

MINERALS TECHNOLOGIES INC
Form 10-Q
July 31, 2009

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

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

For the quarterly period ended June 28, 2009

or

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

Commission File Number 1-11430

--

MINERALS TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter).1.2

DELAWARE

(State or other jurisdiction of
incorporation or organization)

25-1190717

(I.R.S. Employer
Identification No.)

405 Lexington Avenue, New York, New York 10174-0002

(Address of principal executive offices, including zip code)

(212) 878-1800

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(𨵀.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

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

| Class | Outstanding at July 19, 2009 |
|--------------------------------|------------------------------|
| Common Stock, \$0.10 par value | 18,729,060 |

MINERALS TECHNOLOGIES INC.

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PART 1. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

| (in thousands, except per share data) | Three Months Ended | | Six Months Ended | |
|---|---------------------|------------------|---------------------|------------------|
| | June 28, 2009 | June 29, 2008 | June 28, 2009 | June 29, 2008 |
| Net sales | \$ 208,598 | \$ 299,794 | \$ 416,857 | \$ 577,314 |
| Cost of goods sold | <u>176,192</u> | <u>237,512</u> | <u>351,207</u> | <u>454,297</u> |
| Production margin | 32,406 | 62,282 | 65,650 | 123,017 |
| Marketing and administrative expenses | 22,591 | 26,590 | 43,137 | 52,630 |
| Research and development expenses | 4,364 | 6,014 | 9,225 | 12,134 |
| Impairment of assets | 37,516 | -- | 37,516 | -- |
| Restructuring and other costs | <u>9,553</u> | <u>899</u> | <u>10,102</u> | <u>2,331</u> |
| Income (loss) from operations | (41,618) | 28,779 | (34,330) | 55,922 |
| Non-operating deductions, net | <u>(3,535)</u> | <u>(724)</u> | <u>(3,790)</u> | <u>(2,238)</u> |
| Income (loss) from continuing operations before provision for taxes | (45,153) | 28,055 | (38,120) | 53,684 |
| Provision (benefit) for taxes on income (loss) | <u>(8,632)</u> | <u>8,653</u> | <u>(6,680)</u> | <u>16,598</u> |
| Income (loss) from continuing operations, net of tax | (36,521) | 19,402 | (31,440) | 37,086 |
| Income (loss) from discontinued operations, net of tax | <u>(3,524)</u> | <u>4,646</u> | <u>(3,612)</u> | <u>5,022</u> |
| Consolidated net income (loss) | (40,045) | 24,048 | (35,052) | 42,108 |
| Less: Net income attributable to noncontrolling interests | <u>(862)</u> | <u>(713)</u> | <u>(1,698)</u> | <u>(1,566)</u> |
| Net income (loss) attributable to Minerals Technologies Inc. (MTI) | <u>\$ (40,907)</u> | <u>\$ 23,335</u> | <u>\$ (36,750)</u> | <u>\$ 40,542</u> |
| Earnings (Loss) per share: | | | | |
| Basic: | | | | |
| Income (loss) from continuing operations attributable to MTI | \$ (1.99) | \$ 0.99 | \$ (1.77) | \$ 1.87 |

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| | | | | |
|--|------------------|----------------|------------------|----------------|
| Income (loss) from discontinued operations attributable to MTI | <u>(0.19)</u> | <u>0.24</u> | <u>(0.19)</u> | <u>0.26</u> |
| Basic earnings (loss) per share attributable to MTI | \$ <u>(2.18)</u> | \$ <u>1.23</u> | \$ <u>(1.96)</u> | \$ <u>2.13</u> |
| Diluted: | | | | |
| Income (loss) from continuing operations attributable to MTI | \$ (1.99) | \$ 0.98 | \$ (1.77) | \$ 1.86 |
| Income (loss) from discontinued operations attributable to MTI | <u>(0.19)</u> | <u>0.24</u> | <u>(0.19)</u> | <u>0.26</u> |
| Diluted earnings (loss) per share attributable to MTI | \$ <u>(2.18)</u> | \$ <u>1.22</u> | \$ <u>(1.96)</u> | \$ <u>2.12</u> |
| Cash dividends declared per common share | \$ <u>0.05</u> | \$ <u>0.05</u> | \$ <u>0.10</u> | \$ <u>0.10</u> |
| Shares used in computation of earnings per share: | | | | |
| Basic | 18,728 | 18,937 | 18,715 | 19,006 |
| Diluted | 18,728 | 19,065 | 18,715 | 19,114 |

See accompanying Notes to Condensed Consolidated Financial Statements.

MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| (thousands of dollars) | ASSETS | |
|---|-------------------|---------------------------|
| | June 28, 2009* | December 31, 2008** |
| Current assets: | | |
| Cash and cash equivalents | \$ 226,735 | \$ 181,876 |
| Short-term investments, at cost which approximates market | 13,960 | 9,258 |
| Accounts receivable, net | 166,110 | 163,475 |
| Inventories | 99,525 | 133,983 |
| Prepaid expenses and other current assets | 27,367 | 23,281 |
| Assets held for disposal | <u>17,461</u> | <u>19,674</u> |
| Total current assets | 551,158 | 531,547 |

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| | | |
|---|---------------------|---------------------|
| Property, plant and equipment, less accumulated depreciation and depletion - June 28, 2009 - \$838,800; December 31, 2008 - \$894,638 | 373,976 | 429,593 |
| Goodwill | 67,830 | 66,414 |
| Prepaid pension costs | 552 | 483 |
| Other assets and deferred charges | <u>21,117</u> | <u>39,583</u> |
| Total assets | <u>\$ 1,014,633</u> | <u>\$ 1,067,620</u> |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|--|---------------------|---------------------|
| Current liabilities: | | |
| Short-term debt | \$ 9,499 | \$ 14,984 |
| Current maturities of long-term debt | 4,000 | 4,000 |
| Accounts payable | 62,580 | 67,393 |
| Restructuring liabilities | 12,628 | 6,840 |
| Other current liabilities | 46,478 | 56,902 |
| Liabilities of assets held for disposal | <u>793</u> | <u>734</u> |
| Total current liabilities | 135,978 | 150,853 |
| Long-term debt | 97,221 | 97,221 |
| Other non-current liabilities | <u>54,434</u> | <u>84,715</u> |
| Total liabilities | <u>287,633</u> | <u>332,789</u> |
| Shareholders' equity: | | |
| Common stock | 2,887 | 2,883 |
| Additional paid-in capital | 314,785 | 312,972 |
| Retained earnings | 824,981 | 863,601 |
| Accumulated other comprehensive loss | (4,604) | (31,634) |
| Less common stock held in treasury | <u>(436,238)</u> | <u>(436,238)</u> |
| Total MTI shareholders' equity | 701,811 | 711,584 |
| Non-controlling interest | <u>25,189</u> | <u>23,247</u> |
| Total shareholders' equity | <u>727,000</u> | <u>734,831</u> |
| Total liabilities and shareholders' equity | <u>\$ 1,014,633</u> | <u>\$ 1,067,620</u> |

* Unaudited

** Condensed from audited financial statements

See accompanying Notes to Condensed Consolidated Financial Statements.

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| | Six Months Ended | |
|--|-------------------|-------------------|
| | June 28, 2009 | June 29, 2008 |
| (thousands of dollars) | | |
| Operating Activities: | | |
| Consolidated net income (loss) | \$ (35,052) | \$ 42,108 |
| Income (loss) from discontinued operations | <u>(3,612)</u> | <u>5,022</u> |
| Income (loss) from continuing operations | (31,440) | 37,086 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, depletion and amortization | 37,105 | 40,837 |
| Impairment of assets | 37,516 | -- |
| Payments relating to restructuring activities | (4,339) | (11,800) |
| Tax benefits related to stock incentive programs | -- | 1,643 |
| Other non-cash items | (5,190) | 4,028 |
| Net changes in operating assets and liabilities | <u>29,742</u> | <u>(35,677)</u> |
| Net cash provided by continuing operations | 63,394 | 36,117 |
| Net cash provided by (used in) discontinued operations | <u>(561)</u> | <u>2,003</u> |
| Net cash provided by operating activities | <u>62,833</u> | <u>38,120</u> |
| Investing Activities: | | |
| Purchases of property, plant and equipment | (9,365) | (19,906) |
| Proceeds from sale of short-term investments | -- | 520 |
| Purchases of short-term investments | <u>(3,669)</u> | <u>(4,076)</u> |
| Net cash used in investing activities - continuing operations | (13,034) | (23,462) |
| Net cash provided by investing activities - discontinued operations | <u>--</u> | <u>7,440</u> |
| Net cash used in investing activities | <u>(13,034)</u> | <u>(16,022)</u> |
| Financing Activities: | | |
| Repayment of long-term debt | -- | (16,845) |
| Net proceeds (repayment) of short-term debt | (3,918) | 9,988 |
| Purchase of common shares for treasury | -- | (23,717) |
| Proceeds from issuance of stock under option plan | -- | 10,921 |
| Excess tax benefits related to stock incentive programs | -- | 610 |
| Cash dividends paid | <u>(1,871)</u> | <u>(1,904)</u> |
| Net cash used in financing activities | <u>(5,789)</u> | <u>(20,947)</u> |
| Effect of exchange rate changes on cash and cash equivalents | <u>849</u> | <u>8,843</u> |
| Net increase in cash and cash equivalents | 44,859 | 9,994 |
| Cash and cash equivalents at beginning of period | <u>181,876</u> | <u>128,985</u> |
| Cash and cash equivalents at end of period | <u>\$ 226,735</u> | <u>\$ 138,979</u> |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | <u>\$ 2,039</u> | <u>\$ 2,755</u> |
| Income taxes paid | <u>\$ 5,827</u> | <u>\$ 11,378</u> |
| Non-cash financing activities: | | |
| Treasury stock purchases settled after period-end | <u>\$ --</u> | <u>\$ 297</u> |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by management in accordance with the rules and regulations of the United States Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. Therefore, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. In the opinion of management, all adjustments, consisting solely of normal recurring adjustments necessary for a fair presentation of the financial information for the periods indicated, have been included. The results for the three-month and six-month periods ended June 28, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

Note 2. Summary of Significant Accounting Policies

Use of Estimates

The Company employs accounting policies that are in accordance with U.S. generally accepted accounting principles and require management to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reported period. Significant estimates include those related to revenue recognition, allowance for doubtful accounts, valuation of inventories, valuation of long-lived assets, goodwill and other intangible assets, pension plan assumptions, income tax, valuation allowances, and litigation and environmental liabilities. Actual results could differ from those estimates.

Note 3. Earnings Per Share (EPS)

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

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

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------|------------------|------|
| | June | June | June | June |
| Basic EPS (in millions, except per share data) | 28, | 29, | 28, | 29, |
| | 2009 | 2008 | 2009 | 2008 |

Income (loss) from continuing

| | | | | |
|--|------------------|----------------|------------------|----------------|
| operations | | | | |
| attributable to MTI | \$ (37.4) | \$ 18.7 | \$ (33.1) | \$ 35.5 |
| Income (loss) from discontinued operations | | | | |
| attributable to MTI | <u>(3.5)</u> | <u>4.6</u> | <u>(3.6)</u> | <u>5.0</u> |
| Net income (loss) attributable to MTI | <u>\$ (40.9)</u> | <u>\$ 23.3</u> | <u>\$ (36.7)</u> | <u>\$ 40.5</u> |
| Weighted average shares outstanding | 18,728 | 18,937 | 18,715 | 19,006 |
| Basic earnings (loss) per share from continuing operations | | | | |
| attributable to MTI | \$ (1.99) | \$ 0.99 | \$ (1.77) | \$ 1.87 |
| Basic earnings (loss) per share from discontinued operations | | | | |
| attributable to MTI | <u>(0.19)</u> | <u>0.24</u> | <u>(0.19)</u> | <u>0.26</u> |
| Basic earnings (loss) per share attributable to MTI | <u>\$ (2.18)</u> | <u>\$ 1.23</u> | <u>\$ (1.96)</u> | <u>\$ 2.13</u> |

