

MINERALS TECHNOLOGIES INC
Form 10-K/A
March 26, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

Amendment No. 1

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

For the fiscal year ended December 31, 2002

Commission file number 1-3295

MINERALS TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

Delaware

25-1190717

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

The Chrysler Building
405 Lexington Avenue
New York, New York

10174-1901

(address of principal executive office)

(Zip Code)

(212) 878-1800

(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

**Name of each exchange
on which registered**

Common Stock, \$.10 par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing price at which the stock was sold as of January 31, 2003, was approximately \$782 million. Solely for the purposes of this calculation, shares of common stock held by officers, directors and beneficial owners of 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 21, 2003, the Registrant had outstanding 20,085,266 shares of common stock, all of one class.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement dated March 31, 2003

Part III

EXPLANATORY NOTE

This Amendment No. 1 is being filed solely to correct an error which arose in the process of converting the Company's previously filed annual report on Form 10-K to electronic form suitable for filing on the Securities and Exchange Commission's EDGAR system. In the previous filing, three paragraphs were inadvertently omitted from the financial statement note captioned "Long-Term Debt and Commitments." In accordance with the rules of the Commission, the affected item of the report, Item 15, is being refiled in its entirety; the omitted paragraphs appear as the fourth, fifth and sixth paragraphs following the table on Page F-14 below.

MINERALS TECHNOLOGIES INC.

2002 FORM 10-K /A AMENDMENT NO. 1 TO ANNUAL REPORT

Table of Contents

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Item 15. Exhibits, Financial Statement Schedule and Reports on Form 8-K

(a) The following documents are filed as part of this Report:

1. Financial Statements. The following Consolidated Financial Statements of Minerals Technologies Inc. and subsidiary companies and Independent Auditors' Report are set forth on pages F-2 to F-25.

Consolidated Balance Sheet as of December 31, 2002 and 2001

Consolidated Statement of Income for the years ended December 31, 2002, 2001 and 2000

Consolidated Statement of Cash Flows for the years ended December 31, 2002, 2001 and 2000

Consolidated Statement of Shareholders' Equity for the years ended December 31, 2002, 2001 and 2000

Notes to the Consolidated Financial Statements

Independent Auditors' Report

2. Financial Statement Schedule. The following financial statement schedule is filed as part of this Report:

| | <u>Page</u> |
|---|-------------|
| Schedule II Valuation and Qualifying Accounts | S-1 |
| - | |

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

3. Exhibits. The following exhibits are filed as part of or incorporated by reference into this Report.

- 3.1 - Restated Certificate of Incorporation of the Company (1)
- 3.2 - Restated By-Laws of the Company (12)
- 3.3 - Certificate of Designations authorizing issuance and establishing designations, preferences and rights of Series A Junior Preferred Stock of the Company (1)
- 4 - Rights Agreement, executed effective as of September 13, 1999 (the "Rights Agreement"), between Minerals Technologies Inc. and Chase Mellon Shareholders

