

Core-Mark Holding Company, Inc.  
Form 10-Q  
November 07, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q  
(MARK ONE)

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

For the quarterly period ended September 30, 2016

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 000-51515  
Core-Mark Holding Company, Inc.  
(Exact name of registrant as specified in its charter)

Delaware 20-1489747  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification No.)

395 Oyster Point Boulevard, Suite 415 94080  
South San Francisco, CA  
(Address of principal executive offices) (Zip Code)  
(650) 589-9445  
(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  (Do not check if a smaller reporting company) Smaller reporting company

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

As of November 3, 2016, 46,152,958 shares of the registrant's common stock, \$0.01 par value per share, were outstanding.



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 FOR THE QUARTER ENDED SEPTEMBER 30, 2016  
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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share and per share data)

(Unaudited)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$22.9	\$12.5
Restricted cash	8.1	8.5
Accounts receivable, net of allowance for doubtful accounts of \$7.4 and \$10.9 as of September 30, 2016 and December 31, 2015, respectively	356.3	272.7
Other receivables, net	108.9	69.4
Inventories, net (Note 4)	495.6	407.4
Deposits and prepayments	92.8	65.0
Deferred income taxes	1.8	1.8
Total current assets	1,086.4	837.3
Property and equipment, net	191.2	159.5
Goodwill	29.2	22.9
Other intangible assets, net	47.8	29.5
Other non-current assets, net	29.2	28.1
Total assets	\$1,383.8	\$1,077.3
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$104.5	\$129.6
Book overdrafts	43.0	29.2
Cigarette and tobacco taxes payable	231.8	193.6
Accrued liabilities	145.9	106.9
Deferred income taxes	0.2	0.3
Total current liabilities	525.4	459.6
Long-term debt (Note 5)	274.1	60.4
Deferred income taxes	22.2	18.6
Other long-term liabilities	11.6	10.6
Claims liabilities	28.1	26.6
Pension liabilities	6.1	7.5
Total liabilities	867.5	583.3
Contingencies (Note 6)		
Stockholders' equity:		
Common stock, \$0.01 par value (100,000,000 shares authorized, 52,221,054 and 51,953,354 shares issued; 46,196,244 and 46,116,670 shares outstanding at September 30, 2016 and December 31, 2015, respectively)	0.5	0.3
Additional paid-in capital	274.7	271.8
Treasury stock at cost (6,024,810 and 5,836,684 shares of common stock at September 30, 2016 and December 31, 2015, respectively)	(69.0)	(61.8)
Retained earnings	324.3	300.0

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Accumulated other comprehensive loss	(14.2	)	(16.3	)
Total stockholders' equity	516.3		494.0	
Total liabilities and stockholders' equity	\$1,383.8		\$1,077.3	

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See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net sales	\$3,993.9	\$2,991.6	\$10,692.6	\$8,254.3
Cost of goods sold	3,795.0	2,820.0	10,154.7	7,786.5
Gross profit	198.9	171.6	537.9	467.8
Warehousing and distribution expenses	117.4	92.8	315.0	260.9
Selling, general and administrative expenses	57.6	52.8	160.0	147.6
Amortization of intangible assets	1.7	0.6	3.8	1.8
Total operating expenses	176.7	146.2	478.8	410.3
Income from operations	22.2	25.4	59.1	57.5
Interest expense	(1.5 )	(0.6 )	(3.3 )	(1.9 )
Interest income	—	0.1	0.1	0.4
Foreign currency transaction losses , net	(0.5 )	(0.7 )	(0.1 )	(1.3 )
Income before income taxes	20.2	24.2	55.8	54.7
Provision for income taxes (Note 7)	(6.7 )	(9.1 )	(20.3 )	(20.9 )
Net income	\$13.5	\$15.1	\$35.5	\$33.8
Basic net income per common share (Note 9)	\$0.29	\$0.33	\$0.77	\$0.73
Diluted net income per common share (Note 9)	\$0.29	\$0.33	\$0.76	\$0.73
Basic weighted-average shares (Note 9)	46.3	46.2	46.3	46.2
Diluted weighted-average shares (Note 9)	46.5	46.6	46.5	46.6
Dividends declared and paid per common share (Note 11)	\$0.08	\$0.07	\$0.24	\$0.20

See accompanying notes to condensed consolidated financial statements.

Table of ContentsCORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September	
	2016	2015	2016	2015
Net income	\$13.5	\$15.1	\$35.5	\$33.8
Other comprehensive income (loss), net of tax:				
Defined benefit plan adjustments	0.3	(0.8 )	0.5	(0.7 )
Foreign currency translation (loss) gain	(0.2 )	(1.9 )	1.6	(4.1 )
Other comprehensive income (loss), net of tax	0.1	(2.7 )	2.1	(4.8 )
Comprehensive income	\$13.6	\$12.4	\$37.6	\$29.0

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See accompanying notes to condensed consolidated financial statements.

Table of ContentsCORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$35.5	\$33.8
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
LIFO and inventory provisions	10.0	9.2
Amortization of debt issuance costs	0.3	0.2
Stock-based compensation expense	5.5	6.7
Bad debt expense, net	1.6	1.1
Depreciation and amortization	31.2	28.3
Foreign currency transaction losses, net	0.1	1.3
Deferred income taxes	3.6	(0.3 )
Pension settlement expenses	1.2	0.9
Changes in operating assets and liabilities:		
Accounts receivable, net	(48.6 )	(33.3 )
Other receivables, net	(39.2 )	(3.3 )
Inventories, net	(74.3 )	53.9
Deposits, prepayments and other non-current assets	(31.6 )	(18.0 )
Accounts payable	(25.9 )	22.3
Cigarette and tobacco taxes payable	36.2	(10.2 )
Pension, claims, accrued and other long-term liabilities	39.3	15.3
Excess tax deductions associated with stock-based compensation	(2.8 )	(2.0 )
Net cash (used in) provided by operating activities	(57.9 )	105.9
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(88.4 )	(8.0 )
Change in restricted cash	0.5	3.3
Additions to property and equipment, net	(44.5 )	(24.7 )
Capitalization of software and related development costs	(5.1 )	(7.5 )
Proceeds from sale of fixed assets	—	0.3
Net cash used in investing activities	(137.5 )	(36.6 )
Cash flows from financing activities:		
Borrowings under revolving credit facility	1,164.8	718.5
Repayments under revolving credit facility	(949.9)	(768.7)
Dividends paid	(11.3 )	(9.1 )
Payments on capital leases	(1.8 )	(1.6 )
Payments of financing costs	(1.5 )	(0.4 )
Repurchases of common stock	(7.2 )	(9.0 )
Proceeds from exercise of common stock options	0.3	0.3
Tax withholdings related to net share settlements of restricted stock units	(5.4 )	(3.2 )
Excess tax deductions associated with stock-based compensation	2.8	2.0
Increase (decrease) in book overdrafts	13.7	(1.1 )
Net cash provided by (used in) financing activities	204.5	(72.3 )
Effects of changes in foreign exchange rates	1.3	(2.0 )

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Change in cash and cash equivalents	10.4	(5.0 )
Cash and cash equivalents, beginning of period	12.5	14.4
Cash and cash equivalents, end of period	\$22.9	\$9.4
Supplemental disclosures:		
Cash paid during the period for:		
Income taxes, net	\$14.4	\$21.1
Interest	\$2.3	\$1.0
Non-cash capital lease obligations incurred	\$0.2	\$5.2
Unpaid property and equipment purchases included in accrued liabilities	\$1.3	\$1.5
See accompanying notes to condensed consolidated financial statements.		

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. Summary of Company Information

Business

Core-Mark Holding Company, Inc., together with its subsidiaries (referred to herein as “the Company” or “Core-Mark”), is one of the largest marketers of fresh and broad-line supply solutions to the convenience retail industry in North America. The Company offers a full range of products, marketing programs and technology solutions to approximately 45,000 customer locations in the United States (“U.S.”) and Canada. The Company’s customers include traditional convenience stores, drug stores, grocery stores, liquor stores and other specialty and small format stores that carry convenience products. The Company’s product offering includes cigarettes, other tobacco products, candy, snacks, fast food, groceries, fresh products, dairy, bread, beverages, general merchandise and health and beauty care products. The Company operates a network of 30 distribution centers in the U.S. and Canada (excluding two distribution facilities it operates as a third-party logistics provider). Twenty-five distribution centers are located in the U.S. and five are located in Canada.

2. Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated balance sheet as of September 30, 2016, the unaudited condensed consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2016 and 2015, and the unaudited condensed consolidated statements of cash flows for the nine months ended September 30, 2016 and 2015, have been prepared in accordance with the requirements of the U.S. Securities and Exchange Commission (“SEC”) for interim reporting. As permitted under those rules, certain footnotes and other financial information that are normally required by generally accepted accounting principles in the U.S. (“GAAP”) can be condensed or omitted. The condensed consolidated balance sheet as of December 31, 2015 has been derived from the Company’s audited financial statements, which are included in its 2015 Annual Report on Form 10-K, filed with the SEC on February 26, 2016.

The unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements in its Annual Report on Form 10-K, for the year ended December 31, 2015. The unaudited condensed consolidated interim financial statements include all adjustments necessary for the fair presentation of its consolidated results of operations, financial position, comprehensive income and cash flows. Results for the interim periods are not necessarily indicative of results to be expected for the full year or any other future periods. All intercompany balances and transactions have been eliminated in the unaudited condensed consolidated interim financial statements.

On May 25, 2016, the Board of Directors approved a two-for-one stock split of the Company’s outstanding common stock, effected through a stock dividend. The additional shares were distributed on June 27, 2016 to stockholders of record at the close of business on June 9, 2016. All references made to share or per share amounts in the accompanying condensed consolidated interim financial statements and applicable disclosures have been retroactively adjusted to reflect this two-for-one stock split for all periods presented.

During the three months ended September 30, 2016, the Company identified an error in the presentation of borrowings and repayments of the Company’s revolving credit facility in the previously issued condensed consolidated statements of cash flows. The Company corrected the presentation of borrowings and repayments on the revolving credit facility to reflect them on a gross basis, rather than on a net basis, within the financing activities section of the condensed consolidated statements of cash flows. The correction did not change previously reported total cash provided by (or used from) financing activities.

Amounts for prior periods included in the consolidated financial statements have been reclassified to conform to the current period presentation.

Concentration of Credit Risks

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash investments, accounts receivable and other receivables. The Company places its cash and cash equivalents in short-term instruments with high quality financial institutions and limits the amount of credit exposure in any one

financial instrument. The Company pursues amounts and incentives due from vendors in the normal course of business and is often allowed to deduct these amounts and incentives from payments made to vendors. A credit review is completed for new customers and ongoing credit evaluations of each customer's financial condition are performed periodically, with reserves maintained for potential credit losses. Credit limits given to customers are based on a risk

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assessment of their ability to pay and other factors. Accounts receivable are typically not collateralized, but the Company may require prepayments or other guarantees whenever deemed necessary.

The Company had two customers that each accounted for more than 10% of the net sales during the three and nine months ended September 30, 2016. These customers, Murphy U.S.A., which the Company began servicing in the first quarter of 2016, and Alimentation Couche-Tard, Inc. ("Couche-Tard"), together represented approximately 23.2% and 23.3% of the Company's net sales for the three and nine months ended September 30, 2016, respectively. Couche-Tard accounted for approximately 13.8% and 14.3% of the Company's net sales for the three and nine months ended September 30, 2015, respectively. No single customer accounted for 10% or more of the Company's accounts receivables as of September 30, 2016 or December 31, 2015.

### Recent Accounting Standards or Updates Not Yet Effective

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), to supersede nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. This standard is effective for the Company beginning in 2018 and allows for either full retrospective adoption or modified retrospective adoption with the cumulative effect recognized at the date of initial adoption. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements.

On February 25, 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which supersedes existing lease guidance. The new guidance increases transparency by requiring lessees to recognize right-of-use assets and corresponding lease liabilities on the balance sheet. This standard is effective for annual periods beginning after December 15, 2018, although early adoption is permitted. The Company is currently evaluating the impact ASU 2016-02 will have on its consolidated financial statements.

On March 30, 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). The new guidance simplifies several aspects of how companies account for share-based compensation, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statements of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, although early adoption is permitted. The Company is currently evaluating the impact ASU 2016-09 will have on its consolidated financial statements.

On June 16, 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). The new guidance replaces the current incurred loss impairment approach with a methodology that incorporates all expected credit loss estimates, resulting in more timely recognition of losses. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, although early adoption is permitted. The Company is currently evaluating the impact ASU 2016-13 will have on its consolidated financial statements.

On August 26, 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). The new guidance addresses eight specific cash flow presentation and classification issues in the statement of cash flows to reduce existing diversity in practice. ASU 2016-15 is effective for annual periods beginning after December 15, 2017, although early adoption is permitted. The Company is currently evaluating the impact ASU 2016-15 will have on its consolidated financial statements.

### 3. Acquisition

#### Acquisition of Pine State Convenience

On June 6, 2016, the Company acquired substantially all of the assets of Pine State Convenience ("Pine State"), a division of Pine State Trading Company, located in Gardiner, Maine. The acquisition was accounted for as a business combination in accordance with ASC 805 - Business Combinations. The acquisition increased the Company's market presence primarily in the Northeastern U.S. and further enhanced the Company's ability to cost effectively service national and regional retailers. The total purchase consideration was \$88.4 million which was paid at closing and funded through borrowings under the Company's revolving credit facility.

The following table presents the assets acquired and liabilities assumed, based on their preliminary estimated fair values and purchase consideration:

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	June 6, 2016
Accounts receivable	\$ 35.5
Inventory	20.9
Prepaid expenses / other assets	0.5
Property, plant and equipment	10.4
Goodwill	6.3
Intangible assets	17.2
Less : Other current liabilities	2.4
Total consideration	\$ 88.4

The Company determined the estimated fair values of intangible assets acquired with the assistance of independent valuation consultants. Based on the preliminary valuation, intangible assets received include the following:

	Fair	
	Value in Useful Life in Years	
	Millions	
Customer relationships	\$ 14.1	10 - 12
Trade names	1.0	1 - 2
Non-competition agreements	2.1	5
Total intangible assets	\$ 17.2	

The results of Pine State operations have been included in the Company's unaudited condensed consolidated interim financial statements since the date of acquisition. The Company incurred \$0.5 million and \$1.9 million of acquisition-related costs, which are included in selling, general and administrative expenses for the three and nine months ended September 30, 2016, respectively. The Company did not consider the Pine State acquisition to be a material business combination and therefore has not disclosed pro-forma results of operations for the acquired business. Simultaneously with the closing of the acquisition, the Company entered into an operating lease arrangement for a warehouse facility in Gardiner, Maine, with certain former owners of Pine State. The term of the lease is for 15 years.

## 4. Inventories

Inventories consist of the following (in millions):

	September 30, 2016	December 31, 2015
Inventories at FIFO, net of reserves	\$ 622.8	\$ 524.6
Less: LIFO reserve	(127.2 )	(117.2 )
Total inventories at LIFO, net of reserves	\$ 495.6	\$ 407.4

Cost of goods sold reflects the application of the last-in, first-out ("LIFO") method of valuing inventories in the U.S. based upon estimated annual producer price indices. Inventories in Canada are valued on a first-in, first-out ("FIFO") basis, as LIFO is not a permitted inventory valuation method in Canada. During periods of rising prices, the LIFO method of costing inventories generally results in higher current costs being charged against income while lower costs are retained in inventories. Conversely, during periods of decreasing prices, the LIFO method of costing inventories generally results in lower current costs being charged against income and higher stated inventories. If the FIFO method had been used for valuing inventories in the U.S., inventories would have been approximately \$127.2 million and \$117.2 million higher for the periods ended September 30, 2016 and December 31, 2015, respectively. The Company recorded LIFO expense of \$3.7 million and \$3.3 million for the three months ended September 30, 2016 and 2015, respectively, and \$10.0 million and \$9.2 million for the nine months ended September 30, 2016 and 2015, respectively.

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## 5. Long-term Debt

Long-term debt consists of the following (in millions):

	September 30, December 31,	
	2016	2015
Amounts borrowed	\$ 262.0	\$ 47.0
Obligations under capital leases	12.1	13.4
Total long-term debt	\$ 274.1	\$ 60.4

The Company has a revolving credit facility ("Credit Facility") with a capacity of \$450 million, as of September 30, 2016. On May 16, 2016 the Company entered into an eighth amendment to the Credit Facility ("Eighth amendment"), which increased the size of the Credit Facility from \$300 million to \$450 million. The Credit Facility has an expansion feature which can be increased up to an additional \$150 million limited by a borrowing base consisting of eligible accounts receivable and inventories. All obligations under the Credit Facility are secured by first priority liens on substantially all of the Company's present and future assets. The terms of the Credit Facility permit prepayment without penalty at any time (subject to customary breakage costs with respect to LIBOR or CDOR based loans prepaid prior to the end of an interest period). In addition, the Eighth amendment allows for unlimited stock repurchases and dividends, as long as the Company meets certain credit availability percentages and fixed charge coverage ratios.

The Credit Facility matures in May 2020. The Company incurred fees of approximately \$0.7 million in connection with the Eighth amendment.