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

| | Three Months Ended | | Six Months Ended | |
|--|---------------------|---------------------|---------------------|---------------------|
| | June 28, 2009 | June 29, 2008 | June 28, 2009 | June 29, 2008 |
| Diluted EPS (in millions, except per share data) | | | | |
| Income (loss) from continuing operations | | | | |
| attributable to MTI | \$ (37.4) | \$ 18.7 | \$ (33.1) | \$ 35.5 |
| Income (loss) from discontinued operations | | | | |
| attributable to MTI | <u>(3.5)</u> | <u>4.6)</u> | <u>(3.6)</u> | <u>5.0</u> |
| Net income (loss) attributable to MTI | <u>\$ (40.9)</u> | <u>\$ 23.3</u> | <u>\$ (36.7)</u> | <u>\$ 40.5</u> |
| Weighted average shares outstanding | 18,728 | 18,937 | 18,715 | 19,006 |
| Dilutive effect of stock options and stock units | <u>--</u> | <u>128</u> | <u>--</u> | <u>108</u> |
| Weighted average shares outstanding, adjusted | <u>18,728</u> | <u>19,065</u> | <u>18,715</u> | <u>19,114</u> |
| Diluted earnings (loss) per share from continuing operations | | | | |
| attributable to MTI | \$ (1.99) | \$ 0.98 | \$ (1.77) | \$ 1.86 |

Diluted earnings (loss) per share from discontinued operations

| | | | | |
|---|-------------------|----------------|-------------------|----------------|
| attributable to MTI | <u>(0.19)</u> | <u>0.24)</u> | <u>(0.19)</u> | <u>0.26</u> |
| Diluted earnings (loss) per share attributable to MTI | <u>\$ (2.18)</u> | <u>\$ 1.22</u> | <u>\$ (1.96)</u> | <u>\$ 2.12</u> |

The weighted average diluted common shares outstanding for the three-month and six-month periods ended June 28, 2009 excludes stock options and restricted stock, as inclusion of these would be anti-dilutive. During the three-month and six-month periods ended June 28, 2009, approximately 9,000 and 11,000 common equivalent shares, respectively, were not included in the computation of diluted earnings per share because they would have been anti-dilutive. Additionally, options to purchase 773,589 shares of common stock for the three month and six month periods ended June 28, 2009 were not included in the computation of diluted earnings per share. Options to purchase 240,300 shares of common stock for the three month and six month periods ended June 29, 2008 were not included in the computation of diluted earnings per share because they were anti-dilutive, as the exercise prices of the options were greater than the average market price of the common shares.

Note 4. Discontinued Operations

In the third quarter of 2007, as a result of a change in management and deteriorating financial performance, the Company conducted an in-depth review of all of its operations and developed a new strategic focus. The Company initiated a plan to realign its business operations to improve profitability and increase shareholder value by exiting certain businesses and consolidating some product lines. As a part of this restructuring, during the fourth quarter of 2007, the Company classified its Synsil operations and its plants at Mount Vernon, Indiana and Wellsville, Ohio as discontinued operations. These operations were part of the Company's Specialty Minerals segment. The remaining assets of these operations are held for disposal. During the second quarter of 2008, the Company sold two of its idle Synsil operations in Chester, South Carolina and Woodville, Ohio for approximately \$7.5 million. This resulted in a pre-tax gain of approximately \$6.5 million (\$4.3 million after-tax). During the second quarter of 2009 the Company recorded impairment of asset charges of \$3.5 million, net of tax, to recognize the lower market value of its Mt. Vernon, Indiana facility. The Company expects the sale of the remaining assets to be completed during 2009. The Company does not anticipate the ongoing operating cash flows of these operations to be significant.

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

The following table details selected financial information for the discontinued operations in the consolidated statements of operations. The amounts exclude general corporate overhead and interest expense which were previously allocated to the entities comprising discontinued operations.

Three Months Ended

Six Months Ended

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| Millions of Dollars | June 28, 2009 | June 29, 2008 | June 28, 2009 | June 29, 2008 |
|---|------------------|------------------|------------------|------------------|
| Net sales | \$ 4.5 | \$ 6.4 | \$ 7.8 | \$ 12.7 |
| Production margin | 0.2 | 0.7 | 0.3 | 1.5 |
| Expenses | 0.2 | 0.2 | 0.4 | 0.5 |
| Impairment of assets | 5.6 | | 5.6 | |
| Restructuring and other costs (reversals) | -- | (0.2) | -- | (0.3) |
| Gain on sale of assets | -- | 6.5 | -- | 6.5 |
| Income (loss) from operations | \$ (5.6) | \$ 7.2 | \$ (5.7) | \$ 7.8 |
| Provision (benefit) for taxes on income | \$ (2.1) | \$ 2.6 | \$ (2.1) | \$ 2.8 |
| Income (loss) from discontinued operations, net of tax | \$ (3.5) | \$ 4.6 | \$ (3.6) | \$ 5.0 |

The major classes of assets and liabilities held for disposal in the consolidated balance sheets are as follows:

| Millions of Dollars | June 28, 2009 | Dec. 31, 2008 |
|---|------------------|------------------|
| Assets: | | |
| Accounts receivable | \$ 2.4 | \$ 1.3 |
| Inventories | 7.2 | 7.2 |
| Property, plant and equipment, net | 5.0 | 9.8 |
| Goodwill | -- | 0.8 |
| Prepaid expense | 0.8 | 0.6 |
| Deferred tax asset | 2.1 | -- |
| Assets held for disposal | \$ <u>17.5</u> | \$ <u>19.7</u> |
| Liabilities: | | |
| Accounts payable | \$ 0.6 | \$ 0.6 |
| Accrued liabilities | 0.2 | 0.1 |
| Liabilities of assets held for disposal | \$ <u>0.8</u> | \$ <u>0.7</u> |

Note 5. Income Taxes

As of June 28, 2009, the Company had approximately \$7.8 million of total unrecognized income tax benefits. Included in this amount were a total of \$6.3 million of unrecognized income tax benefits that if recognized would affect the Company's effective tax rate. While it is expected that the amount of unrecognized tax benefits will change in the next 12 months, we do 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 prior to the adoption of FIN 48 and upon the adoption of FIN 48 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 \$0.1 million and \$(0.5) million during the second quarter and first half of 2009, respectively, and has an accrued balance of \$2.0 million of interest and penalties accrued as of June 28, 2009.

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

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 U.S. federal, state, local, and European income tax examinations by tax authorities for years prior to 2003.

Note 6. Inventories

The following is a summary of inventories by major category:

| (millions of dollars) | June 28, 2009 | December 31, 2008 |
|------------------------|------------------|----------------------|
| Raw materials | \$ 44.0 | \$ 67.5 |
| Work-in-process | 8.6 | 10.2 |
| Finished goods | 26.5 | 35.0 |
| Packaging and supplies | 20.4 | 21.3 |
| Total inventories | <u>\$ 99.5</u> | <u>\$ 134.0</u> |

Note 7. Goodwill and Other Intangible Assets

The Company accounts for goodwill and other intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and other intangible assets with indefinite lives are not amortized, but instead are tested for impairment, at least annually, in accordance with the provisions of SFAS No. 142.

The carrying amount of goodwill was \$67.8 million, and \$66.4 million as of June 28, 2009 and December 31, 2008, respectively. The net change in goodwill since January 1, 2009 was primarily attributable to the effect of foreign exchange.

Acquired intangible assets subject to amortization as of June 28, 2009 and December 31, 2008 were as follows:

| (millions of dollars) | June 28, 2009 | | December 31, 2008 | |
|------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Patents and trademarks | \$ 6.9 | \$ 3.6 | \$ 7.4 | \$ 3.2 |
| Customer lists | 2.7 | 1.0 | 9.2 | 1.9 |
| | -- | -- | 0.4 | 0.2 |

Other

| | | | | | | | |
|----|------------|----|------------|----|-------------|----|------------|
| \$ | <u>9.6</u> | \$ | <u>4.6</u> | \$ | <u>17.0</u> | \$ | <u>5.3</u> |
|----|------------|----|------------|----|-------------|----|------------|

In the second quarter of 2009, the Company recorded a \$6.0 million impairment charge for customer list intangible assets from its 2006 acquisition in Turkey.

The weighted average amortization period for acquired intangible assets subject to amortization is approximately 15 years. Estimated amortization expense is \$0.6 million for each of the next five years through 2013.

Included in other assets and deferred charges is an intangible asset of approximately \$3.2 million which represents the non-current unamortized amount paid to a customer in connection with contract extensions at eight PCC satellite facilities. In addition, a current portion of \$1.5 million is included in prepaid expenses and other current assets. Such amounts will be amortized as a reduction of sales over the remaining lives of the customer contracts. Approximately \$0.4 million was amortized in the second quarter of 2009. Estimated amortization as a reduction of sales is as follows: remainder of 2009 - \$0.7 million; 2010 - \$1.2 million; 2011 - \$0.9 million; 2012 - \$0.6 million; 2013 - \$0.6 million; with smaller reductions thereafter over the remaining lives of the contracts.

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

Note 8. Restructuring Costs

In the third quarter of 2007, as a result of a change in management and deteriorating financial performance, the Company conducted an in-depth review of all its operations and developed a new strategic focus. The Company initiated a plan to realign its business operations to improve profitability and increase shareholder value by exiting certain businesses and consolidating some product lines. As part of this program, the Company reduced its workforce by approximately 7 percent to better control operating expenses and improve efficiencies and recorded a pre-tax charge of \$16.0 million for restructuring and other exit costs during the second half of 2007. This charge consists of severance and other employee benefit costs of \$13.5 million, contract termination costs of \$1.8 million and other exit costs of \$0.7 million. Additional restructuring costs of \$9.5 million were recorded in 2008 related to this program, including a pension settlement loss of approximately \$6.8 million related to the distribution of benefits to terminated employees. The restructuring resulted in a total workforce reduction of approximately 250, of which 240 reductions have been implemented as of June 28, 2009.

A reconciliation of the restructuring liability for this program, as of June 28, 2009, is as follows:

2007 Restructuring Program

| (millions of dollars) | Balance as of December 31, 2008 | Additional Provisions | Cash Expenditures | Balance as of June 28, 2009 |
|--|---------------------------------------|--------------------------|----------------------|-----------------------------------|
| Severance and other employee benefits | \$ 1.7 | \$ 0.1 | \$ (0.6) | \$ 1.2 |

| | | | | |
|----------------------------|---------------|---------------|-----------------|---------------|
| Contract termination costs | 1.6 | -- | -- | 1.6 |
| | <u>\$ 3.3</u> | <u>\$ 0.1</u> | <u>\$ (0.6)</u> | <u>\$ 2.8</u> |

Approximately \$0.6 million and \$2.2 million in severance payments were paid in the second quarter of 2009 and 2008, respectively. A restructuring liability of \$2.8 million remains at June 28, 2009. Such amounts will be funded from operating cash flows and we expect the program to be completed in 2009.

In the fourth quarter of 2008 as a result of the worldwide economic downturn and the resulting impact on our sales and operating profits, the Company initiated an additional restructuring program by reducing its workforce by approximately 14% through a combination of permanent reductions and temporary layoffs. The Company recorded a charge of \$3.9 million associated with this program.

A reconciliation of the restructuring liability for this program, as of June 28, 2009, is as follows:

2008 Restructuring Program

| (millions of dollars) | Balance as of December 31, 2008 | Additional Provisions | Cash Expenditures | Balance as of June 28, 2009 |
|--|---------------------------------------|--------------------------|----------------------|-----------------------------------|
| Severance and other employee benefits | \$ 3.5 | \$ 1.0 | \$ (3.6) | \$ 0.9 |
| Other exit costs | <u>--</u> | <u>0.1</u> | <u>(0.1)</u> | <u>--</u> |
| | <u>\$ 3.5</u> | <u>\$ 1.1</u> | <u>\$ (3.7)</u> | <u>\$ 0.9</u> |

Approximately \$1.9 million in severance payments was paid in the second quarter of 2009. The remaining liability of \$0.9 million will be paid from cash flow from operations and the program is expected to be completed in 2009.

In the second quarter of 2009, the Company initiated a program to improve efficiencies through the consolidation of manufacturing operations and reduction of costs.

The restructuring program will reduce the current workforce by approximately 200 employees worldwide. This reduction in force relates to plant consolidations as well as a streamlining of the corporate and divisional management structures to operate more efficiently.

MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
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A reconciliation of the restructuring liability for this program, as of June 28, 2009, is as follows:

2009 Restructuring Program

(millions of dollars)

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| | Balance as of December 31, 2008 | Additional Provisions | Cash Expenditures | Balance as of June 28, 2009 |
|--|---------------------------------------|--------------------------|----------------------|-----------------------------------|
| Severance and other employee benefits | \$ -- | \$ 8.4 | \$ -- | \$ 8.4 |
| Contract termination costs | -- | 0.4 | -- | 0.4 |
| Other exit costs | -- | 0.1 | -- | 0.1 |
| | <u>\$ --</u> | <u>\$ 8.9</u> | <u>\$ --</u> | <u>\$ 8.9</u> |

The liability of \$8.9 million will be paid from cash flow from operations, and the program is expected to be completed by the second quarter of 2010.