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- Services L.L.C., as Rights Agents, including as Exhibit B the forms of Rights Certificate and of Election to Exercise (10)
- 4.1 - Specimen Certificate of Common Stock (1)
 - 10.1 - Asset Purchase Agreement, dated as of September 28, 1992, by and between Specialty Refractories Inc. and Quigley Company Inc. (3)
 - 10.1(a) - Agreement dated October 22, 1992 between Specialty Refractories Inc. and Quigley Company Inc., amending Exhibit 10.1 (4)
 - 10.1(b) - Letter Agreement dated October 29, 1992 between Specialty Refractories Inc. and Quigley Company Inc., amending Exhibit 10.1 (4)
 - 10.2 - Reorganization Agreement, dated as of September 28, 1992, by and between the Company and Pfizer Inc (3)
 - 10.2(a) - Letter Agreement dated October 29, 1992 between the Company and Pfizer Inc, amending Exhibit 10.2 (4)
 - 10.3 - Asset Contribution Agreement, dated as of September 28, 1992, by and between Pfizer Inc and Specialty Minerals Inc. (3)
 - 10.4 - Asset Contribution Agreement, dated as of September 28, 1992, by and between Pfizer Inc and Barretts Minerals Inc. (3)
 - 10.4(a) - Agreement dated October 22, 1992 between Pfizer Inc, Barretts Minerals Inc. and Specialty Minerals Inc., amending Exhibits 10.3 and 10.4 (4)
 - 10.5 - Form of Employment Agreement (14), together with schedule relating to executed Employment Agreements (2) (+)
 - 10.5(a) - Form of Employment Agreement (11), together with schedule relating to executed Employment Agreements (13) (+)
 - 10.6 - Form of Severance Agreement (11), together with schedule relating to executed Severance Agreements (2) (+)
 - 10.7 - Company Employee Protection Plan, as amended August 27, 1999 (5) (+)
 - 10.8 - Company Nonfunded Deferred Compensation and Unit Award Plan for Non-Employee Directors, as amended February 26, 1998 (6) (+)
 - 10.9 - 2001 Stock Award and Incentive Plan of the Company, as amended and restated effective October 18, 2001 (14) (+)
 - 10.10 - Company Retirement Plan, as amended and restated effective as of January 1, 2002 (15)(+)

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- 10.11 - Company Nonfunded Supplemental Retirement Plan, as amended January 28, 1999 (6) (+)
- 10.12 - Company Savings and Investment Plan, as amended and restated October 18, 2001, effective January 1, 2001 (14) (+)
- 10.13 - Company Nonfunded Deferred Compensation and Supplemental Savings Plan, as amended January 28, 1999 (6) (+)
- 10.15 - Grantor Trust Agreement, dated as of December 29, 1994, between the Company and The Bank of New York,

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as Trustee (7) (+)

- 10.16 - Note Purchase Agreement, dated as of July 24, 1996, between the Company and Metropolitan Life Insurance Company with respect to the Company's issuance of \$50,000,000 in aggregate principal amount of its 7.49% Guaranteed Senior Notes due July 24, 2006 (9)
 - 10.17 - Indenture, dated July 22, 1963, between the Cork Harbour Commissioners and Roofchrome Limited (3)
 - 10.18 - Agreement of Lease, dated as of May 24, 1993, between the Company and Cooke Properties Inc (8)
 - 21.1 - Subsidiaries of the Company (2)
 - 23.1 - Report and Consent of Independent Auditors
1. Incorporated by reference to exhibit so designated filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1997.
 2. Incorporated by reference to the exhibit so designated filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2002.
 3. Incorporated by reference to the exhibit so designated filed with the Company's Registration Statement on Form S-1 (Registration No. 33-51292), originally filed on August 25, 1992.
 4. Incorporated by reference to the exhibit so designated filed with the Company's Registration Statement on Form S-1 (Registration No. 33-59510), originally filed on March 15, 1993.
 5. Incorporated by reference to the exhibit so designated filed with the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 1999.
 6. Incorporated by reference to the exhibit so designated filed with the Company's Quarterly Report on Form 10-Q for the quarter ended March 28, 1999.
 7. Incorporated by reference to the exhibit so designated filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1994.
 8. Incorporated by reference to the exhibit so designated filed with the Company's Quarterly Report on Form 10-Q for the quarter ended July 4, 1993.
 9. Incorporated by reference to the exhibit so designated filed with the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.
 10. Incorporated by reference to the exhibit so designated filed with the Company's current report on Form 8-K, filed September 3, 1999.
 11. Incorporated by reference to the exhibit so designated filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2000.
 12. Incorporated by reference to the exhibit so designated filed with the Company's Quarterly Report on Form 10-Q for the quarter ended September 24, 2000.
 13. Incorporated by reference to the exhibit so designated filed with the Company's Quarterly Report on Form 10-Q for the quarter ended April 1, 2001.
 14. Incorporated by reference to the exhibit so designated filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2001.
 15. Incorporated by reference to the exhibit so designated filed with the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.