On November 4, 2016, the Company entered into a ninth amendment to the Credit Facility (the "Ninth Amendment"), which increased its Credit Facility from \$450 million to \$600 million. The Ninth Amendment also includes an expansion feature of \$100 million which gives the Company the option to increase the size of the Credit Facility to a total of \$700 million, if exercised. This will be subject to the same borrowing base limitations as the Eighth amendment.

Amounts borrowed, outstanding letters of credit and amounts available to borrow, net of certain reserves required under the Credit Facility, were as follows (in millions):

	September 30, December 31,	
	2016	2015
Amounts borrowed	\$ 262.0	\$ 47.0
Outstanding letters of credit and other commitments	37.3	18.5
Amounts available to borrow <sup>(1)</sup>	150.7	123.9

(1) Excluding \$150 million expansion feature.

Average borrowings during the three and nine months ended September 30, 2016 were \$228.8 million and \$139.1 million, respectively, with amounts borrowed at any one time outstanding ranging from zero to \$280.0 million. For the three and nine months ended September 30, 2015, average borrowings were \$48.1 million and \$38.6 million, respectively, with amounts borrowed, at any one time outstanding, ranging from zero to \$120.9 million.

The weighted-average interest rate on the Credit Facility was 1.7% for both the three and nine months ended September 30, 2016 compared to 1.5% and 1.6%, respectively, for the same periods in 2015. The weighted-average interest rate is calculated based on the daily cost of borrowing, reflecting a blend of prime and LIBOR rates. The Company paid fees for unused facility and letter of credit participation, which are included in interest expense, of \$0.1 million and \$0.5 million during the three and nine months ended September 30, 2016, and \$0.2 million and \$0.5 million during the three and nine months ended September 30, 2015, respectively. The Company recorded charges related to amortization of debt issuance costs, which are included in interest expense, of \$0.1 million for both the three months ended September 30, 2016 and 2015. For each of the nine months ended September 30, 2016 and 2015, the Company recorded similar charges of \$0.3 million and \$0.2 million, respectively. Unamortized debt issuance costs were \$2.0 million and \$1.2 million as of September 30, 2016 and December 31, 2015, respectively.



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## 6. Contingencies

## Litigation

The Company is subject to certain legal proceedings, claims, investigations and administrative proceedings in the ordinary course of its business. The Company records a provision for a liability when it is both probable that the liability has been incurred and the amount of the liability can be reasonably estimated. These provisions, if any, are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case.

## 7. Income Taxes

The Company's effective tax rate was 33.2% and 36.4% for the three and nine months ended September 30, 2016, respectively, compared to 37.6% and 38.2% for the same periods in 2015. The provision for income taxes for the three and nine months ended September 30, 2016 included a net benefit of \$0.7 million, compared to a net benefit of \$0.4 million for the same periods in 2015, related primarily to adjustments of prior year's estimates. Also included in the provision for income taxes for the three and nine months ended September 30, 2016 is a net benefit of \$0.4 million related to the expiration of statute of limitations for uncertain tax provisions and related interest recovery. There was no such benefit for the same periods in 2015.

The total gross amount of unrecognized tax benefits related to federal, state and foreign taxes was approximately \$0.2 million at September 30, 2016 and \$0.4 million December 31, 2015, all of which would impact the Company's effective tax rate, if recognized. The expiration of the statute of limitations for certain tax positions in future years could result in all of the \$0.2 million of unrecognized tax benefits being recognized through September 30, 2017. The Company files U.S. federal, state and foreign income tax returns in jurisdictions with varying statutes of limitations. The 2013 to 2015 tax years remain subject to examination by federal and state authorities. The 2012 tax year is still open for certain state tax authorities. The 2009 to 2015 tax years remain subject to examination by the tax authorities in Canada.

## 8. Employee Benefit Plans

The Company sponsored a qualified defined-benefit pension plan and a post-retirement benefit plan (collectively, "the Pension Plans"). The Pension Plans were frozen as of September 30, 1986, and since then there have been no new entrants to the Pension Plans.

The following table provides the components of the net periodic benefit cost of the qualified defined-benefit pension plan (in millions):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
<b>PENSION BENEFITS COSTS</b>				
Interest cost	\$0.3	\$0.5	\$0.9	\$1.3
Expected return on plan assets	(0.4 )	(0.5 )	(1.4 )	(1.5 )
Amortization of net actuarial loss	0.1	0.2	0.5	0.5
Settlement charge	1.2	0.9	1.2	0.9
Total pension expense	\$1.2	\$1.1	\$1.2	\$1.2

The Company incurred less than \$0.1 million in net periodic benefit costs related to the post-retirement benefit plan for the three and nine months ended September 30, 2016 and 2015.

The Company made contributions of \$1.9 million to the Pension Plans during the three and nine months ended September 30, 2016. The Company made no contributions to the Pension Plans during the three and nine months ended September 30, 2015. During the remainder of 2016, the Company expects to contribute a total of \$0.2 million to the post-retirement benefit plan and does not expect to make any further contributions to the defined-benefit pension plan.

The Company offers certain plan participants the option to receive a lump sum payment in lieu of future annuity pension benefits. For the nine months ended September 30, 2016 the Company had settled accumulated benefits of \$2.7 million (pre-tax) for participants who accepted lump sum payments. The Company re-measured its pension plan obligation as of September 30, 2016 and recorded a settlement charge of \$1.2 million, as the lump sum payments exceeded thresholds calculated under GAAP. In addition, the Company recognized a \$0.9 million deferred actuarial loss in accumulated other comprehensive loss, increasing

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the pension liability by the same amount. The Company expects to recognize additional settlement charges between \$0.1 million and \$0.2 million in the fourth quarter of 2016 related to lump sum payments and other pension settlement activities.

On September 14, 2016, the Board of Directors approved a motion to terminate the Company's qualified defined-benefit pension plan. The Company expects to complete the settlement in approximately 12 to 18 months. Pension liabilities will be settled through either lump sum payments or purchasing annuities from an insurance company.

At settlement, the Company expects to recognize a non-cash charge related to unrecognized actuarial losses in accumulated other comprehensive income estimated between \$16.0 million and \$19.0 million. The Company expects to make additional cash contributions between \$4.0 million and \$6.0 million to settle its pension obligations in 2017. Settling the plan will eliminate cash contributions, lower future expenses and eliminate the risk of rising Pension Benefit Guaranty Corp premiums.

## 9. Earnings Per Share

The following table sets forth the computation of basic and diluted net income per common share (dollars and shares in millions, except per share amounts):

	Three Months Ended September 30, 2016			2015		
	Net Income	Weighted-Average Shares Outstanding	Net Income Per Common Share	Net Income	Weighted-Average Shares Outstanding	Net Income Per Common Share
Basic EPS	-		18.5			
Total restructuring and other charges, net	\$0.2	\$	28.8	\$ 0.5	\$29.7	

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At July 2, 2017, the Company had \$0.7 million included within accrued liabilities in the Condensed Consolidated Balance Sheets for cash expenditures needed to satisfy remaining obligations under these workforce reduction initiatives. The Company expects to pay these amounts by the end of December 2017.

The following table is a reconciliation of our restructuring liability balance as of July 2, 2017:

	(millions of dollars)	
Restructuring liability, December 31, 2016	\$	3.6
Additional provisions		0.5
Cash payments		(3.4)
Restructuring liability, July 2, 2017	\$	0.7

## Note 4. Income Taxes

As of July 2, 2017, the Company had approximately \$14.3 million of total unrecognized income tax benefits. Included in this amount were a total of \$9.7 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 accrued approximately \$0.2 million and \$0.3 million during the three and six months ended July 2, 2017, respectively, and had an accrued balance of \$1.5 million of interest and penalties as of July 2, 2017.

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

Provision for taxes was \$13.4 million and \$23.5 million during the three and six months ended July 2, 2017, respectively. The effective tax rate was 22.9% as compared to 21.3% in the prior year. The higher effective tax rate was primarily due to a change in the mix of earnings.

## Note 5. Inventories

The following is a summary of inventories by major category:

	July 2, 2017	December 31, 2016
	(millions of dollars)	
Raw materials	\$ 83.5	\$ 70.6
Work-in-process	6.6	5.4
Finished goods	87.9	80.5
Packaging and supplies	33.9	30.4
Total inventories	\$ 211.9	\$ 186.9

Note 6. Goodwill and Other Intangible Assets

Goodwill and other intangible assets with indefinite lives are not amortized, but instead are assessed for impairment, at least annually. The carrying amount of goodwill was \$779.4 million, and \$778.7 million as of July 2, 2017 and December 31, 2016, respectively. The net change in goodwill since December 31, 2016 was attributable to the effects of foreign exchange.