Note 9. Accounting for Impairment of Long-Lived Assets

The Company accounts for impairment of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 also establishes a uniform accounting model for the disposal of long-lived assets. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In such instances, the Company estimates the undiscounted future cash flows (excluding interest) resulting from the use of the asset and its ultimate disposition. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, the Company recognizes an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset, determined principally using discounted cash flows.

In the second quarter of 2009, the Company initiated a restructuring program to improve efficiencies through the consolidation of operations and rationalization of certain product lines, and through the reduction of costs. As part of this program, the Company will consolidate its Old Bridge, New Jersey operation into Bryan, Ohio and Baton Rouge, Louisiana, in order to improve operational efficiencies and reduce logistics for key raw materials, which resulted in an impairment of assets charge of \$4.3 million; rationalize its North American specialty shapes product line resulting in an impairment of assets charge of \$1.5 million; rationalize some of its European operations resulting in an impairment of assets charge of \$2.2 million; record further impairment charges of \$10.0 million related to its Asian refractory operations as a result of continued difficulties in market penetration as well as consolidate its Asian operations and actively seek a regional alliance to aid in marketing its high value products; recognize impairment charges for refractory application equipment in North America of \$3.7 million and Europe of \$3.3 million due to customer underutilized assets under depressed volume conditions; an impairment of \$6.5 million related to the Company's PCC facility in Millinocket, Maine, which has been idle since September 2008 and where the start-up of the satellite facility is now unlikely. As a result of this realignment, the Company recorded an impairment of assets charge of \$37.5 million.

The following table reflects the major components of the impairment of assets charge:

Impairment of assets:

| (millions of dollars) | Second Quarter 2009 | Remaining Carrying Value of Impaired Assets |
|-----------------------|------------------------|--|
| Americas Refractories | \$ 9.5 | \$ 0.3 |

| | | |
|-------------------------|-----------------|-----------------|
| European Refractories | 11.5 | 0.8 |
| Asian Refractories | 10.0 | 11.6 |
| North America Paper PCC | 6.5 | -- |
| | <u> </u> | <u> </u> |
| Total impairment | \$ 37.5 | \$ 12.7 |
| | <u> </u> | <u> </u> |

Included in the impairment of assets charge for Europe Refractories is a \$6.0 million charge for certain intangible assets from its 2006 acquisition of a business in Turkey.

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The Company expects to realize, beginning in the third quarter of 2009, annualized pre-tax depreciation savings of approximately \$5 million related to the write-down of fixed assets.

Note 10. Long-Term Debt and Commitments

The following is a summary of long-term debt:

| (m i l l i o n s o f dollars) | June 28, <u>2009</u> | December 31, <u>2008</u> |
|---|----------------------------|--------------------------------|
| 5.53% Series 2006A Senior Notes | | |
| Due October 5, 2013 | \$ 50.0 | \$ 50.0 |
| Floating Rate Series 2006A Senior Notes | | |
| Due October 5, 2013 | 25.0 | 25.0 |
| Variable/Fixed Rate Industrial | | |
| Development Revenue Bonds Due | | |
| 2009 | 4.0 | 4.0 |
| Economic Development Authority | | |
| Refunding | | |
| Revenue Bonds Series 1999 Due | | |
| 2010 | 4.6 | 4.6 |
| Variable/Fixed Rate Industrial | | |
| Development Revenue Bonds Due | | |
| August 1, 2012 | 8.0 | 8.0 |
| Variable/Fixed Rate Industrial | | |
| Development Revenue Bonds Series | | |
| 1999 Due November 1, 2014 | 8.2 | 8.2 |
| Installment obligations | <u>1.4</u> | <u>1.4</u> |
| Total | 101.2 | 101.2 |
| Less: Current maturities | <u>4.0</u> | <u>4.0</u> |
| Long-term debt | <u>\$ 97.2</u> | <u>\$ 97.2</u> |

As of June 28, 2009, the Company had \$171.4 million of uncommitted short-term bank credit lines, of which approximately \$9.5 million were in use.

Note 11. Pension Plans

The Company and its subsidiaries have pension plans both in the U.S. and internationally, covering substantially all eligible employees on a contributory or non-contributory basis. 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

| (millions of dollars) | Pension Benefits | | | |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|
| | Three Months Ended | | Six Months Ended | |
| | June 28, 2009 | June 29, 2008 | June 28, 2009 | June 29, 2008 |
| Service cost | \$ 1.6 | \$ 2.0 | \$ 3.4 | \$ 4.2 |
| Interest cost | 2.4 | 2.9 | 5.4 | 6.2 |
| Expected return on plan assets | (2.7) | (4.7) | (6.3) | (9.9) |
| Amortization: | | | | |
| Prior service cost | 0.4 | 0.4 | 0.8 | 0.7 |
| Recognized net actuarial loss | 1.8 | 0.5 | 3.7 | 1.1 |
| Net periodic benefit cost | <u>\$ 3.5</u> | <u>\$ 1.1</u> | <u>\$ 7.0</u> | <u>\$ 2.3</u> |

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MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
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| (millions of dollars) | Other Benefits | | | |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|
| | Three Months Ended | | Six Months Ended | |
| | June 28, 2009 | June 29, 2008 | June 28, 2009 | June 29, 2008 |
| Service cost | \$ 0.4 | \$ 0.6 | \$ 0.7 | \$ 1.2 |
| Interest cost | 0.5 | 0.6 | 0.9 | 1.2 |
| Amortization: | | | | |
| Prior service cost | -- | 0.1 | -- | 0.3 |
| Recognized net actuarial loss | (0.2) | 0.1 | 0.1 | 0.1 |
| Net periodic benefit cost | <u>\$ 0.7</u> | <u>\$ 1.4</u> | <u>\$ 1.7</u> | <u>\$ 2.8</u> |

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

In the second quarter of 2009, the Company amended its post-retirement plan in the U.S. which reduced its accumulated benefit obligation. As a result, the Company reduced the liability associated with this plan from \$41.5 million at December 31, 2008 to \$11.9 million at June 28, 2009.

Employer Contributions

The Company expects to contribute \$6 million to its pension plan and \$1.5 million to its other post retirement benefit plans in 2009. As of June 28, 2009, \$1.1 million has been contributed to the pension fund and approximately \$0.6 million has been contributed to the post retirement benefit plans.

Note 12. Comprehensive Income

The following are the components of comprehensive income:

| (millions of dollars) | Three Months Ended | | Six Months Ended | |
|--|--------------------|---------------|------------------|---------------|
| | June 28, 2009 | June 29, 2008 | June 28, 2009 | June 29, 2008 |
| Consolidated net income (loss) | \$ (40.1) | \$ 24.0 | \$ (35.1) | \$ 42.1 |
| Other comprehensive income, net of tax: | | | | |
| Foreign currency translation adjustments | 23.2 | 1.6 | 7.6 | 20.8 |
| Pension and postretirement plan adjustments | 19.8 | 0.6 | 21.3 | 1.2 |
| Cash flow hedges: | | | | |
| Net derivative gains (losses) arising during the period | (1.3) | (0.1) | (1.1) | 0.1 |
| Comprehensive income (loss) | 1.6 | 26.1 | (7.3) | 64.2 |
| Comprehensive income attributable to noncontrolling interest | (1.5) | (0.7) | (2.4) | (1.6) |
| Comprehensive income (loss) attributable to MTI | \$ (0.1) | \$ 25.4 | \$ (9.7) | \$ 62.6 |

The components of accumulated other comprehensive gain, net of related tax, are as follows:

| (millions of dollars) | June 29, 2009 | December 31, 2008 |
|--|---------------|-------------------|
| Foreign currency translation adjustments | \$ 39.2 | \$ 32.3 |
| Unrecognized pension costs | (43.7) | (65.0) |
| Net gain (loss) on cash flow hedges | (0.1) | 1.1 |
| Accumulated other comprehensive gain | \$ 4.6 | \$ (31.6) |

MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
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Note 13. Accounting for Asset Retirement Obligations

SFAS No. 143, "Accounting for Asset Retirement Obligations" establishes the financial accounting and reporting obligations associated with the retirement of long-lived assets and the associated asset retirement costs. The Company records asset retirement obligations in which the Company will be required to retire tangible long-lived assets. These are primarily related to its PCC satellite facilities and mining operations. The Company has also adopted the provisions of FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," related to conditional asset retirement obligations at its facilities. The Company has recorded asset retirement obligations at all of its facilities except where there are no legal or contractual obligations. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

The following is a reconciliation of asset retirement obligations as of June 28, 2009:

(millions of dollars)

| | |
|---|----------------|
| Asset retirement liability, December 31, 2008 | \$ 13.0 |
| Accretion expense | 0.3 |
| Foreign currency translation | 0.1 |
| Asset retirement liability, June 28, 2009 | <u>\$ 13.4</u> |

Approximately \$0.4 million is included in other current liabilities and \$13.0 million is included in other non-current liabilities in the Condensed Consolidated Balance Sheet as of June 28, 2009.

Note 14. Legal Proceedings

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 306 pending silica cases and 25 pending asbestos cases. To date, 1,159 silica cases and 4 asbestos cases have been dismissed. One new asbestos case was filed in the second quarter of 2009. 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 not settled any silica or asbestos lawsuits to date. 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 was approximately \$0.1 million, the majority of which has been reimbursed by Pfizer Inc pursuant to the terms of certain agreements entered into in connection with the Company's initial public offering in 1992. 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 ("DEP") 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") at a portion of the site. The following is the present status of the remediation efforts:

• **Building Decontamination.**

We have completed the investigation of building contamination and submitted a report characterizing the contamination. We are awaiting review and approval of this report by the regulators. Based on the results of this investigation, we believe that the contamination may be adequately addressed by means of encapsulation through painting of exposed surfaces, pursuant to the Environmental Protection Agency's ("EPA") regulations and have accrued such liabilities as discussed below. However, this conclusion remains uncertain pending completion of the phased remediation decision process required by the regulations.

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• *Groundwater.* We have completed investigations of potential groundwater contamination and have submitted a report on the investigations finding that there is no PCB contamination, but some oil contamination of the groundwater. We expect the regulators to require confirmatory long term groundwater monitoring at the site.

• **Soil.**

We have completed the investigation of soil contamination and submitted a report characterizing contamination to the regulators. Based on the results of this investigation, we believe that the contamination may be left in place and monitored, pursuant to a site-specific risk assessment, which is underway. However, this conclusion is subject to completion of a phased remediation decision process required by applicable regulations.

We believe that the most likely form of remediation will be to leave existing contamination in place, encapsulate it, and monitor the effectiveness of the encapsulation.

We estimate that the cost of the likely remediation above would approximate \$400,000, and that amount has been recorded as a liability on our books and records.

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 on June 18, 2002. This order was amended on June 1, 2009. The amended Order requires the installation of a groundwater containment system by mid-year 2010. The amendment also 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 \$400,000, which has been accrued as of June 28, 2009.

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

Note 15. Non-Operating Income and Deductions

| | Three Months Ended | | Six Months Ended | |
|---|---------------------|---------------------|---------------------|---------------------|
| | June 28, 2009 | June 29, 2008 | June 28, 2009 | June 29, 2008 |
| (millions of dollars) | | | | |
| Interest income | \$ 0.8 | \$ 1.0 | \$ 1.6 | \$ 2.1 |
| Interest expense | (0.9) | (1.1) | (1.8) | (2.6) |
| Foreign exchange gains (losses) | (1.3) | (0.3) | (1.2) | (1.1) |
| Foreign currency translation loss upon liquidation | (2.3) | -- | (2.3) | -- |
| Other deductions | 0.2 | (0.3) | -- | (0.6) |
| Non-operating income (deductions), net | <u>\$ (3.5)</u> | <u>\$ (0.7)</u> | <u>\$ (3.7)</u> | <u>\$ (2.2)</u> |

During the second quarter of 2009, the Company recognized currency translation losses of \$2.3 million upon liquidation of the Company's operations at its facility at Gomez Palacio, Mexico.

