The counts in the complaint include both violations of the Illinois Fraudulent Transfer laws, as well as federal RICO violations. The lawsuit seeks money damages, as well as injunctive relief. Fact discovery is scheduled to close in the fourth quarter of 2016 and trial is currently projected for the third quarter of 2017. 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.

Silica and Asbestos Litigation

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 14 pending asbestos cases. To date, 1,492 silica cases and 48 asbestos cases have been dismissed, not including any lawsuits against AMCOL or American Colloid Company dismissed prior to our acquisition of AMCOL. No new asbestos or silica cases were filed in the third quarter of 2016. 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. Of the 14 pending asbestos cases all except two allege liability based on products sold largely or entirely prior to the initial public offering, and for which the Company is therefore entitled to indemnification pursuant to such agreements. The two exceptions pertain to a

pending asbestos case against American Colloid Company, and one for which no period of alleged exposure has been stated by plaintiffs. 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.

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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 4<sup>th</sup> 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 2, 2016.

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 2, 2016.

ITEM 1A. Risk Factors

For a description of Risk Factors, see Exhibit 99 attached to this report. There have been no material changes to our risk factors from those disclosed in our 2015 Annual Report on Form 10-K, except as follows: The Company's Board of Directors is performing a search for a permanent Chief Executive Officer to replace its prior Chairman and Chief Executive Officer, who died unexpectedly on September 3, 2016. The failure to attract and retain a permanent Chief Executive Officer could have an adverse effect on our business.

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

None

ITEM 3. Default Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95 to this Quarterly Report on Form 10-Q.

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ITEM 5. Other Information

None

ITEM 6. Exhibits

Exhibit No. Exhibit Title

<u>15</u>	Letter Regarding Unaudited Interim Financial Information.
<u>31.1</u>	Rule 13a-14(a)/15d-14(a) Certification
<u>31.2</u>	Rule 13a-14(a)/15d-14(a) Certification
<u>32</u>	Section 1350 Certifications.
<u>95</u>	Information concerning Mine Safety Violations
<u>99</u>	Risk Factors
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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SIGNATURE

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.

Minerals Technologies Inc.

By: /s/Douglas T. Dietrich

Douglas T. Dietrich  
Interim Co-Chief Executive Officer,  
Senior Vice President, Finance and Treasury,  
Chief Financial Officer

November 4, 2016