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Acquired intangible assets subject to amortization as of July 2, 2017 and December 31, 2016 were as follows:

	Weighted Average Useful Life (Years)	July 2, 2017		December 31, 2016	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
(millions of dollars)					
Tradenames	34	\$ 199.8	\$ 18.1	\$ 199.8	\$ 15.3
Technology	12	18.8	4.2	18.8	3.6
Patents and trademarks	17	6.4	5.0	6.4	4.8
Customer relationships	30	4.5	1.8	4.5	1.4
	28	\$ 229.5	\$ 29.1	\$ 229.5	\$ 25.1

The weighted average amortization period for acquired intangible assets subject to amortization is approximately 28 years. Estimated amortization expense is \$3.9 million for the remainder of 2017, \$7.9 million for 2018–2021 and \$164.9 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.

## 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 July 2, 2017 was \$228 million. This interest rate swap is designated as a cash flow hedge. The gains and losses associated with this interest rate swap are recorded in accumulated other comprehensive income (loss). The fair value of this swap was an asset of \$2.0 million at July 2, 2017 and is recorded in other non-current assets on the Condensed Consolidated Balance Sheet.

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

- Market approach - prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- Cost approach - amount that would be required to replace the service capacity of an asset or replacement cost.

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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:

	July 2, 2017	December 31, 2016
	(millions of dollars)	
Term Loan Facility-Variable Tranche due February 14, 2024, net of unamortized discount and deferred financing costs of \$24.3 million and \$25.8 million	\$ 713.7	\$ 762.3
Term Loan Facility- Fixed Tranche due May 9, 2021, net of unamortized discount of \$0.5 million and \$0.6 million	299.5	299.4
Japan Loan Facilities	5.7	5.8
China Loan Facilities	6.9	9.2
<b>Total</b>	<b>\$ 1,025.8</b>	<b>\$ 1,076.7</b>
Less: Current maturities	6.5	6.8
<b>Long-term debt</b>	<b>\$ 1,019.3</b>	<b>\$ 1,069.9</b>

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

On June 23, 2015, the Company entered into an amendment (the “First Amendment”) to the credit agreement to reprice the \$1.378 billion then outstanding on the Term Facility. As amended, the Term Facility had a \$1.078 billion floating rate tranche and a \$300 million fixed rate tranche. On February 14, 2017, the Company entered into an amendment (the “Second Amendment”) to the credit agreement to reprice the \$788 million floating rate tranche then outstanding, which extended the maturity and lowered the interest costs by 75 basis points. Following the Second Amendment, the loans outstanding under the floating rate tranche of the Term Facility will mature on February 14, 2024, the loans outstanding under the fixed rate tranche of the Term Facility will mature on May 9, 2021 and the loans outstanding (if any) and commitments under the Revolving Facility will mature and terminate, as the case may be, on May 9, 2019. After the Second Amendment, loans under the floating rate tranche of the Term Facility bear interest at a rate equal to an adjusted LIBOR rate (subject to a floor of 0.75%) plus an applicable margin equal to 2.25% per annum. Loans under the fixed rate tranche of the Term Facility bear interest at a rate of 4.75%. Loans under the Revolving Facility will bear interest at a rate equal to an adjusted LIBOR rate plus an applicable margin equal to 1.75% per annum. Such rates are subject to decrease by up to 25 basis points in the event that, and for so long as, the Company’s net leverage

ratio (as defined in the credit agreement) is less than certain thresholds. The floating rate tranche of the Term Facility was issued at par and the fixed rate tranche of the Term Facility was issued at a 0.25% discount in connection with the First Amendment. The variable rate tranche of the Term Facility was issued at a 0.25% discount in connection with the Second Amendment. The variable rate tranche has a 1% required amortization per year. The Company will pay certain fees under the credit agreement, including customary annual administration fees. The loans under the fixed rate tranche of the Term Facility are subject to prepayment premiums in the event of certain prepayments prior to the third anniversary of the effective date of the First Amendment, and the loans under the floating rate tranche of the Term Facility are subject to prepayment premiums in the event of certain prepayments prior to the six-month anniversary of the effective date of the Second Amendment. The obligations of the Company under the Facilities are unconditionally guaranteed jointly and severally by, subject to certain exceptions, all material domestic subsidiaries of the Company (the "Guarantors") and secured, subject to certain exceptions, by a security interest in substantially all of the assets of the Company and the Guarantors.

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The credit agreement contains certain customary affirmative and negative covenants that limit or restrict the ability of the Company and its restricted subsidiaries to enter into certain transactions or take certain actions. In addition, the credit agreement contains a financial covenant that requires the Company, if on the last day of any fiscal quarter loans or letters of credit were outstanding under the Revolving Facility (excluding up to \$15 million of letters of credit), to maintain a maximum net leverage ratio (as defined in the credit agreement) of, initially, 5.25 to 1.00 for the four fiscal quarters preceding such day. Such maximum net leverage ratio requirement is subject to decrease during the duration of the facility to a minimum level (when applicable) of 3.50 to 1.00. During the first half of 2017, the Company repaid \$50 million on its Term Facility. As of July 2, 2017, there were no loans and \$12.0 million in letters of credit outstanding under the Revolving Facility. The Company is in compliance with all the covenants associated with the Revolving Facility as of the end of the period covered by this report.

The Company has four committed loan facilities for the funding of new manufacturing facilities in China, comprised of facilities of 94.8 million RMB, or approximately \$10.3 million and a \$1.8 million facility. In December 2016, the Company entered into a committed loan facility in Japan in the amount of 680 million Yen (approximately \$5.8 million). As of July 2, 2017, on a combined basis, \$12.6 million was outstanding under these loan facilities. Principal will be repaid in accordance with the payment schedules ending in 2021. The Company repaid \$2.8 million on these loans in the first half of 2017.

As of July 2, 2017, the Company had \$35.7 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		Six Months Ended	
	Ended		Ended	
	July		July	
	2,	July 3,	2,	July 3,
	2017	2016	2017	2016
	(millions of dollars)			
Service cost	\$2.1	\$ 2.4	\$ 4.1	\$ 4.7
Interest cost	3.1	3.4	6.2	6.8
Expected return on plan assets	(4.6)	(4.7 )	(9.1 )	(9.3 )
Amortization:				
Prior service cost	0.6	0.2	1.2	0.4
Recognized net actuarial loss	2.1	2.5	4.2	5.1
Net periodic benefit cost	\$3.3	\$ 3.8	\$ 6.6	\$ 7.7

	Other Benefits			
	Three Months Ended		Six Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
	(millions of dollars)			
Service cost	\$0.1	\$ 0.1	\$ 0.2	\$ 0.2
Interest cost	0.1	0.1	0.1	0.2
Amortization:				
Prior service cost	(0.8)	(0.7 )	(1.5 )	(1.5 )
Recognized net actuarial gain	(0.1)	(0.1 )	(0.2 )	(0.1 )
Net periodic benefit cost	\$(0.7)	\$(0.6 )	\$(1.4 )	\$(1.2 )

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

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## Employer Contributions

The Company expects to contribute approximately \$8.0 million to its pension plans and \$0.6 million to its other postretirement benefit plans in 2017. As of July 2, 2017, \$3.1 million has been contributed to the pension plans and approximately \$0.2 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:

Amounts Reclassified Out of Accumulated Other Comprehensive Income (Loss)	Three Months Ended		Six Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
	(millions of dollars)			
Amortization of pension items:				
Pre-tax amount	\$ 1.8	\$ 1.9	\$ 3.7	\$ 3.9
Tax	(0.5)	(0.6 )	(1.2 )	(1.3 )
Net of tax	\$ 1.3	\$ 1.3	\$ 2.5	\$ 2.6

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 the Condensed Consolidated Statements of Income.

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

	Foreign Currency Translation Adjustments	Unrecognized Pension Costs	Net Gain (Loss) on Cash Flow Hedges	Total
	(millions of dollars)			
Balance as of December 31, 2016	\$(147.3)	\$ (78.0 )	\$ 4.2	\$(221.1)
Other comprehensive income (loss) before reclassifications	25.2	-	(0.3 )	24.9
Amounts reclassified from AOCI	-	2.5	-	2.5
Net current period other comprehensive income (loss)	25.2	2.5	(0.3 )	27.4
Balance as of July 2, 2017	\$(122.1)	\$ (75.5 )	\$ 3.9	\$(193.7)

## 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.

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The following is a reconciliation of asset retirement obligations as of July 2, 2017:

	(millions of dollars)
Asset retirement liability, December 31, 2016	\$ 21.5
Accretion expense	1.7
Payments	(0.7 )
Foreign currency translation	0.2
Asset retirement liability, July 2, 2017	\$ 22.7

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 \$20.6 million is included in other non-current liabilities in the Condensed Consolidated Balance Sheet as of July 2, 2017.