Note 16 . Noncontrolling interests

On January 1, 2009, the Company adopted Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51". Under the provisions of this statement, the income statement presentation has been revised to separately present consolidated net income, which now includes the amounts attributable to the Company plus noncontrolling interests (formerly termed minority interests), and net income attributable solely to the Company. In addition, noncontrolling interests, are considered a component of equity for all periods presented. Noncontrolling interests were previously classified within other long-term liabilities. Prior year presentations have been restated to conform with the new statement.

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

| | Equity Attributable to MTI | | | | | | Total |
|------------------------------------|----------------------------|----------------------------------|----------------------|---|----------------------|-----------------------------|-------------------|
| | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Noncontrolling Interests | |
| Balance as of December 31, 2008 | <u>\$ 2,883</u> | <u>\$ 312,972</u> | <u>\$ 863,601</u> | <u>\$ (31,634)</u> | <u>\$ (436,238)</u> | <u>\$ 23,247</u> | <u>\$ 734,831</u> |
| Comprehensive Income: | | | | | | | |
| Net income | -- | -- | (36,750) | -- | -- | 1,698 | (35,052) |

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| | | | | | | | |
|---|-----------------|-------------------|-------------------|-------------------|---------------------|------------------|-------------------|
| Currency translation adjustment | -- | -- | -- | 6,866 | -- | 712 | 7,578 |
| Unamortized pension gains and prior service costs | -- | -- | -- | 21,254 | | | 21,254 |
| Cash flow hedge: | | | | | | | |
| Net derivative gains (losses) arising during the year | -- | -- | -- | (1,187) | -- | -- | (1,187) |
| Reclassification adjustment | -- | -- | -- | 98 | -- | -- | 98 |
| Total comprehensive income (loss) | -- | -- | (36,750) | 27,031 | -- | 2,410 | (7,309) |
| Dividends declared | -- | -- | (1,871) | -- | -- | -- | (1,871) |
| Dividends to noncontrolling interest | -- | -- | -- | -- | -- | (468) | (468) |
| Opening retained earning adjustment | -- | -- | -- | -- | -- | -- | -- |
| Employee benefit transactions | 4 | (4) | -- | -- | -- | -- | -- |
| Income tax benefit arising from employee stock option plans | -- | -- | -- | -- | -- | -- | -- |
| Amortization of restricted stock | -- | 788 | -- | -- | -- | -- | 788 |
| Stock option expenses | -- | 1,029 | -- | -- | -- | -- | 1,029 |
| Purchase of common stock | -- | -- | -- | -- | -- | -- | -- |
| Balance as of June 28, 2009 | <u>\$ 2,887</u> | <u>\$ 314,785</u> | <u>\$ 824,981</u> | <u>\$ (4,604)</u> | <u>\$ (436,238)</u> | <u>\$ 25,189</u> | <u>\$ 727,000</u> |

The income attributable to noncontrolling interests for the six-month periods ended June 28, 2009 and June 29, 2008 was from continuing operations. The remainder of income (loss) from continuing operations as well as all of the income (loss) from discontinued operations are attributable to MTI. There were no changes in MTI's ownership interest for the period ended June 28, 2009 as compared with December 31, 2008.

Note 17 Segment and Related Information

Segment information for the three and six-month periods ended June 28, 2009 and June 29, 2008 were as follows:

| | Net Sales | | | |
|--------------------|--------------------|---------------|------------------|---------------|
| | Three Months Ended | | Six Months Ended | |
| | June 28, 2009 | June 29, 2008 | June 28, 2009 | June 29, 2008 |
| Specialty Minerals | \$ 152.0 | \$ 189.1 | \$ 295.7 | \$ 369.9 |

| | | | | |
|--------------|-----------------|-----------------|-----------------|-----------------|
| Refractories | 56.6 | 110.7 | 121.2 | 207.4 |
| Total | <u>\$ 208.6</u> | <u>\$ 299.8</u> | <u>\$ 416.9</u> | <u>\$ 577.3</u> |

Income (Loss) from Operations

| | Three Months Ended | | Six Months Ended | |
|--------------------|--------------------|------------------|-------------------|------------------|
| | June 28, 2009 | June 29, 2008 | June 28, 2009 | June 29, 2008 |
| Specialty Minerals | \$ 4.3 | \$ 20.1 | \$ 14.1 | \$ 38.5 |
| Refractories | <u>(45.3)</u> | <u>8.9</u> | <u>(47.5)</u> | <u>17.8</u> |
| Total | <u>\$ (41.0)</u> | <u>\$ 29.0</u> | <u>\$ (33.4)</u> | <u>\$ 56.3</u> |

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Included in income from operations for the Specialty Minerals segment for the three-month and six-month periods ended June 28, 2009 are restructuring costs of \$0.1 million as related to the 2007 restructuring program, \$0.3 million and \$0.5 million, respectively, as related to the 2008 program and \$2.0 million as related to the 2009 program. Additionally, included in income from operations for the Specialty Minerals segment is an impairment of asset charge of \$6.5 million for the three-month and six-month periods ended June 28, 2009.

Included in income from operations for the Refractories segment for the three-month and six-month periods ended June 28, 2009 are restructuring costs of \$0.3 million and \$0.6 million, respectively, as related to the 2008 program and \$6.9 million as related to the 2009 program. Additionally, included in income from operations for the Refractories segment is an impairment of asset charge of \$31.0 million for the three-month and six-month periods ended June 28, 2009.

Included in income from operations for the Specialty Minerals segment for the three-month and six-month periods ended June 29, 2008 are restructuring costs of \$0.2 million and \$1.3 million, respectively, as related to the 2007 restructuring program.

Included in loss from operations for the Refractories segment for the three-month and six-month periods ended June 29, 2008 are restructuring costs of \$0.7 million and \$1.1 million, respectively, as related to the 2007 restructuring program.

The carrying amount of goodwill by reportable segment as of June 28, 2009 and December 31, 2008 was as follows:

Goodwill

| | Three Months Ended | |
|--------------------|--------------------|----------------------|
| | June 28, 2009 | December 31, 2008 |
| Specialty Minerals | \$ 14.3 | \$ 13.4 |
| Refractories | 53.5 | 53.0 |
| Total | \$ 67.8 | \$ 66.4 |

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 (loss) from continuing operations before provision for taxes:

| | Three Months Ended | | Six Months Ended | |
|--|---------------------|---------------------|---------------------|---------------------|
| | June 28, 2009 | June 29, 2008 | June 28, 2009 | June 29, 2008 |
| Income (loss) from operations for reportable segments | \$ (41.0) | \$ 29.0 | \$ (33.4) | \$ 56.3 |
| Unallocated corporate expenses | (0.6) | (0.2) | (0.9) | (0.4) |
| Consolidated income (loss) from operations | (41.6) | 28.8 | (34.3) | 55.9 |
| Non-operating income (deductions) from operations | (3.5) | (0.7) | (3.8) | (2.2) |
| Income (loss) from continuing operations, before provision for taxes on income | \$ (45.1) | \$ 28.1 | \$ (38.1) | \$ 53.7 |

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

| Three Months Ended | | Six Months Ended | |
|--------------------|------------------|---------------------|---------------------|
| June 28, 2009 | June 29, 2008 | June 28, 2009 | June 29, 2008 |
| | | | |

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| | | | | |
|--------------------------|-------------------|-------------------|-------------------|-------------------|
| Paper PCC | \$ 115.6 | \$ 142.2 | \$ 228.2 | \$ 280.0 |
| Specialty PCC | 12.1 | 15.8 | 22.6 | 31.1 |
| Talc | 7.8 | 9.5 | 14.5 | 18.7 |
| Ground Calcium Carbonate | 16.5 | 21.6 | 30.4 | 40.1 |
| Refractory Products | 46.7 | 89.8 | 100.1 | 168.9 |
| Metallurgical Products | 9.9 | 20.9 | 21.1 | 38.5 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net sales | \$ <u>208.6</u> | \$ <u>299.8</u> | \$ <u>416.9</u> | \$ <u>577.3</u> |

REVIEW REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
 Minerals Technologies Inc.:

We have reviewed the condensed consolidated balance sheet of Minerals Technologies Inc. and subsidiary companies as of June 28, 2009 and the related condensed consolidated statements of operations for the three-month and six-month periods ended June 28, 2009 and June 29, 2008, and the related condensed consolidated statements of

cash flows for the six-month periods ended June 28, 2009 and June 29, 2008. 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 to financial data 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 subsidiary companies as of December 31, 2008, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 25, 2009, 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, 2008 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
July 30, 2009

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

Income and Expense Items
as a Percentage of Net Sales

| Three Months Ended | | Six Months Ended | |
|---------------------|------------------|------------------|------------------|
| June 28, 2009 | June 29, 2008 | June 28, 2009 | June 29, 2008 |
| | | | |

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| | | | | |
|--|---------------|--------------|--------------|--------------|
| Net sales | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Cost of goods sold | <u>84.5</u> | <u>79.2</u> | <u>84.3</u> | <u>78.7</u> |
| Production margin | 15.5 | 20.8 | 15.7 | 21.3 |
| Marketing and administrative expenses | 10.8 | 8.9 | 10.3 | 9.1 |
| Research and development expenses | 2.1 | 2.0 | 2.2 | 2.1 |
| Impairment of assets | 18.0 | -- | 9.0 | -- |
| Restructuring and other costs | <u>4.6</u> | <u>0.3</u> | <u>2.4</u> | <u>0.4</u> |
| Income from operations | <u>(20.0)</u> | <u>9.6</u> | <u>(8.2)</u> | <u>9.7</u> |
| Income from continuing operations | <u>(17.9)</u> | <u>6.2</u> | <u>(7.9)</u> | <u>6.1</u> |
| Income (loss) from discontinued operations | <u>(1.7)</u> | <u>1.6</u> | <u>(0.9)</u> | <u>0.9</u> |
| Net income | <u>(19.6)</u> | <u>7.8 %</u> | <u>(8.8)</u> | <u>7.0 %</u> |

Executive Summary

In the second quarter of 2009, as a result of the continuation of the severe downturn in the worldwide steel industry, the Company initiated a restructuring program to improve efficiencies through the consolidation and rationalization of certain manufacturing operations and through the reduction of costs. As a result, the Company recorded an impairment of assets charge of \$37.5 million and a restructuring charge of \$9.6 million related to this realignment. The Company will reduce its current workforce by approximately 200 employees related to the plant consolidations as well as the streamlining of corporate and divisional management structures to operate more efficiently through the current economic environment. This realignment will allow the Company to better position itself strategically for improved profitability when the economy recovers. The major components of this realignment, which is primarily in the Refractories segment are as follows:

Americas Refractories

- • The Company will consolidate its refractory operations at Old Bridge, New Jersey into its facilities in Bryan, Ohio, and Baton Rouge, Louisiana, thereby improving operating efficiencies and reducing logistics for key raw materials. The Company recorded an impairment charge of \$4.3 million for this facility.
- • The Company will rationalize its North American specialty shapes product line and recorded an impairment charge of \$1.5 million.
- • The Company also recorded an impairment of assets charge of \$3.7 million for refractory application equipment as a result of underutilized assets at customer locations under depressed volume conditions.

Asia Refractories

- • The Company recorded impairment charges of \$100 million for its Asian refractory operations as a result of continued difficulties in market penetration from its Chinese and other Asian manufacturing facilities. To take advantage of its strong technological capability in refractories, the Company will consolidate its Asian operations and actively seek a regional alliance to aid in the marketing of its high value products.

Europe Refractories

- • The Company will rationalize some of its European operations and recorded an impairment of assets charge of \$2.2 million.
- • The Company also recorded an impairment of assets charge of \$3.3 million for refractory application equipment as a result of underutilized assets at customer locations under depressed volume conditions.
- • The Company recorded an impairment of assets charge of \$6.0 million for certain intangible assets from its 2006 acquisition of a business in Turkey.

North America Paper PCC

- • In the Paper PCC business, the Company recorded an impairment of asset charge of \$6.5 million relating to its satellite PCC facility in Millinocket, Maine. This facility has been idle since September 2008 when the host Paper Company indefinitely shut one of its paper machines due to rising operational costs. The potential for the startup of our satellite at this facility is unlikely.

Other Assets

- • In addition, the Company recorded impairment charges of \$5.6 million to recognize the lower market value of its Mt. Vernon, Indiana, operation, which has been held for sale since October of 2007 and is included in discontinued operations.

The Company continues to be affected by weak demand in the end markets we serve - primarily, steel, construction, automotive and paper, which has caused a significant drop in demand for our products. Volume declines in all product lines, under weak market conditions more than offset the benefits derived from our announced restructuring programs and overall expense reduction initiatives.