(+) Management contract or compensatory plan or arrangement required to be filed pursuant to Item 601 of Regulation S-K.

(b) Reports on Form 8-K

Minerals Technologies Inc. filed the following reports on Form 8-K during the fourth quarter of 2002:

1. A report on Form 8-K dated October 17, 2002 under Item 9, reporting earnings for the quarter ended September 29, 2002.

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2. A report on Form 8-K dated October 24, 2002 under Item 5, reporting the election of Duane R. Dunham to the Board of Directors.
3. A report on Form 8-K dated November 1, 2002 under Item 9, furnishing a copy of the officers' certification of the Company's third quarter 10-Q as required under Section 906 of the Sarbanes-Oxley Act.
4. A report on Form 8-K dated November 21, 2002 under Item 5, reporting certain management changes.

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SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized.

Minerals Technologies Inc.

By:

/s/ John A. Sorel

John A. Sorel
Senior Vice President - Finance and
Chief Financial Officer

March 26, 2003

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CERTIFICATIONS

I, John A. Sorel, certify that:

1. I have reviewed this Amendment No. 1 to the annual report on Form 10-K of Minerals Technologies Inc.;
2. Based on my knowledge, this amendment does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this amendment;
3. Based on my knowledge, the financial statements, and other financial information included in this amendment, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this amendment.

March 26, 2003

By: /s/John A. Sorel
Senior Vice President - Finance and
Chief Financial Officer

I, Paul R. Saueracker, certify that:

1. I have reviewed this Amendment No. 1 to the annual report on Form 10-K of Minerals Technologies Inc.;
2. Based on my knowledge, this amendment does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this amendment;
3. Based on my knowledge, the financial statements, and other financial information included in this amendment, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this amendment.

March 26, 2003

By: /s/Paul R. Saueracker
Chairman of the Board and
Chief Executive Officer

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| Audited Financial Statements: | |
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| Consolidated Statement of Cash Flows for the years ended December 31, 2002, 2001, and 2000 | F-4 |
| Consolidated Statement of Shareholders' Equity for the years ended December 31, 2002, 2001, and 2000 | F-5 |
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F-1

MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET

(thousands of dollars)

| | <u>December 31,</u> | |
|--|-------------------------|-------------------------|
| | <u>2002</u> | <u>2001</u> |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 31,762 | \$ 13,046 |
| Accounts receivable, less allowance for doubtful accounts: 2002 --\$7,079; 2001 --\$3,697 | 129,608 | 125,289 |
| Inventories | 82,909 | 77,633 |
| Prepaid expenses and other current assets | <u>46,686</u> | <u>30,822</u> |
| Total current assets | 290,965 | 246,790 |
| Property, plant and equipment, less accumulated depreciation and depletion | 537,424 | 536,339 |
| Goodwill | 51,291 | 43,506 |
| Other assets and deferred charges | <u>20,197</u> | <u>21,175</u> |
| Total assets | \$ 899,877 ===== | \$ 847,810 ===== |

Liabilities and Shareholders' Equity

| | | |
|--|---------------|---------------|
| Current liabilities: | | |
| Short-term debt | \$ 30,000 | \$ 71,497 |
| Current maturities of long-term debt | 1,331 | 437 |
| Accounts payable | 37,435 | 37,705 |
| Income taxes payable | 18,176 | 17,480 |
| Accrued compensation and related items | 15,086 | 14,231 |
| Other current liabilities | <u>21,909</u> | <u>19,179</u> |