## Note 12. Contingencies

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

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

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 19 pending asbestos cases. To date, 1,493 silica cases and 50 asbestos cases have been dismissed, not including any lawsuits against AMCOL or American Colloid Company dismissed prior to our acquisition of AMCOL. Two new asbestos cases were filed in the second quarter of 2017, and one asbestos case was dismissed during the quarter (not counting an existing case that was dismissed in one state only to be filed again in another state). No 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 19 pending asbestos cases, 16 of the non-AMCOL cases claim liability based on sales of products both before and after the initial public offering. The Company is entitled to indemnification, pursuant to agreement, for sales prior to the initial public offering. In the two remaining non-AMCOL cases, the plaintiffs have not alleged dates of exposure. The remaining case is an AMCOL case, which makes no allegation with respect to periods of exposure. Our experience has been that the Company is not liable to plaintiffs in any of these lawsuits and the Company does not expect to pay any settlements or jury verdicts in these lawsuits.

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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 4th quarter of 2014 to resolve the Company's claim for response costs for investigation and initial remediation activities at this facility through October 24, 2014. Contribution by the United States to any future costs of investigation or additional remediation has, by agreement, been left unresolved. Though the cost of the likely remediation remains uncertain pending completion of the phased remediation decision process, we have estimated that the Company's share of the cost of the encapsulation and limited soil removal described above would approximate \$0.4 million, which has been accrued as of July 2, 2017.

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

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					Non-controlling Interests	Total
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		
	(millions of dollars)						
Balance as of December 31, 2016	\$4.8	\$ 400.0	\$1,419.1	\$ (221.1 )	\$(596.3 )	\$ 24.4	\$1,030.9
Net income	-	-	77.6	-	-	1.8	79.4
Other comprehensive income (loss)	-	-	-	27.4	-	0.9	28.3
Dividends declared	-	-	(3.5 )	-	-	-	(3.5 )
Dividends to non-controlling interest	-	-	-	-	-	(1.7 )	(1.7 )
Issuance of shares pursuant to employee stock compensation plans	-	2.5	-	-	-	-	2.5
Stock based compensation	-	3.0	-	-	-	-	3.0
Balance as of July 2, 2017	\$4.8	\$ 405.5	\$1,493.3	\$ (193.7 )	\$(596.3 )	\$ 25.4	\$1,139.0

The income attributable to non-controlling interests for the six-month periods ended July 2, 2017 and July 3, 2016 was from continuing operations. The remainder of income was attributable to MTI.

## Note 14. Segment and Related Information

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

	2016 quarters				Full Year 2016
	First	Second	Third	Fourth	
	(millions of dollars, except per share amounts)				
Net sales					
Metalcasting	\$60.0	\$68.0	\$63.1	\$66.9	\$ 258.0
Household, Personal Care & Specialty Products	45.3	44.0	42.1	39.8	171.2
Environmental Products	13.4	26.5	24.6	14.4	78.9
Building Materials	20.4	19.7	16.9	17.1	74.1
Basic Minerals	20.5	24.3	22.3	36.8	103.9
Performance Materials Segment	159.6	182.5	169.0	175.0	686.1

Income from operations					
Performance Materials Segment	\$28.2	\$33.3	\$30.2	\$29.4	\$ 121.1
% of Sales	17.7 %	18.2 %	17.9 %	16.8 %	17.7 %

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The Company now has 4 reportable segments: Specialty Minerals, Performance Materials, Refractories and Energy Services. See Note 1 to the Condensed Consolidated Financial Statements. Segment information for the three and six-month periods ended July 2, 2017 and July 3, 2016 is as follows:

	Three Months		Six Months Ended	
	Ended July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
	(millions of dollars)			
Net Sales				
Specialty Minerals	\$ 147.0	\$ 150.6	\$ 293.2	\$ 306.2
Refractories	68.9	73.9	139.1	143.1
Performance Materials	180.3	182.5	350.2	342.1
Energy Services	17.9	20.0	36.6	45.8
Total	\$ 414.1	\$ 427.0	\$ 819.1	\$ 837.2
Income (Loss) from Operations				
Specialty Minerals	\$ 26.9	\$ 27.6	\$ 51.3	\$ 53.3
Refractories	10.5	10.3	19.7	17.1
Performance Materials	32.2	33.3	61.0	61.5
Energy Services	0.8	(29.5 )	2.5	(29.6 )
Total	\$ 70.4	\$ 41.7	\$ 134.5	\$ 102.3

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		Income from operations before provision for taxes on income	
	Three Months Ended July 2, 2017	July 3, 2016	Six Months Ended July 2, 2017	July 3, 2016
	(millions of dollars)			
Income from operations for reportable segments	\$ 70.4	\$ 41.7	\$ 134.5	\$ 102.3
Acquisition Related Transaction and Integration Costs	(0.8 )	(1.6 )	(2.3 )	(3.2 )
Unallocated corporate expenses	(1.1 )	(0.6 )	(2.0 )	(2.0 )
Consolidated income from operations	68.5	39.5	130.2	97.1

Non-operating deductions, net	(11.4 )	(13.3 )	(27.6 )	(25.7 )
Income from continuing operations before provision for taxes on income	\$ 57.1	\$ 26.2	\$ 102.6	\$ 71.4

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

	Three Months Ended		Six Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
	(millions of dollars)			
Paper PCC	\$92.3	\$97.0	\$ 185.7	\$ 200.2
Specialty PCC	17.4	17.1	34.4	33.8
Talc	14.0	13.8	28.3	28.8
Ground Calcium Carbonate	23.3	22.7	44.8	43.4
Refractory Products	56.1	58.9	112.8	112.3
Metallurgical Products	12.8	15.0	26.3	30.8
Metalcasting	75.7	68.0	142.3	128.0
Household, Personal Care and Specialty Products	39.7	44.0	80.8	89.3
Basic Minerals	25.1	24.3	59.3	44.8
Environmental Products	19.6	26.5	30.2	39.9
Building Materials	20.2	19.7	37.6	40.1
Energy Services	17.9	20.0	36.6	45.8
Total	\$414.1	\$427.0	\$ 819.1	\$ 837.2

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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 July 2, 2017, the related condensed consolidated statements of income and comprehensive income for the three-month and six-month periods ended July 2, 2017 and July 3, 2016, and the related condensed consolidated statements of cash flows for the six-month periods ended July 2, 2017 and July 3, 2016. 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, 2016, 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 17, 2017, 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, 2016 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  
August 4, 2017

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

Executive Summary

Consolidated sales for the second quarter of 2017 were \$414.1 million as compared with \$427.0 million in the prior year. Income from operations was \$68.5 million and represented 16.5% of sales as compared with \$39.5 million and 9.3% of sales in the prior year. Net income was \$43.0 million as compared to \$21.2 million in the second quarter of 2016.

Diluted earnings in the second quarter ended July 2, 2017 were \$1.21 per share compared with \$0.60 per share in 2016. Included in pre-tax income and earnings per share were \$0.8 million acquisition integration costs and \$0.2 million of restructuring charges which reduced earnings by \$0.02 per share. In 2016, the Company incurred restructuring and impairment charges in the Energy Services segment which reduced earnings by \$0.60 per share.

The Company continued to focus on its strategy of geographic expansion and saw significant growth in our Metalcasting and PCC businesses in China.

Long term debt as of July 2, 2017 was \$1,019.3 million. During the first six months of 2017, we repaid \$50 million of our Term Loan debt, for total repayments of \$530 million since the acquisition of AMCOL International Corporation ("AMCOL") in 2014. Cash, cash equivalents and short-term investments were \$183 million as of July 2, 2017. Our intention continues to be to use excess cash flow primarily to repay debt and to continue to de-lever.

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 in 2017 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.
- 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.

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- 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 offshore produced water and filtration markets.
- 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.