We continue to face uncertainty in the economic environment as a result of the worldwide recession. However, due to our strong balance sheet and cash flow, the Company believes it is in a strong position to manage through these difficult and uncertain times, particularly as the result of the restructuring initiatives undertaken in 2007 and 2008, coupled with the realignment of our operations in the second quarter of 2009.

We face some significant risks and challenges in the future:

- • Our global business could continue to be adversely affected by a weak economic environment. North American steel production is at its lowest levels since the mid 1980's at an average of approximately 1.1 million tons per week, approximately 50% of production levels experienced in the first three quarters of 2008. In the Paper industry, production levels for printing and writing papers within North America, our largest market, were down 23% as compared with last year. Housing starts are at 24 year lows with the June 2009 annualized rate at 582,000 units, as compared to 2.1 million units in 2005. In the automotive industry, light vehicle sales in the U.S. were down 51% for the first six months of 2009 as compared to the first six months of 2008.

- • The availability of credit in the financial markets could adversely affect the ability of our customers and/or our suppliers to obtain financing.
- • The industries we serve, primarily paper, steel, construction and automotive have been adversely affected by the global economic climate. Some of our customers may experience further consolidations and shutdowns or may face increased liquidity issues, which could deteriorate the aging of our accounts receivable, increase our bad debt exposure and possibly trigger impairment of assets or realignment of our businesses.
- • Consolidations in the paper and steel industries concentrate purchasing power in the hands of fewer customers, increasing pricing pressure on the Company.
- • Most of our Paper PCC sales are subject to long-term contracts that may be terminated pursuant to their terms, or may be renewed on terms less favorable to us.

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- • Our filler-fiber composite technology continues in development through customer trials, but has yet to be proven on a long-term commercial scale.
- • We are subject to volatility in pricing and availability of our key raw materials used in our Paper PCC product line and Refractory product line. Our ability to recover increased costs is uncertain and may become more difficult in this economic environment.
- • We continue to rely heavily upon Chinese suppliers for the majority of our magnesium oxide in the Refractories segment which may be subject to uncertainty in availability and cost.
- • Fluctuations in energy costs have an impact on all of our businesses.
- • Changes in the fair market value of our pension assets, rates of return on assets, and discount rates could have a significant impact on our net periodic pension costs and well as our funding requirements.
- • As we expand our operations abroad we face the inherent risks of doing business in many foreign countries, including foreign exchange risk, import and export restrictions, and security concerns.
- • The Company's operations, particularly in the mining and environmental areas (discharges, emissions and greenhouse gases), are subject to heavy regulation by federal, state and foreign authorities; the Company may be subject to, and presumably will be required to comply with, additional laws, regulations and guidelines which may be adopted in the future.

The Company will continue to focus on innovation and new product development and other opportunities for continued growth as follows:

- • Development of the filler-fiber composite program, which continues to undergo large-scale paper machine trials, to increase the fill-rate for uncoated freesheet paper.
- • Increasing 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.
- • Further growth of the Company's PCC coating product sales using the satellite model.
- • Leveraging the Company's expertise in crystal engineering, especially in helping papermakers customize PCC morphologies for specific paper applications.
- • Development of unique calcium carbonates used in the manufacture of novel biopolymers, a new market opportunity.
- • Rapid deployment of value-added formulations of refractory materials that not only reduce costs but improve performance.
- • Continuing our penetration in emerging markets.

Results of Operations

Three months ended June 28, 2009 as compared with three months ended June 29, 2008.

Sales

| (millions of dollars) | Second Quarter 2009 | % of Total Sales | Growth | Second Quarter 2008 | % of Total Sales |
|-----------------------------|---------------------------|------------------------|---------------|---------------------------|------------------------|
| Net Sales | | | | | |
| U.S | \$ 110.7 | 53.1 % | (30) % | \$ 158.3 | 52.8 % |
| International | 97.9 | 46.9 % | (31) % | 141.5 | 47.2 % |
| Net sales | <u>\$ 208.6</u> | <u>100.0 %</u> | <u>(30) %</u> | <u>\$ 299.8</u> | <u>100.0 %</u> |
| Paper PCC | \$ 115.6 | 55.5 % | (19) % | \$ 142.2 | 47.4 % |
| Specialty PCC | 12.1 | 5.8 % | (23) % | 15.8 | 5.3 % |
| PCC Products | <u>\$ 127.7</u> | <u>61.3 %</u> | <u>(19) %</u> | <u>\$ 158.0</u> | <u>52.7 %</u> |
| Talc | \$ 7.8 | 3.7 % | (18) % | \$ 9.5 | 3.2 % |
| Ground Calcium Carbonate | 16.5 | 7.9 % | (24) % | 21.6 | 7.2 % |
| Processed Minerals Products | <u>\$ 24.3</u> | <u>11.6 %</u> | <u>(22) %</u> | <u>\$ 31.1</u> | <u>10.4 %</u> |
| Specialty Minerals Segment | <u>\$ 152.0</u> | <u>72.9 %</u> | <u>(20) %</u> | <u>\$ 189.1</u> | <u>63.1 %</u> |

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| | | | | | | | |
|------------------------|----|--------------|----------------|---------------|----|--------------|----------------|
| Refractory Products | \$ | 46.7 | 22.4 % | (48) % | \$ | 89.8 | 29.9 % |
| Metallurgical Products | | <u>9.9</u> | <u>4.8 %</u> | <u>(53) %</u> | | <u>20.9</u> | <u>7.0 %</u> |
| Refractories Segment | \$ | <u>56.6</u> | <u>27.1 %</u> | <u>(49) %</u> | \$ | <u>110.7</u> | <u>36.9 %</u> |
| Net sales | \$ | <u>208.6</u> | <u>100.0 %</u> | <u>(30) %</u> | \$ | <u>299.8</u> | <u>100.0 %</u> |

Worldwide net sales in the second quarter of 2009 decreased 30% from the previous year to \$208.6 million. Foreign exchange had an unfavorable impact on sales of approximately \$16.2 million or 5 percentage points of decline. Sales in the Specialty Minerals segment, which includes the PCC and Processed Minerals product lines, decreased 20% to \$152.0 million compared with \$189.1 million for the same period in 2008. Sales in the Refractories segment declined 49% from the previous year to \$56.6 million.

Worldwide net sales of PCC, which is primarily used in the manufacturing process of the paper industry, decreased 19% in the second quarter to \$127.7 million from \$158.0 million in the prior year. Foreign exchange had an unfavorable impact on sales of \$11.2 million or approximately 7 percentage points of decline. Paper PCC sales declined 19% to \$115.6 million in the second quarter of 2009 from \$142.2 million in the prior year. Approximately \$9.7 million or 7 percentage points of decline was attributable to the effects of foreign exchange. Paper PCC volumes declined in all regions, but primarily in North America and Europe which accounted for \$24.2 million of the decline. This was partially offset by higher prices in those regions of \$7.3 million. Sales of Specialty PCC decreased 23% to \$12.1 million from \$15.8 million in the prior year. This decrease was primarily due to the effect of foreign exchange.

Net sales of Processed Minerals products decreased 22% in the second quarter to \$24.3 million from \$31.1 million in the second quarter of 2008. This decrease was primarily attributable to the continued weakness in the residential and commercial construction markets and the automotive market. Volumes declined 25% from prior year levels.

Net sales in the Refractories segment in the second quarter of 2009 decreased 49% to \$56.6 million from \$110.7 million in the prior year. Foreign exchange had an unfavorable impact on sales of \$5.0 million or approximately 5 percentage points of decline. Sales of refractory products and systems to steel and other industrial applications decreased 48% to \$46.7 million from \$89.8 million. Sales of metallurgical products within the Refractories segment decreased 53 percent to \$9.9 million as compared with \$20.9 million in the same period last year. The declines in all product lines within this segment are driven by lower worldwide volumes as this segment has been severely affected by the downturn in the steel industry.

Net sales in the United States decreased 30% to \$ 110.7 million in the second quarter of 2009. International sales in the second quarter of 2009 decreased 31% to \$ 97.9 million, primarily due to lower worldwide volumes and the effects of foreign exchange.

| Operating Costs and Expenses (millions of dollars) | Second | Second | |
|---|-----------------|-----------------|--------|
| | Quarter 2009 | Quarter 2008 | Growth |
| Cost of goods sold | \$ 176.2 | \$ 237.5 | (26) % |
| Marketing and administrative | \$ 22.6 | \$ 26.6 | (15) % |
| Research and development | \$ 4.4 | \$ 6.0 | (27) % |
| Impairment of assets | 37.5 | -- | * % |
| Restructuring and other costs | \$ 9.6 | \$ 0.9 | * % |

*

Percentage not meaningful

Production margin decreased \$29.9 million from the prior year. This reduction was attributable to lower volumes in all product lines related to the weak market conditions, and was approximately \$26.4 million of the decline. Approximately \$2.4 million was due to the effect of foreign exchange. In the Specialty Minerals segment, production margin decreased 26% or \$9.7 million from the prior year. This was attributable to lower volumes of \$9.9 million due to weak market conditions in both the PCC and Processed Minerals product line, and additional volume losses relating to permanent and temporary shutdowns in the Paper PCC product line. In the Refractories segment, production margin declined 80% or \$20.1 million from the prior year. This was primarily attributable to volume decreases of approximately \$18 million.

Marketing and administrative costs decreased in the second quarter to \$22.6 million from \$26.6 million in the prior year and represented 10.8% of net sales as compared with 8.9% of net sales in the prior year. This decline was due to the benefits derived from our restructuring program and as well as other cost savings initiatives.

Research and development expenses decreased 27% to \$4.4 million and represented 2.1% of net sales as compared with 2.0% of net sales in the prior year.

In the third quarter of 2007, the Company initiated a plan to realign its business operations to improve profitability and increase shareholder value by exiting certain businesses and consolidating some product lines. As part of this program, the Company reduced its workforce by approximately 7 percent to better control operating expenses and improve efficiencies and recorded a pre-tax charge of \$16.0 million for restructuring and other exit costs during the second half of 2007.

Restructuring costs incurred in the second quarter of 2009 and 2008 relating to the 2007 restructuring program were as follows:

Restructuring and other costs (2007 program):

| | Second Quarter 2009 | Second Quarter 2008 |
|---------------------------------------|---------------------------|---------------------------|
| Severance and other employee benefits | \$ -- | \$ 0.9 |
| Other exit costs | -- | -- |
| | \$ -- | \$ 0.9 |

The Company expects incremental annualized savings in 2009 of \$2 million from this program over 2008. The total expected annualized savings in 2009 is approximately \$13 million from this program and we realized savings of \$11 million in 2008. Approximately \$0.6 million and \$2.2 million in severance payments were paid in the second quarter of 2009 and 2008, respectively. A restructuring liability of \$2.8 million remains at June 28, 2009 and will be paid in 2009. Such amounts will be funded from operating cash flows.

In the fourth quarter of 2008, as a result of the worldwide economic downturn and the resulting impact on the Company's sales and operating profits, the Company initiated an additional restructuring program by reducing its workforce by approximately 14% through a combination of permanent reductions and temporary layoffs. The Company recorded a charge of \$3.9 million associated with this program.

Restructuring costs incurred in the second quarter of 2009 relating to the 2008 restructuring program were as follows:

Restructuring and other costs (2008 program):

| | Second Quarter 2009 |
|---------------------------------------|---------------------------|
| Severance and other employee benefits | \$ 0.6 |
| Other exit costs | 0.1 |
| | <u>\$ 0.7</u> |

The Company expects annualized savings of between \$6 million to \$8 million as it relates to this program. The Company realized compensation and related expense savings of approximately \$2.0 million in the second quarter of 2009 which was as expected. Approximately \$1.9 million in severance payments was paid in the second quarter of 2009. The remaining liability of \$0.9 million will be paid in 2009 from cash flow from operations.