Results of Operations

Three months ended July 2, 2017 as compared with three months ended July 3, 2016

Consolidated Income Statement Review

	Three Months Ended		Growth	
	July 2, 2017	July 3, 2016	%	
	(Dollars in millions)			
Net sales	\$414.1	\$427.0	-3	%
Cost of sales	294.4	305.9	-4	%
Production margin	119.7	121.1	-1	%
Production margin %	28.9 %	28.4 %		
Marketing and administrative expenses	44.1	45.1	-2	%
Research and development expenses	6.1	6.1	0	%
Acquisition related integration costs	0.8	1.6	-50	%
Restructuring and other charges, net	0.2	28.8	*	
Income from operations	68.5	39.5	73	%
Operating margin %	16.5 %	9.3 %		
Interest expense, net	(10.2 )	(13.9 )	-27	%
Other non-operating income (deductions), net	(1.2 )	0.6	*	
Total non-operating deductions, net	(11.4 )	(13.3 )	-14	%
Income from continuing operations before provision for taxes and equity in earnings	57.1	26.2	118	%
Provision for taxes on income	13.4	4.5	198	%
Effective tax rate	23.5 %	17.2 %		
Equity in earnings of affiliates, net of tax	0.1	0.6	-83	%
Net income	43.8	22.3	96	%
Net income attributable to non-controlling interests	0.8	1.1	-27	%

Net income attributable to Minerals Technologies Inc. (MTI)	43.0	21.2	103	%
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\* Not meaningful

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## Net Sales

	Three Months Ended July 2, 2017			Three Months Ended July 3, 2016		
	Net Sales (Dollars in millions)	% of Total Sales	% Growth	Net Sales	% of Total Sales	
U.S.	\$237.2	57.3	% -3	% \$ 245.6	57.5	%
International	176.9	42.7	% -2	% 181.4	42.5	%
Total sales	\$414.1	100.0	% -3	% \$ 427.0	100.0	%
Specialty Minerals Segment	\$ 147.0	35.5	% -2	% \$ 150.6	35.3	%
Refractories Segment	68.9	16.6	% -7	% 73.9	17.3	%
Performance Materials Segment	180.3	43.5	% -1	% 182.5	42.7	%
Energy Services Segment	17.9	4.3	% -11	% 20.0	4.7	%
Total sales	\$414.1	100.0	% -3	% \$ 427.0	100.0	%

Worldwide net sales decreased 3% to \$414.1 million in the second quarter from \$427.0 million in the prior year. Foreign exchange had an unfavorable impact on sales of \$3 million, or 1 percent.

Net sales in the United States decreased 3% to \$237.2 million from \$245.6 million in the prior year. International sales decreased 2% to \$176.9 million from \$181.4 million in the prior year.

## Operating Costs and Expenses

Cost of sales was \$294.4 million and 71.1% of sales as compared with \$305.9 million and 71.6% of sales in the prior year as a result of lower manufacturing costs and improved productivity.

Marketing and administrative costs were \$44.1 million and 10.6% of sales compared to \$45.1 million and 10.6% of sales in prior year.

Research and development expenses were \$6.1 million, the same level as the prior year, and represented 1.5% of sales compared with 1.4% of sales in the prior year.

The Company incurred charges of \$0.8 million and \$1.6 million for acquisition-related integration costs during the three months ended July 2, 2017 and July 3, 2016, respectively.

During the three months ended July 2, 2017, the Company recorded \$0.2 million in restructuring charges. During the three months ended July 3, 2016, the Company recorded a \$28.8 million charge for impairment of assets and other restructuring costs, including lease termination costs relating to its exit of U.S. on-shore service lines, including the Nitrogen and Pipeline product lines in our Energy Services segment.

## Income from Operations

The Company recorded income from operations of \$68.5 million as compared to \$39.5 million in the prior year. Operating income during the three months ended July 2, 2017, includes acquisition-related integration costs of \$0.8 million, and restructuring charges of approximately \$0.2 million. Operating income during the three months ended July 3, 2016, includes \$28.8 million of impairment charges and restructuring costs, and \$1.6 million of acquisition-related integration costs.

Non-Operating Income (Deductions)

In the second quarter of 2017, non-operating deductions were \$11.4 million as compared with \$13.3 million in the prior year and primarily comprised of net interest expense. Interest expense was lower due to reduced debt levels and the refinancing of our Term Loan debt in the first quarter of 2017.

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## Provision for Taxes on Income

Provision for taxes on income was \$13.4 million as compared to \$4.5 million in the prior year. The effective tax rate was 23.5% as compared to 17.2% in prior year. The higher effective tax rate was primarily due to a change in the mix of earnings and prior year restructuring costs.

## Consolidated Net Income

Consolidated net income was \$43.0 million for the three months ended July 2, 2017 as compared with \$21.2 million in the prior year.

Segment Review

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

Specialty Minerals Segment	Three Months Ended		Growth	
	July 2, 2017	July 3, 2016		
	(millions of dollars)			
Net Sales				
Paper PCC	\$ 92.3	\$ 97.0	-5	%
Specialty PCC	17.4	17.1	2	%
PCC Products	\$ 109.7	\$ 114.1	-4	%
Talc	\$ 14.0	\$ 13.8	1	%
Ground Calcium Carbonate	23.3	22.7	3	%
Processed Minerals Products	\$ 37.3	\$ 36.5	2	%
Total net sales	\$ 147.0	\$ 150.6	-2	%
Income from operations	\$ 26.9	\$ 27.6	-3	%
% of net sales	18.3 %	18.3 %		

Worldwide sales in the Specialty Minerals segment were \$147.0 million as compared with \$150.6 million in the prior year, a decrease of \$3.6 million, or 2%.

Worldwide net sales of PCC, which is primarily used in the manufacturing process of the paper industry, decreased 4% to \$109.7 million from \$114.1 million in the prior year. Paper PCC sales decreased 5% to \$92.3 million from \$97.0 million. The decrease in sales was due to several plant shutdowns in the U.S. which occurred in 2016. This was partially offset by an increase in PCC sales in China. Sales of Specialty PCC increased 2% to \$17.4 million from \$17.1 million in the prior year due to higher volumes.

Net sales of Processed Minerals products increased 2% to \$37.3 million as Ground Calcium Carbonate sales increased 3 percent and Talc sales increased 1 percent over the prior year, due to higher volumes in the construction and automotive markets.

Income from operations for Specialty Minerals was \$26.9 million compared with \$27.6 million in the prior year. Operating margin was the same as the prior year at 18.3 percent of sales.



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Performance Materials Segment	Three Months Ended		Growth	
	July 2, 2017	July 3, 2016		
	(millions of dollars)			
Net Sales				
Metalcasting	\$ 75.7	\$ 68.0	11	%
Household, Personal Care and Specialty Products	39.7	44.0	-10	%
Environmental Products	19.6	26.5	-26	%
Building Materials	20.2	19.7	3	%
Basic Minerals	25.1	24.3	3	%
Total net sales	\$ 180.3	\$ 182.5	-1	%
Income from operations	\$ 32.2	\$ 33.3		
% of net sales	17.9	% 18.2	%	

Net sales in the Performance Materials segment decreased 1% to \$180.3 million from \$182.5 million in the prior year. Sales in the Metalcasting product line increased 11% to \$75.7 million principally due to higher volumes in China and North America. Basic Minerals and Building Materials sales both increased 3 percent. These sales increases were offset by lower Fabric Care sales in China affecting the Household, Personal Care & Specialty Products product line and lower Environmental Products sales resulting from several large projects in 2016 in the U.S. and Brazil that did not recur in 2017.

Income from operations was \$32.2 million and 17.9% of sales as compared to \$33.3 million and 18.2% of sales in the prior year.

Refractories Segment	Three Months Ended		Growth	
	July 2, 2017	July 3, 2016		
	(millions of dollars)			
Net Sales				
Refractory Products	\$ 56.1	\$ 58.9	-5	%
Metallurgical Products	12.8	15.0	-15	%
Total net sales	\$ 68.9	\$ 73.9	-7	%
Income from operations	\$ 10.5	\$ 10.3	2	%
% of net sales	15.2	% 13.9	%	

Net sales in the Refractories segment decreased 7% to \$68.9 million from \$73.9 million in the prior year. Sales of refractory products and systems to steel and other industrial applications decreased 5% to \$56.1 million. Sales of metallurgical products decreased 15% to \$12.8 million. Higher margin equipment sales were offset by lower Refractory and Metallurgical Product sales.

Income from operations increased 2 percent to \$10.5 million, and was 15.2 percent of sales compared with 13.9 percent of sales in the prior year.

Energy Services Segment	Three Months Ended		Growth	
	July 2, 2017	July 3, 2016		
	(millions of dollars)			

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Net Sales	\$ 17.9	\$ 20.0	-11	%
Income (loss) from operations	\$ 0.8	\$ (29.5 )	*	
% of net sales	4.5	%	*	

\* Percentage not meaningful

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Net sales in the Energy Services segment decreased 11% to \$17.9 million from \$20.0 million in the prior year, primarily due to continued weak market conditions in the oil and gas sector.

Operating income was \$0.8 million as compared with a loss of \$29.5 million in the prior year. Included in operating income for the three months ended July 3, 2016 was a \$28.8 million charge for impairment of assets and other restructuring costs, including lease termination costs relating to its exit of U.S. on-shore service lines, including the Nitrogen and Pipeline product lines in our Energy Services segment.