In the second quarter of 2009, as a result of the continuation of the severe downturn in the worldwide steel industry, the Company initiated a restructuring program, primarily in the Refractories segment, to improve efficiencies through consolidation of manufacturing operations and reduction of costs. This realignment resulted in impairment of asset charges and restructuring charges in the second quarter of 2009 as follows:

Restructuring and other costs (2009 program):

| (millions of dollars) | Second Quarter 2009 |
|---------------------------------------|---------------------------|
| Severance and other employee benefits | \$ 8.4 |
| Contract termination costs | 0.4 |
| Other exit costs | 0.1 |
| | <u>\$ 8.9</u> |

The restructuring program will reduce the current workforce by approximately 200 employees worldwide. This reduction in force relates to plant consolidations as well as a streamlining of corporate and divisional management structures to operate more efficiently. The Company expects to realize annualized pre-tax cost savings of approximately \$10 million upon completion of the program as a result of lower compensation and related expenses. The Company expects severance amounts to be paid in 2009. The payments will be funded from operating cash flows.

Impairment of asset charges:

| (millions of dollars) | Second Quarter 2009 |
|-------------------------|---------------------------|
| Americas Refractories | 9.5 |
| Europe Refractories | 11.5 |
| Asia Refractories | 10.0 |
| North America Paper PCC | 6.5 |
| | <u>\$ 37.5</u> |

The impairment of assets charge includes a write-down of \$6.0 million for certain intangible assets related to our 2006 acquisition in Turkey.

The Company expects to realize, beginning in the third quarter of 2009, annualized pre-tax depreciation savings of approximately \$5 million related to the write down of fixed assets.

| Income (Loss) from Operations (millions of dollars) | Second Quarter 2009 | Second Quarter 2008 | Growth |
|--|---------------------------|---------------------------|--------|
| Income (loss) from operations | \$ (41.6) | \$ 28.8 | * % |

Loss from operations in the second quarter of 2009 was \$41.6 million as compared with income from operations of \$28.8 million in the prior year. Income from operations represented 9.6% of net sales in the second quarter of 2008.

Income from operations for the Specialty Minerals segment declined 79% to \$4.3 million from \$20.1 million in the prior year and was 2.9% of its net sales as compared with 10.6% in the second quarter of 2008. Loss from operations for the Refractories segment was \$45.4 million as compared with income from operations of \$8.9 million in the prior year.

| Non-Operating Deductions (millions of dollars) | Second Quarter 2009 | Second Quarter 2008 | Growth |
|---|---------------------------|---------------------------|--------|
| Non-operating deductions, net | \$ (3.5) | \$ (0.7) | * % |

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In the second quarter of 2009, net non-operating deductions increased to \$3.5 million from \$0.7 million in the prior year. Included in non-operating deductions is a \$2.3 million foreign currency translation loss recognized upon the Company's liquidation of its plant in Gomez Palacio, Mexico.

| Provision (Benefit) for Taxes on Income (millions of dollars) | Second | | |
|--|---------------------------|-----------------|--------|
| | Second Quarter 2009 | Quarter 2008 | Growth |
| Provision (benefit) for taxes on income | \$ (8.6) | \$ 8.7 | * % |

Benefit for taxes on income during the second quarter of 2009 was \$8.6 million as compared to a provision for taxes of \$8.7 million during the second quarter of 2008. The effective tax rate for the second quarter of 2009 was 19% compared to 31% for the second quarter of 2008. This decrease primarily relates to the reduction in income taxes resulting from a change in the earnings in the foreign jurisdictions and the related foreign tax rates, the increase in the tax benefit of depletion as a percentage of the decreased earnings and the effect of the restructuring and impairments. The tax benefit on the restructuring and impairment of assets charge was \$9.0 million or an effective tax benefit of 18.5% on such charge.

| Income (Loss) from Continuing Operations, net of tax (millions of dollars) | Second | | |
|---|---------------------------|-----------------|--------|
| | Second Quarter 2009 | Quarter 2008 | Growth |
| Income (loss) from continuing operations, net of tax | \$ (36.5) | \$ 19.4 | *% |

Loss from continuing operations was \$36.5 million as compared with income from continuing operations of \$19.4 million in the prior year.

| Income (Loss) from Discontinued Operations (millions of dollars) | Second | | |
|---|---------------------------|-----------------|--------|
| | Second Quarter 2009 | Quarter 2008 | Growth |
| Income (loss) from discontinued operations | \$ (3.5) | \$ 4.6 | * % |
| * | | | |

Percentage not meaningful

In the second quarter of 2009 the Company recognized a loss from discontinued operations of \$ 3.5 million as compared with income of \$4.6 million in the prior year. Included in loss from operations in the second quarter of

2009 are impairment of asset charges of \$3.5 million, net of tax. The Company recorded an impairment of assets charge to reflect the lower market value of its Mt. Vernon, Indiana facility. Included in income from discontinued operations for 2008 is a gain of approximately \$4.3 million, net of tax, for the sale of our idle Woodville and Chester facilities.

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Second

| Net Income (Loss) Attributable to MTI (million of dollars) | Second | Quarter | Quarter | Growth |
|---|--------|---------|---------|--------|
| | 2009 | 2009 | 2008 | |
| Net income (loss) | \$ | (40.9) | \$ 23.3 | * % |

Net loss in the second quarter of 2009 was \$40.9 million as compared with net income of \$23.3 million in the prior year. Diluted loss per common share was \$2.18 per share in the second quarter of 2009 as compared with earnings per share of \$1.22 per share in the prior year.

Six months ended June 28, 2009 as compared with six months ended June 29, 2008

| (millions of dollars) | First Half 2009 | % of Total Sales | Growth | First Half 2008 | % of Total Sales |
|-----------------------------|-----------------------|------------------------|---------------|-----------------------|------------------------|
| Net Sales | | | | | |
| U.S | \$ 222.8 | 53.4 % | (28) % | \$ 306.8 | 53.1 % |
| International | 194.1 | 46.6 % | (28) % | 270.5 | 46.9 % |
| Net sales | <u>\$ 416.9</u> | <u>100.0 %</u> | <u>(28) %</u> | <u>\$ 577.3</u> | <u>100.0 %</u> |
| Paper PCC | \$ 228.2 | 54.7 % | (19) % | \$ 280.0 | 48.5 % |
| Specialty PCC | 22.6 | 5.4 % | (27) % | 31.1 | 5.4 % |
| PCC Products | <u>\$ 250.8</u> | <u>60.1 %</u> | <u>(19) %</u> | <u>\$ 311.1</u> | <u>53.9 %</u> |
| Talc | \$ 14.5 | 3.5 % | (22) % | \$ 18.7 | 3.2 % |
| Ground Calcium Carbonate | 30.4 | 7.3 % | (24) % | 40.1 | 7.0 % |
| Processed Minerals Products | <u>\$ 44.9</u> | <u>10.8 %</u> | <u>(24) %</u> | <u>\$ 58.8</u> | <u>10.2 %</u> |
| Specialty Minerals Segment | <u>\$ 295.7</u> | <u>70.9 %</u> | <u>(20) %</u> | <u>\$ 369.9</u> | <u>64.1 %</u> |
| Refractory Products | \$ 100.1 | 24.0 % | (41) % | \$ 168.9 | 29.2 % |
| Metallurgical Products | 21.1 | 5.1 % | (45) % | 38.5 | 6.7 % |
| Refractories Segment | <u>\$ 121.2</u> | <u>29.1 %</u> | <u>(42) %</u> | <u>\$ 207.4</u> | <u>35.9 %</u> |
| Net sales | <u>\$ 416.9</u> | <u>100.0 %</u> | <u>(28) %</u> | <u>\$ 577.3</u> | <u>100.0 %</u> |

Worldwide net sales in the first half of 2009 decreased 28% from the previous year to \$416.9 million. Foreign exchange had an unfavorable impact on sales of approximately \$31 million or approximately 5 percentage points of decline. Sales in the Specialty Minerals segment, which includes the PCC and Processed Minerals product lines, decreased 20% to \$295.7 million compared with \$369.9 million for the same period in 2008. Sales in the Refractories segment declined 42% from the previous year to \$121.2 million.

Worldwide net sales of PCC, which is primarily used in the manufacturing process of the paper industry, decreased 19% in the first half to \$250.8 million from \$311.1 million in the prior year. Foreign exchange had an unfavorable impact on sales of approximately 7 percentage points of growth. Paper PCC sales declined 19% to \$228.2 million in the first half of 2009 from \$280.0 million in the prior year. Approximately \$17.6 million, or 6% of the decline, is due to the effect of foreign exchange. Total Paper PCC volumes declined approximately 17% with volume declines in all

regions. Volume declines of approximately \$49 million were partially offset by approximately \$14.3 million in price increases. Sales of Specialty PCC decreased 27% to \$22.6 million from \$31.1 million in the prior year. This decline was primarily due to the effect of foreign exchange. The volume declines in this product line were fully offset by price increases.

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Net sales of Processed Minerals products declined 24% from prior year in the first half of 2009 to \$44.9 million. This product line continues to be affected by weakness in the residential and commercial construction markets, as well as the automotive market. Volume levels declined 25% from the first half of 2008.

Net sales in the Refractories segment in the first half of 2009 decreased 42% to \$121.2 million from \$207.4 million in the prior year. This segment was negatively impacted by the significant drop in global steel production which began in the fourth quarter of 2008 and has continued through the first half of 2009. In addition, foreign exchange had an unfavorable impact on sales of \$10.2 million or approximately 5 percentage points of decline. Sales of refractory products and systems to steel and other industrial applications decreased 41 percent to \$100.1 million from \$168.9 million. Volumes declined approximately 43% in the first half as compared with prior year. Sales of metallurgical products within the Refractories segment decreased 45 percent to \$21.1 million as compared with \$38.5 million in the same period last year. This decrease was attributable to a volume drop of 48%.

Net sales in the United States decreased 28% to \$222.8 million in the first half of 2009. International sales in the first half of 2009 decreased 28% to \$194.1 million, primarily due to lower volume and the effects of foreign exchange.

| Operating Costs and Expenses (millions of dollars) | First Half | | |
|---|--------------------|----------|--------|
| | First Half 2009 | 2008 | Growth |
| Cost of goods sold | \$ 351.2 | \$ 454.3 | (23) % |
| Marketing and administrative | \$ 43.1 | \$ 52.6 | (18) % |
| Research and development | \$ 9.3 | \$ 12.1 | (24) % |
| Impairment of Assets | \$ 37.5 | \$ -- | * % |
| Restructuring and other costs | \$ 10.1 | \$ 2.3 | * % |
| * | | | |

Percentage not meaningful

Production margin decreased \$57.4 million from prior year. This reduction was attributable to lower volumes in all product lines related to the weak market conditions, and was approximately \$49.9 million of the decline. Approximately \$3.9 million was due to the effect of foreign exchange. In the Specialty Minerals segment, production margin decreased 32% or \$23.1 million from the prior year. This was attributable to lower volumes of \$23 million in both the PCC and Processed Minerals product lines, due to both market conditions and to permanent and temporary shutdowns in the Paper PCC product line. In the Refractories segment, production margin declined 69% or \$34.3 million from the prior year. This was attributable to volume decreases of approximately \$36.6 million, partially offset by cost and expense savings due to cost reduction initiatives and the benefit from our restructuring programs.

Marketing and administrative costs decreased 18% in the first half to \$43.1 million and represented 10.3% of net sales as compared with 9.1% of net sales in the prior year. This reduction was due to the benefits of the restructuring program and other cost savings initiatives.

Research and development expenses decreased 24% to \$9.3 million and represented 2.2% of net sales as compared with 2.1% of net sales in the prior year.

In the third quarter of 2007, the Company initiated a plan to realign its business operations to improve profitability and increase shareholder value by exiting certain businesses and consolidating some product lines. As part of this program, the Company reduced its workforce by approximately 7 percent to better control operating expenses and improve efficiencies and recorded a pre-tax charge of \$16.0 million for restructuring and other exit costs during the second half of 2007.

Restructuring costs incurred in the first half of 2009 and 2008 relating to the 2007 restructuring program were as follows:

Restructuring and other costs (2007 program):

| | First Half 2009 | First Half 2008 |
|---------------------------------------|-----------------------|-----------------------|
| Severance and other employee benefits | \$ 0.1 | \$ 1.8 |
| Other exit costs | -- | 0.5 |
| | <u>\$ 0.1</u> | <u>\$ 2.3</u> |

The Company expects incremental savings in 2009 of \$2 million from this program over 2008. The total expected annualized savings in 2009 is approximately \$13 million from this program and we realized savings of \$11 million in 2008. Approximately \$0.6 million and \$2.2 million in severance payments were paid in the second quarter of 2009 and 2008, respectively. A restructuring liability of \$2.8 million remains at June 28, 2009 and will be paid in 2009. Such amounts will be funded from operating cash flows.