Six months ended July 2, 2017 as compared with six months ended July 3, 2016

Consolidated Income Statement Review

	Six Months Ended		Growth	
	July 2, 2017	July 3, 2016	%	
	(Dollars in millions)			
Net sales	\$819.1	\$837.2	-2	%
Cost of sales	585.7	603.4	-3	%
Production margin	233.4	233.8	0	%
Production margin %	28.5 %	27.9 %		
Marketing and administrative expenses	88.5	91.8	-4	%
Research and development expenses	11.9	12.0	-1	%
Acquisition related transaction and integration costs	2.3	3.2	-28	%
Restructuring and other charges, net	0.5	29.7	-98	%
Income from operations	130.2	97.1	34	%
Operating margin %	15.9 %	11.6 %		
Interest expense, net	(22.0 )	(28.0 )	-21	%
Debt modification cost and fees	(3.9 )	-	*	
Other non-operating income, net	(1.7 )	2.3	*	
Total non-operating deductions, net	(27.6 )	(25.7 )	7	%
Income from continuing operations before provision for taxes and equity in earnings	102.6	71.4	44	%
Provision for taxes on income	23.5	15.2	55	%
Effective tax rate	22.9 %	21.3 %		
Equity in earnings of affiliates, net of tax	0.3	0.9	-67	%
Net income	79.4	57.1	39	%
Net income attributable to non-controlling interests	1.8	2.0	-10	%
Net income attributable to Minerals Technologies Inc. (MTI)	77.6	55.1	41	%

\* Not meaningful

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## Net Sales

	Six Months Ended July 2, 2017			% Growth	Six Months Ended July 3, 2016		
	Net Sales (Dollars in millions)	% of Total Sales			Net Sales	% of Total Sales	
U.S.	\$461.5	56.3	%	-6	% \$ 489.8	58.5	%
International	357.6	43.7	%	3	% 347.4	41.5	%
Total sales	\$819.1	100.0	%	-2	% \$ 837.2	100.0	%
Specialty Minerals Segment	\$293.2	35.8	%	-4	% \$ 306.2	36.6	%
Refractories Segment	139.1	17.0	%	-3	% 143.1	17.1	%
Performance Materials Segment	350.2	42.8	%	2	% 342.1	40.9	%
Energy Services Segment	36.6	4.5	%	-20	% 45.8	5.5	%
Total sales	\$819.1	100.0	%	-2	% \$ 837.2	100.0	%

Total sales decreased \$18.1 million or 2% from the previous year to \$819.1 million. Foreign exchange had an unfavorable impact on sales of approximately \$5 million.

Net sales in the United States decreased 6% to \$461.5 million from \$489.8 million in the prior year. This was partially offset by a 3% increase in international sales to \$357.6 million from \$347.4 million in the prior year.

## Operating Costs and Expenses

Cost of sales was \$585.7 million, a decrease of 3% from prior year and was 71.5% of sales as compared with 72.1% in the prior year. Production margin improved 2% to 28.5% as compared with 27.9% in the prior year due to lower manufacturing costs and improved productivity.

Marketing and administrative costs were \$88.5 million and 10.8% of sales compared to \$91.8 million and 11.0% of sales in prior year.

Research and development expenses were \$11.9 million and represented 1.5% of sales for the six months ended July 2, 2017 as compared with \$12.0 million and 1.4% of sales in the prior year.

During the six months ended July 2, 2017, the Company recorded \$2.3 million for acquisition-related integration costs. The Company also recorded restructuring charges of \$0.5 million.

In 2016, the Company recorded restructuring and impairment charges of \$29.7 million relating primarily to our Energy Service segment.

## Income from Operations

The Company recorded income from operations of \$130.2 million as compared to \$97.1 million in the prior year. Operating income in the current year includes acquisition integration costs of \$2.3 million and restructuring costs of \$0.5 million. Operating income in the prior year includes restructuring and asset impairment costs of \$29.7 million and acquisition-related integration costs of \$3.2 million.

## Non-Operating Deductions

The Company recorded non-operating deductions of \$27.6 million for the six months ended July 2, 2017 as compared with \$25.7 million in the prior year. The \$27.6 million is comprised primarily of \$22.0 million of net interest expense and \$3.9 million in debt modification costs and fees relating to the February 2017 repricing for the variable tranche of the Company's Term Loan debt. The \$25.7 million recorded in the prior year included \$28.0 million in net interest expense and \$4.6 million in foreign exchange gains.

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## Provision for Taxes on Income

Provision for taxes was \$23.5 million as compared to \$15.2 million in the prior year. The effective tax rate was 22.9% as compared to 21.3% in prior year primarily due to a change in the mix of earnings and prior year restructuring costs.

## Consolidated Net Income

Consolidated net income was \$77.6 million during the six months ended July 2, 2017 as compared with \$55.1 million in the prior year.

Segment Review

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

Specialty Minerals Segment	Six Months Ended		Growth	
	July 2, 2017	July 3, 2016		
	(millions of dollars)			
Net Sales				
Paper PCC	\$ 185.7	\$ 200.2	-7	%
Specialty PCC	34.4	33.8	2	%
PCC Products	\$ 220.1	\$ 234.0	-6	%
Talc	\$ 28.3	\$ 28.8	-2	%
Ground Calcium Carbonate	44.8	43.4	3	%
Processed Minerals Products	\$ 73.1	\$ 72.2	1	%
Total net sales	\$ 293.2	\$ 306.2	-4	%
Income from operations	\$ 51.3	\$ 53.3	-4	%
% of net sales	17.5	% 17.4	%	

Worldwide sales in the Specialty Minerals segment were \$293.2 million as compared with \$306.2 million in the prior year, a decrease of 4 %.

Worldwide net sales of PCC products, which are primarily used in the manufacturing process of the paper industry, decreased 6% to \$220.1 million from \$234.0 million in the prior year. Paper PCC sales decreased 7% to \$185.7 million primarily due to several previously announced paper mill closures in the U.S. in the prior year. This was partially offset by an increase in Paper PCC sales in China. Sales of Specialty PCC increased 2% to \$34.4 million from \$33.8 million in the prior year due to higher volumes.

Net sales of Processed Minerals products increased 1% to \$73.1 million from \$72.2 million in the prior year. Talc sales decreased 2% and Ground Calcium Carbonate sales increased 3% primarily due to increased volumes in the construction and automotive markets.

Income from operations was \$51.3 million and 17.5% of net sales compared to \$53.3 million and 17.4% of sales in prior year.

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Performance Materials Segment	Six Months Ended		Growth	
	July 2, 2017	July 3, 2016		
	(millions of dollars)			
Net Sales				
Metalcasting	\$ 142.3	\$ 128.0	11	%
Household, Personal Care and Specialty Products	80.8	89.3	-10	%
Environmental Products	30.2	39.9	-24	%
Building Materials	37.6	40.1	-6	%
Basic Minerals	59.3	44.8	32	%
Total net sales	\$ 350.2	\$ 342.1	2	%
Income from operations	\$ 61.0	\$ 61.5		
% of net sales	17.4	% 18.0	%	

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

Net sales in the Performance Materials segment increased 2.4% to \$350.2 million from \$342.1 million in the prior year. Sales in metalcasting increased 11% to \$142.3 million, primarily due to higher volumes in China. Basic Minerals sales increased 32% primarily due to higher bulk sales of chromite. Household, Personal Care and Specialty Products sales were lower due to lower Fabric Care sales in China. In addition, Building Materials and Environmental Products sales were lower due to several large projects in 2016 which did not recur in 2017 in the US and Brazil.

Income from operations was \$61.0 million and 17.4% of sales as compared to \$61.5 million and 18.0% of sales in the prior year.

Refractories Segment	Six Months Ended		Growth	
	July 2, 2017	July 3, 2016		
	(millions of dollars)			
Net Sales				
Refractory Products	\$ 112.8	\$ 112.3	0	%
Metallurgical Products	26.3	30.8	-15	%
Total net sales	\$ 139.1	\$ 143.1	-3	%
Income from operations	\$ 19.7	\$ 17.1	15	%
% of net sales	14.2	% 11.9	%	

Net sales in the Refractories segment decreased 3% to \$139.1 million from \$143.1 million in the prior year. Sales of refractory products and systems to steel and other industrial applications increased slightly to \$112.8 million. Sales of metallurgical products decreased 15% to \$26.3 million due to decreased volumes.

Income from operations was \$19.7 million and 14.2% of sales as compared with \$17.1 million and 11.9% of sales. The increase in income from operations was due to improved productivity, cost and expense control and higher equipment sales.