In the fourth quarter of 2008, as a result of the worldwide economic downturn and the resulting impact on the Company's sales and operating profits, the Company initiated an additional restructuring program by reducing its workforce by approximately 14% through a combination of permanent reductions and temporary layoffs. The Company recorded a charge of \$3.9 million associated with this program.

Restructuring costs incurred in the first half of 2009 relating to the 2008 restructuring program were as follows:

| | First Half 2009 |
|--|-----------------------|
| Restructuring and other costs (2008 program): | |
| Severance and other employee benefits | \$ 0.9 |
| Other exit costs | 0.2 |
| | <u>\$ 1.1</u> |

The Company expects annualized savings of between \$6 million to \$8 million as it relates to this program. The Company realized compensation and related expense savings of approximately \$3.5 million in the six-month period

ended June 28, 2009. Approximately \$3.6 million in severance payments was paid in the first half of 2009. The remaining liability of \$0.9 million will be paid in the second half of 2009 from cash flow from operations.

In the second quarter of 2009, as a result of the continuation of the severe downturn in the worldwide steel industry, the Company initiated a restructuring program, primarily in the Refractories segment, to improve efficiencies through consolidation of manufacturing operations and reduction of costs. This realignment resulted in impairment of asset charges and restructuring charges in the first half of 2009 as follows:

| Restructuring and other costs (2009 program): (millions of dollars) | First Half 2009 |
|---|-----------------------|
| Severance and other employee benefits | \$ 8.4 |
| Contract termination costs | 0.4 |
| Other exit costs | 0.1 |
| | <u>\$ 8.9</u> |

The restructuring program will reduce the current workforce by approximately 200 employees worldwide. This reduction in force relates to the plant consolidations as well as a streamlining of the current management structure to operate more efficiently. The Company expects to realize annualized pre-tax cost savings of approximately \$10 million upon completion of this program as a result of lower compensation and related expenses. The Company expects severance amounts to be paid in the second half of 2009. The payments will be funded from operating cash flows.

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| Impairment of asset charges: (millions of dollars) | First Half 2009 |
|--|-----------------------|
| North America Refractories | 9.5 |
| Europe Refractories | 11.5 |
| Asia Refractories | 10.0 |
| North America Paper PCC | 6.5 |
| | <u>\$ 37.5</u> |

The impairment of assets charge includes a write-down of \$6.0 million for certain intangible assets related to our 2006 acquisition in Turkey.

The Company expects to realize, beginning in the third quarter of 2009, annualized pre-tax depreciation savings of approximately \$5 million related to the write down of fixed assets.

| Income (Loss) from Operations (millions of dollars) | First Half 2009 | First Half 2008 | Growth |
|---|-----------------------|-----------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |

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Income (loss) from operations \$ (34.3) \$ 55.9 * %

Loss from operations in the first half of 2009 was \$34.3 million as compared with income from operations of \$55.9 million in the prior year. Income from operations represented 9.7% of net sales in the first half of 2008.

Income from operations for the Specialty Minerals segment declined 63% to \$14.1 million from \$38.5 million. Operating income for this segment was impacted by the aforementioned factors affecting production margin and the impact of the restructuring and impairment charges. Loss from operations for the Refractories segment was \$47.5 million compared with income from operations of \$17.8 million.

| Non-Operating Deductions (millions of dollars) | First Half 2009 | First Half 2008 | Growth |
|--|-----------------------|-----------------------|--------|
| Non-operating deductions, net | \$ (3.8) | \$ (2.2) | 73 % |

In the first half of 2009, net non-operating deductions increased 73% to \$3.8 million. Included in non-operating deductions for the first half of 2009 are foreign currency translation losses recognized upon the Company's liquidation of its plant in Gomez Palacio, Mexico.

| Provision (Benefit) for Taxes on Income (millions of dollars) | First Half 2009 | First Half 2008 | Growth |
|---|-----------------------|-----------------------|--------|
| Provision (benefit) for taxes on income | \$ (6.7) | \$ 16.6 | * % |

Benefit for taxes on income during the first half of 2009 was \$6.7 million as compared to a provision for taxes of \$16.6 million during the first half of 2008. The effective tax rate for the first six months of 2009 was 17.6% compared to 30.9% for the first six months of 2008. This decrease primarily relates to the reduction in income taxes resulting from a change in the earnings in the foreign jurisdictions and the related foreign tax rates, the increase in the tax benefit of depletion as a percentage of the decreased earnings and the effect of the restructuring and impairments. The tax benefit on the restructuring and impairment of assets charge was \$9.0 million or an effective tax benefit of 18.5% on such charge.

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| Income (Loss) from Continuing Operations (millions of dollars) | First Half 2009 | First Half 2008 | Growth |
|--|-----------------------|-----------------------|--------|
| Income (loss) from continuing operations | \$ (31.4) | \$ 37.1 | * % |

Loss from continuing operations was \$31.4 million as compared with income from continuing operations of \$37.1 million in the prior year.

| Income (Loss) from Discontinued Operations (millions of dollars) | First Half 2009 | First Half 2008 | Growth |
|--|-----------------------|-----------------------|--------|
| Income (loss) from discontinued operations | \$ (3.6) | \$ 5.0 | * % |

*

Percentage not meaningful

In the first half of 2009 the Company recognized a loss from discontinued operations of \$3.6 million as compared with income from discontinued operations the prior year of \$5.0 million. Included in loss from discontinued operations for the first half of 2009 are impairment of asset charges of \$3.5 million, net of tax. The Company recorded an impairment of assets charge to reflect the lower market value of its Mt. Vernon, Indiana facility. Included in income from discontinued operations for 2008 is a gain of approximately \$4.3 million, net of tax, for the sale of our idle Woodville and Chester facilities.

| Net Income (Loss) Attributable to MTI (millions of dollars) | First Half 2009 | First Half 2008 | Growth |
|--|-----------------------|-----------------------|--------|
| Net income (loss) | \$ (36.8) | \$ 40.5 | * % |

Net loss in the first half of 2009 was \$36.8 million as compared with net income of \$40.5 million in the prior year. Diluted loss per common share was \$1.96 for the first six months of 2009 as compared with earnings per share of \$2.12 in the prior year.

Liquidity and Capital Resources

Cash flows in the first six months of 2009 provided from operations were applied principally to fund capital expenditures, repay short term debt and pay the Company's dividend to common shareholders. Cash provided from operating activities amounted to \$62.8 million in the first six months of 2009 as compared with \$38.1 million for the same period last year. The increase in cash provided from operations was due to payments related to restructuring activities and a decrease in working capital when compared with the prior year.

Working capital is defined as trade accounts receivable, trade accounts payable and inventories. Working capital decreased approximately 13% from December 2008. This decrease was primarily attributable to raw materials inventories. Our inventory levels decreased from year end-levels, primarily in the Refractories segment. In 2008, the Company had accelerated purchases of higher priced raw materials from China to avoid potential supply interruptions. This decrease was partially offset by a slight increase in our accounts receivable. Our accounts receivable balances increased in June 2009 when compared with December 2008, despite lower sales levels in the second quarter of 2009. This increase was due to the effects of foreign exchange and timing of payments. There is an overall slowness in our accounts receivable in light of worldwide economic conditions, however, the Company feels this trend is temporary and does not materially affect the collectibility of its receivables.

On October 24, 2007, the Company's Board of Directors authorized the Company's management to repurchase, at its discretion, up to \$75 million of additional shares over the next two-year period. As of June 28, 2009, 615,674 shares have been purchased under this program at an average price of approximately \$61.54 per share.

On July 22, 2009, our Board of Directors declared a regular quarterly dividend on our common stock of \$0.05 per share. No dividend will be payable unless declared by the Board and unless funds are legally available for payment.

The following table summarizes our contractual obligations as of June 28, 2009:

Contractual Obligations

Payments Due by Period

| <u>(millions of dollars)</u> | <u>Total</u> | <u>Less Than 1 Year</u> | <u>1-3 Years</u> | <u>3-5 Years</u> | <u>After 5 Years</u> |
|-------------------------------|-----------------|---------------------------------|----------------------|----------------------|--------------------------|
| Debt | \$ 101.2 | \$ 4.0 | \$ 12.6 | \$ 84.6 | \$ -- |
| Operating lease obligations | <u>19.5</u> | <u>5.2</u> | <u>6.1</u> | <u>1.3</u> | <u>6.9</u> |
| Total contractual obligations | <u>\$ 120.7</u> | <u>\$ 9.2</u> | <u>\$ 18.7</u> | <u>\$ 85.9</u> | <u>\$ 6.9</u> |

We have \$171.4 million in uncommitted short-term bank credit lines, of which \$9.5 million were in use at June 28, 2009. Our credit lines are primarily in the US, with approximately \$21 million or 12% outside the US. The credit lines 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 requirement or local capital spending needs. We anticipate that capital expenditures for 2009 should be between \$30 million and \$40 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, uncommitted bank credit lines and, where appropriate, project financing of certain satellite plants. The aggregate maturities of long-term debt are as follows: remainder of 2009 - \$4.0 million; 2010 - \$4.6 million; 2011 - \$-- million; 2012 - \$8.0 million; 2013 - \$75 million; thereafter - \$9.6 million.

Prospective Information and Factors That May Affect Future Results

The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand companies' future prospects and make informed investment decisions. This report may contain forward-looking statements that set out anticipated results based on management's plans and assumptions. Words such as "believes," "expects," "plans," "anticipates," "estimates" and words and terms of similar substance, used in connection with any discussion of future operating or financial performance identify these forward-looking statements.

Although we believe we have been prudent in our plans and assumptions, we cannot guarantee that the outcomes suggested in any forward-looking statement will be realized. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements and should refer to the discussion of certain risks, uncertainties and assumptions entitled "Cautionary Factors That May Affect Future Results" in Exhibit 99 to this Quarterly Report.

Recently Issued Accounting Standards

In December 2008, the FASB issued FSP FAS 132(R) - 1, "Employer's Disclosure about Postretirement Benefit Plan Assets" which will require more detailed disclosures about employers' pension plan assets. The new disclosure requirement will require additional information regarding investment strategies, major categories of plan assets, concentrations of risk within plan assets and valuation techniques used to measure the fair value of plan assets. This new standard amends disclosure requirements for periods ending after December 15, 2009.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, "Disclosures About Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133." This statement amends the disclosure requirements under SFAS 133 and requires companies with derivative instruments to provide enhanced disclosures that would enable financial statement users to understand how derivative instruments affect a company's financial position, financial performance and cash flows. This statement is effective for fiscal years beginning on or after November 15, 2008, with early adoption encouraged. The Company adopted this pronouncement as of January 1,

2009.

In February 2008, the FASB issued FSP FAS 157-1, "Application of FASB No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification

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or Measurement under Statement 13" and FSP FAS 157-2, "Effective Date of FASB Statement No. 157." FSP 157-1 excludes fair value measurements for purposes of lease classification or measurement under FASB Statement 13 from the fair value measurement under FASB Statement 157. FSP 157-2 deferred the effective date of Statement 157 for certain non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations" ("Statement No. 141(R)"). Statement No. 141(R) changes the requirements for an acquirer's recognition and measurement of the assets acquired and the liabilities assumed in a business combination. Statement No. 141(R) is effective for annual periods beginning after December 15, 2008 and should be applied prospectively for all business combinations entered into after the date of adoption.

In December 2007, the FASB issued Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51" ("Statement No. 160"). Statement No. 160 requires (i) that noncontrolling (minority) interests be reported as a component of shareholders' equity, (ii) that net income attributable to the parent and to the noncontrolling interest be separately identified in the consolidated statement of operations, (iii) that changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, (iv) that any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value, and (v) that sufficient disclosures are provided that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. Statement No. 160 is effective for annual periods beginning after December 15, 2008 and should be applied prospectively. However, the presentation and disclosure requirements of the statement shall be applied retrospectively for all periods presented. The adoption of the provisions of Statement No. 160 has not materially impacted the Company's consolidated financial position and results of operations.

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, allowance for doubtful accounts, valuation of inventories, valuation of long-lived assets, pension plan assumptions, stock-based compensation assumptions, 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 can not readily be determined from other sources. There can be no assurance that actual results will not differ from those estimates.

The following is an update of certain critical accounting policies from our disclosures at December 31, 2008:

Valuation of long-lived assets, goodwill and other intangible assets: We assess the possible impairment of long-lived assets and identifiable amortizable intangibles whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill and other intangible assets with indefinite lives are reviewed for impairment at least annually in accordance with the provisions of SFAS No. 142. Factors we consider important that could trigger an impairment review include the following:

- Significant under-performance relative to historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for the overall business;
- Significant negative industry or economic trends;
- Market capitalization below invested capital.

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The Company conducts its goodwill impairment testing in accordance with SFAS 142 for each Reporting Unit as of the beginning of the fourth quarter with the assistance of valuation specialists. SFAS 142 specifies a two-step process for testing of goodwill impairment and measuring the magnitude of any impairment. Step One involves a) developing the fair value of total invested capital of each Reporting Unit in which goodwill is assigned; and b) comparing the fair value of total invested capital for each Reporting Unit to its carrying amount, to determine if there is goodwill impairment. Should the carrying amount for a Reporting Unit exceed its fair value, then the Step One test is failed, and the magnitude of any goodwill impairment is determined under Step Two. The amount of impairment loss is determined in Step Two by comparing the implied fair value of Reporting Unit goodwill with the carrying amount of goodwill.

The Company has three reporting units, PCC, Processed Minerals and Refractories. In accordance with SFAS 142, we identify our reporting units by assessing whether the components of our operating segments constitute businesses for which discrete financial information is available and management regularly reviews the operating results of those components. The fair value of each reporting unit materially exceeded the carrying value of each reporting unit.

We estimate fair value of our reporting units by applying information available at the time of our most recent valuation to industry accepted models using an income approach and market approach. The income approach incorporates the discounted cash flow method and focuses on the expected cash flow of the Reporting Unit. The market approach utilizes two methodologies, the Guideline Company Method and the Similar Transactions Method. The Guideline Company Method focuses on comparing the Reporting Units' risk profile and growth prospects to selected similar publicly-traded companies. The Similar Transactions Method considers prices paid in recent transactions in the Reporting Unit's industry or related industries. We believe the income and market approaches are equally relevant to the determination of reporting unit fair value and therefore assigned equal weighting to each method.

A number of assumptions and estimates are involved in the application of the income approach to forecast operating cash flows, including sales volumes and prices, operating profit margins, working capital, capital spending, terminal growth rates and discount rates. We utilized a discount rate of 11% for each reporting unit, which is the same for each Reporting Unit and based upon a build-up of market data from similar specialty chemical companies. There is no readily available market evidence to decipher any differences in risk/return prospects within the specialty chemicals industry to arrive at differing risk/return profiles by reporting unit. In addition, we incorporated a company specific risk premium to adjust for the recent economic conditions. The terminal growth rates were projected at 3% after five years, which reflects our estimate of long term market and gross domestic product growth for all three Reporting Units.

The key assumptions we used in the market approach represent multiples of EBITDA and Revenue and are derived from comparable publicly traded companies with similar operating characteristics as the reporting units.

The Refractories segment reporting unit incurred an operating loss in the second quarter due to low volumes associated with weak steel industry market conditions and high raw material costs. We have implemented a restructuring program for this reporting unit designed to improve the profitability in 2010 and beyond. In our valuation of the Refractories segment reporting unit, we assumed minimal sales growth for the remainder of 2009. Our sales growth assumptions over the next five years range from 5% to 8% from these very low levels. As a result of some forecasted volume improvement, coupled with significant cost and expense savings associated with the restructuring program, the fair value was materially in excess of the carrying value and resulted in no impairment of goodwill.

The impairment testing involves the use of accounting estimates and assumptions. Actual results different from such estimates and assumptions could materially impact our financial condition or operating performance.

• Pension Benefits: We sponsor pension and other retirement plans in various forms covering the majority of employees who meet eligibility requirements. Several statistical and actuarial models which attempt to estimate future events are used in calculating the expense and liability related to the plans. These models include assumptions about the discount rate, expected return on plan assets and rate of future compensation increases as determined by us, within certain guidelines. Our assumptions reflect our historical experience and management's best judgment regarding future expectations. In addition, our actuarial consultants also use subjective factors such as withdrawal and mortality rates to estimate these assumptions. The actuarial assumptions used by us may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants, among other things. Differences from these assumptions may result in a significant impact to the amount of pension expense/liability recorded by us follows:

A one percentage point change in our major assumptions would have the following effects.

Effect on Expense

| (millions of dollars) | <u>Discount Rate</u> | <u>Salary Scale</u> | <u>Return on Asset</u> |
|-----------------------|--------------------------|-------------------------|----------------------------|
| 1% increase | \$ (2.7) | \$ 0.4 | \$ (1.6) |
| 1% decrease | \$ 2.8 | \$ (0.4) | \$ 1.6 |

Effect on Projected Benefit Obligation

| (millions of dollars) | Discount Rate | Salary Scale |
|-----------------------|------------------|-----------------|
| 1% increase | \$ (21.9) | \$ 1.9 |
| 1% decrease | \$ 21.9 | \$ (1.9) |

The investment strategy for pension plan assets is to maintain a broadly diversified portfolio designed to achieve our target of an average long-term rate of return of 8%. While we believe we can achieve a long-term average rate of return of 8%, we can not be certain that the portfolio will perform to our expectations. From inception through October 31, 2008, assets were strategically allocated among equity, debt and other investments to achieve a diversification level that dampens fluctuations in investment returns. The Company's long-term investment strategy has an investment portfolio mix of approximately 65% in equity securities and 35% in fixed income securities. The Company's 16-year average rate of return on assets through December 31, 2008 was approximately 8% on its investment assets despite the significant losses realized in 2008. During the fourth quarter of 2008, the Company adopted a capital conservation strategy as a result of the severe market volatility experienced in the latter part of 2008 and into 2009. As part of this strategy, the Company temporarily invested its pension assets in fixed income securities due to the uncertainty in the markets but has not changed its long-term investment strategy. As of the end of the second quarter, the Company has approximately 85% of its pension assets in fixed income securities. During the first and second quarters of 2009, we analyzed data provided by investment consultants which indicated the likely returns from a move to equities at that time were not significantly better than the expected returns from the capital conservation strategy and that such a change involved significantly more risk. During the third quarter 2009, we have begun a program of systematically moving funds back into equities. The Company intends to rebalance its investment portfolio to adhere to its long-term investment strategy over the next twelve months as the markets continue to stabilize.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in market prices and foreign currency and interest rates. We are exposed to market risk because of changes in foreign currency exchange rates as measured against the U.S. dollar. We do not anticipate that near-term changes in exchange rates will have a material impact on our future earnings or cash flows. However, there can be no assurance that a sudden and significant decline in the value of foreign currencies would not have a material adverse effect on our financial condition and results of operations. Approximately 60% of our bank debt bears interest at variable rates; therefore our results of operations would only be affected by interest rate changes to

such outstanding bank debt. An immediate 10 percent change in interest rates would not have a material effect on our results of operations over the next fiscal year.

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 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 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. We have open forward exchange contracts to purchase approximately \$6.8 million of foreign currencies as of June 28, 2009. The contracts mature between July 2009 and January of 2010. The fair value of these instruments at June 28, 2009 was a liability of \$0.4 million.

In 2008, the Company entered into forward contracts to purchase 30 million Euros as a hedge of its net investment in Europe. These contracts mature in October 2013. The fair value of these instruments at June 28, 2009 was an asset of \$0.1 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 the Company's disclosure controls and procedures were effective as of June 28, 2009.

Changes in Internal Control Over Financial Reporting

The Company is in the process of implementing a global enterprise resource planning ("ERP") system to manage its business operations. As of June 28, 2009, all of our domestic locations were using the new system. The worldwide implementation is expected to be completed over the next few years and involves 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 affected internal controls as we implement the new systems. We believe that the controls as modified are appropriate and functioning effectively.

There was no change in the Company's internal control over financial reporting (other than the ongoing implementation of the ERP system discussed above) during the quarter ended June 28, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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 306 pending silica cases and 25 pending asbestos cases. To date, 1,159 silica cases and 4 asbestos cases have been dismissed. One new asbestos case was filed in the second quarter of 2009. 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 not settled any silica or asbestos lawsuits to date. 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 was approximately \$0.1 million, the majority of which has been reimbursed by Pfizer Inc pursuant to the terms of certain agreements entered into in connection with the Company's initial public offering in 1992. 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 ("DEP") 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") at a portion of the site. The following is the present status of the remediation efforts:

• Building Decontamination.

We have completed the investigation of building contamination and submitted a report characterizing the contamination. We are awaiting review and approval of this report by the regulators. Based on the results of this investigation, we believe that the contamination may be adequately addressed by means of encapsulation through painting of exposed surfaces, pursuant to the Environmental Protection Agency's ("EPA") regulations and have accrued such liabilities as discussed below. However, this conclusion remains uncertain pending completion of the phased remediation decision process required by the regulations.

• *Groundwater.* We have completed investigations of potential groundwater contamination and have submitted a report on the investigations finding that there is no PCB contamination, but some oil contamination of the groundwater. We expect the regulators to require confirmatory long term groundwater monitoring at the site.

• Soil.

We have completed the investigation of soil contamination and submitted a report characterizing contamination to the regulators. Based on the results of this investigation, we believe that the contamination may be left in place and monitored, pursuant to a site-specific risk assessment, which is underway. However, this conclusion is subject to completion of a phased remediation decision process required by applicable regulations.

We believe that the most likely form of remediation will be to leave existing contamination in place, encapsulate it, and monitor the effectiveness of the encapsulation.

We estimate that the cost of the likely remediation above would approximate \$400,000, and that amount has been recorded as a liability on our books and records.

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 on June 18, 2002. This order was amended on June 1, 2009. The amended Order requires the installation of a groundwater containment system by mid-year 2010. The amendment also 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 \$400,000, which has been accrued as of December 31, 2008.

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

ITEM 1A. Risk Factors

There have been no material changes to our risk factors from those disclosed in our 2008 Annual Report on Form 10-K. However, we continue to discuss this topic in the description of material risk factors set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Executive Summary - Risk Factors" above and incorporated by reference herein. For a description of Risk Factors disclosed in our 2008 Annual Report on Form 10-K, see Exhibit 99 attached to this report.

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

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of the Publicly Announced Program | Dollar Value of Shares that May Yet be Purchased Under the Program |
|---------------------|--|---------------------------------|--|---|
| March 31 - April 27 | -- | \$ -- | 615,674 | \$ 37,165,023 |
| April 28 - May 25 | -- | \$ -- | 615,674 | \$ 37,165,023 |
| May 26 - June 28 | -- | \$ -- | 615,674 | \$ 37,167,023 |
| Total | -- | \$ -- | | |

On October 24, 2007, the Company's Board of Directors authorized the Company's management to repurchase, at its discretion, up to \$75 million of additional shares over the next two-year period. As of June 28, 2009, 615,674 shares have been purchased under this program at an average price of approximately \$61.45 per share.

ITEM 3. Default Upon Senior Securities

Not applicable.

ITEM 4. Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Stockholders held on May 20, 2009, the following two items were submitted to a vote of the stockholders of the Company:

1. Votes regarding the election of three directors were as follows:

| <u>Term Expiring in 2012</u> | <u>Votes For</u> | <u>Votes Withheld</u> |
|------------------------------|------------------|-----------------------|
| Michael F. Pasquale | 17,474,798 | 516,094 |
| John T. Reid | 16,981,497 | 1,009,395 |

2. Votes regarding ratification of the appointment of KPMG LLP as the independent registered public accounting firm of the Company for the 2009 fiscal year were as follows:

| | |
|------------|--------------------|
| 17,682,328 | votes for approval |
| 306,881 | votes against |
| 1,683 | abstentions |
| 0 | broker non-votes |

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3. Votes regarding ratification of the adoption of the 2001 Stock Award and Incentive Plan (as amended and restated as of March 18, 2009) to increase the number of shares received and authorized of issuance there under:

| | |
|------------|--------------------|
| 12,531,540 | votes for approval |
| 4,660,974 | votes against |
| 44,353 | abstentions |
| 754,025 | broker non-votes |

ITEM 5. Other Information

Not applicable.

ITEM 6. Exhibits

| Exhibit No. | Exhibit Title |
|----------------|---|
| 15 | Letter Regarding Unaudited Interim Financial Information. |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification executed by the Company's principal executive officer. |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification executed by the Company's principal financial officer. |
| 32 | Section 1350 Certifications. |
| 99 | Statement of Cautionary Factors That May Affect Future Results. |

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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/John A. Sorel

John A. Sorel
Senior Vice
President-Finance
and
Chief Financial
Officer
(principal financial
officer)

July 30, 2009

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