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Energy Services Segment	Six Months Ended		Growth
	July 2, 2017	July 3, 2016	
	(millions of dollars)		
Net Sales	\$ 36.6	\$ 45.8	-20 %
Income (loss) from operations	\$ 2.5	\$ (29.6 )	*
% of net sales	6.8 %	*	

\* Percentage not meaningful

Net sales in the Energy Services segment decreased 20% to \$36.5 million from \$45.8 million in the prior year. The sales decrease was due to continued 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 of last year. During the second quarter of 2016, the Company incurred \$28.8 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.

Income from operations during the six months ended July 2, 2017 was \$2.5 million and represented 6.8 percent of sales. Loss from operations was \$29.6 million during the six months ended July 3, 2016. Included in the loss from operations were impairment and restructuring charges of \$28.8 million.

Liquidity and Capital Resources

Cash provided from continuing operations during the six months ended July 2, 2017, was approximately \$78 million. Cash flows provided from operations during the first six months of 2017 were principally used to fund capital expenditures, to repay debt and to pay the Company's dividend to common shareholders. Our intention is to continue to use excess cash flow primarily to repay debt and to continue to de-lever. During the first half of 2017, the Company repaid approximately \$55 million in the principal amount of its long-term debt. The aggregate maturities of long-term debt are as follows: remainder of 2017 - \$4.1 million; 2018 - \$3.7 million; 2019 - \$0.6 million; 2020 - \$0.6 million; 2021 - \$303.6 million; thereafter - \$738.0 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 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 (the "First Amendment") to the credit agreement to reprice the \$1.378 billion then outstanding on the Term Facility. As amended, the Term Facility had a \$1.078 billion floating rate tranche and a \$300 million fixed rate tranche. On February 14, 2017, the Company entered into an amendment (the "Second Amendment") to the credit agreement to reprice the \$788 million floating rate tranche then outstanding, which extended the maturity and lowered the interest costs by 75 basis points. Following the Second Amendment, the loans outstanding under the floating rate tranche of the Term Facility will mature on February 14, 2024, the loans outstanding under the fixed rate tranche of the Term Facility will mature on May 9, 2021 and the loans outstanding (if any) and commitments under the Revolving Facility will mature and terminate, as the case may be, on May 9, 2019. After the Second Amendment, loans under the floating rate tranche of the Term Facility bear interest at a rate equal to

an adjusted LIBOR rate (subject to a floor of 0.75%) plus an applicable margin equal to 2.25% per annum. Loans under the fixed rate tranche of the Term Facility bear interest at a rate of 4.75%. Loans under the Revolving Facility will bear interest at a rate equal to an adjusted LIBOR rate plus an applicable margin equal to 1.75% per annum. Such rates are subject to decrease by up to 25 basis points in the event that, and for so long as, the Company's net leverage ratio (as defined in the credit agreement) is less than certain thresholds. The floating rate tranche of the Term Facility was issued at par and the fixed rate tranche of the Term Facility was issued at a 0.25% discount in connection with the First Amendment. The variable rate tranche of the Term Facility was issued at a 0.25% discount in connection with the Second Amendment. The variable rate tranche has a 1% required amortization per year. The Company will pay certain fees under the credit agreement, including customary annual administration fees. The loans under the fixed rate tranche of the Term Facility are subject to prepayment premiums in the event of certain prepayments prior to the third anniversary of the effective date of the First Amendment, and the loans under the floating rate tranche of the Term Facility are subject to prepayment premiums in the event of certain prepayments prior to the six-month anniversary of the effective date of the Second 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. During the first half of 2017, the Company repaid \$50 million on its Term Facility. As of July 2, 2017, there were no loans and \$12.0 million in letters of credit outstanding under the Revolving Facility. The Company is in compliance with all the covenants associated with the Revolving Facility as of the end of the period covered by this report.

The Company has four committed loan facilities for the funding of new manufacturing facilities in China, comprised of facilities of 94.8 million RMB, (approximately \$10.3 million) and a \$1.8 million facility. In December 2016, the Company entered into a committed loan facility in Japan in the amount of 680 million Yen (approximately \$5.8 million). As of July 2, 2017, on a combined basis, \$12.6 million was outstanding under these facilities. Principal will be repaid in accordance with the payment schedules ending in 2021. The Company repaid \$2.8 million on these loans in the first half to 2017.

As of July 2, 2017, the Company had \$35.7 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 2017 should be between \$70.0 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. This swap agreement hedges a portion of contractual floating rate interest through its expiration in May 2021. As a result of the agreement, the Company's effective fixed interest rate on the notional amount floating rate indebtedness will be 4.25%. The fair value of this instrument at July 2, 2017 was an asset of \$2.0 million.

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 2015. As of July 2, 2017, 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 six months ended July 2, 2017, 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, 2016.

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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.

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, 2016, 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 elected to use the cumulative effect transition method. The Company has completed a high level accounting diagnostic and is in the process of contract review. The Company is currently evaluating the impact of this ASU on the Company’s consolidated financial statements and related disclosures and the Company’s assessment is expected to be completed in the second half of 2017.



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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. Based on the current status of this assessment, the adoption of this guidance is not expected to have a material impact on the Company’s financial statements.

Intangibles – Goodwill and Other

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

Compensation- Retirement Benefits

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

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. A portion of our long-term bank debt bears interest at variable rates; 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 result in \$7.2 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.

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. This swap agreement hedges a portion of contractual floating rate interest through its expiration in May 2021. As a result, the Company's effective fixed interest rate on the notional amount floating rate indebtedness will be 4.25% through May 2021. The fair value of this instrument at July 2, 2017 was an asset of \$2.0 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 Chief Executive Officer 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 Chief Executive Officer 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 has implemented a global enterprise resource planning ("ERP") system for the businesses acquired from AMCOL. Primarily all of the domestic, European and Asian locations of the acquired businesses were implemented on the new system. The worldwide implementation is substantially completed and involved changes in 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 six months ended July 2, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## 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. AMCOL recently won a motion for judgement on the pleadings that resulted in the successful dismissal of all but one count in the complaint, including a dismissal of all counts alleging violations of Illinois' Fraudulent Transfer laws and federal RICO violations. Armada has filed an appeal of the dismissal and the district court proceedings are stayed pending the appeal. We have accrued an estimate of potential damages for the Armada lawsuit, the amount of which was not material to our financial position, results of operations or cash flows.

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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 19 pending asbestos cases. To date, 1,493 silica cases and 50 asbestos cases have been dismissed, not including any lawsuits against AMCOL or American Colloid Company dismissed prior to our acquisition of AMCOL. Two new asbestos cases were filed in the second quarter of 2017, and one asbestos case was dismissed during the quarter (not counting an existing case that was dismissed in one state only to be filed again in another state). No 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 19 pending asbestos cases, 16 of the non-AMCOL cases claim liability based on sales of products both before and after the initial public offering. The Company is entitled to indemnification, pursuant to agreement, for sales prior to the initial public offering. In the two remaining non-AMCOL cases, the plaintiffs have not alleged dates of exposure. The remaining case is an AMCOL case, which makes no allegation with respect to periods of exposure. Our experience has been that the Company is not liable to plaintiffs in any of these lawsuits and the Company does not expect to pay any settlements or jury verdicts in these lawsuits.

Environmental Matters

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

We believe that the most likely form of overall site remediation will be to leave the existing contamination in place (with some limited soil removal), encapsulate it, and monitor the effectiveness of the encapsulation. We anticipate that a substantial portion of the remediation cost will be borne by the United States based on its involvement at the site from 1942 – 1964, as historic documentation indicates that PCBs and mercury were first used at the facility at a time of U.S. government ownership for production of materials needed by the military. Pursuant to a Consent Decree entered on October 24, 2014, the United States paid the Company \$2.3 million in the 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 July 2, 2017.



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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 July 2, 2017.

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 2016 Annual Report on Form 10-K.

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.

ITEM 5. Other Information

None

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ITEM 6. Exhibits

Exhibit No.	Exhibit Title
3.1	By-Laws of Minerals Technologies Inc., as amended and restated effective July 19, 2017 (incorporated by reference to the Exhibit 3.1 filed with the Company's Current Report on form 8-K filed of July 24, 2017)
<u>15</u>	Letter Regarding Unaudited Interim Financial Information. Rule 13a-14(a)/15d-14(a)
<u>31.1</u>	Certification executed by the Company's principal executive officer. Rule 13a-14(a)/15d-14(a)
<u>31.2</u>	Certification executed by the Company's principal financial officer.
<u>32</u>	Section 1350 Certifications. Information
<u>95</u>	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
101.DEF	XBRL Taxonomy Linkbase Extension Definition

Linkbase  
XBRL Taxonomy  
101.LAB Extension Label  
Linkbase  
XBRL Taxonomy  
101.PRE 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/ Matthew E. Garth  
Matthew E. Garth  
Senior Vice President, Finance and Treasury,  
Chief Financial Officer

August 4, 2017