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| | | |
|--|---------------------|---------------------|
| Total current liabilities | 123,937 | 160,529 |
| Long-term debt | 89,020 | 88,097 |
| Accrued postretirement benefits | 19,869 | 19,144 |
| Deferred taxes on income | 48,183 | 50,435 |
| Other noncurrent liabilities | <u>24,711</u> | <u>21,786</u> |
| Total liabilities | <u>305,720</u> | <u>339,991</u> |
| Commitments and contingent liabilities | | |
| Shareholders' equity: | | |
| Preferred stock, without par value; 1,000,000 shares authorized; none issued | -- | -- |
| Common stock at par, \$0.10 par value; 100,000,000 shares authorized; issued 26,937,260 shares in 2002 and 25,961,920 shares in 2001 | 2,694 | 2,596 |
| Additional paid-in capital | 190,144 | 158,559 |
| Retained earnings | 678,740 | 627,014 |
| Accumulated other comprehensive loss | <u>(35,034)</u> | <u>(55,295)</u> |
| |) |) |
| | 836,544 | 732,874 |
| | <u>242,387</u> | <u>225,055</u> |
| Less common stock held in treasury, at cost; 6,781,473 shares in 2002 and 6,347,973 shares in 2001 | | |
| Total shareholders' equity | <u>594,157</u> | <u>507,819</u> |
| Total liabilities and shareholders' equity | \$ 899,877 ===== | \$ 847,810 ===== |

See Notes to Consolidated Financial Statements, which are an integral part of these statements.

F-2

MINERALS
TECHNOLOGIES INC.
AND SUBSIDIARY
COMPANIES
CONSOLIDATED
STATEMENT OF
INCOME

(thousands of dollars, except
per share data)

Year Ended December 31,

| | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|-------------------------------|-------------|-------------|-------------|
| Net sales | | | |
| | | \$752,680 | |
| | | \$684,419 | |
| | | \$670,917 | |
| Operating costs and expenses: | | | |
| Cost of goods sold | | | |
| | | 567,985 | |
| | | 502,525 | |

| | |
|---------------------------------------|---------------|
| | 477,512 |
| Marketing and administrative expenses | |
| | 74,160 |
| | 70,495 |
| | 71,404 |
| Research and development expenses | |
| | 22,697 |
| | 23,509 |
| | 26,331 |
| Bad debt expenses | |
| | 6,214 |
| | 3,930 |
| | 5,964 |
| Restructuring charge | |
| | -- |
| | 3,403 |
| | -- |
| Write-down of impaired assets | |
| | <u>750</u> |
| | <u>--</u> |
| | <u>4,900</u> |
| Income from operations | |
| | <u>80,874</u> |

| | |
|-------------------------------|----------------|
| | <u>80,557</u> |
| | <u>84,806</u> |
| Interest income | |
| | 1,172 |
| | 835 |
| | 1,146 |
| Interest expense | |
| | (5,792) |
| | (7,884) |
| | (5,311) |
| Other deductions | |
| | <u>(520)</u> |
|) | |
| | <u>(838)</u> |
|) | |
| | <u>(869)</u> |
|) | |
| Non-operating deductions, net | |
| | <u>(5,140)</u> |
|) | |
| | <u>(7,887)</u> |
|) | |
| | <u>(5,034)</u> |

)

Income before provision for taxes on income and minority interests

75,734

72,670

79,772

Provision for taxes on income

20,220

21,148

23,735

Minority interests

1,762

1,729

1,829

Net income

\$ 53,752

=====

\$ 49,793

=====

\$ 54,208

=====

Basic earnings per share

\$ 2.66

===

\$ 2.54
===

\$ 2.65
===

Diluted earnings per share

\$ 2.61
===

\$ 2.48
===

\$ 2.58
===

See Notes to Consolidated Financial Statements, which are an integral part of these statements.

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MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CASH FLOWS

(thousands of dollars)

Year Ended December 31,

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| Operating Activities | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|--|----------------|---------------|----------------|
| Net income | \$ 53,752 | \$ 49,793 | \$ 54,208 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation, depletion and amortization | 68,960 | 66,518 | 60,795 |
| Write-down of impaired assets | 750 | -- | 4,900 |
| Loss on disposal of property, plant and equipment | 1,301 | 19 | 257 |
| Deferred income taxes | 2,643 | (131) | 1,202 |
| Bad debt expenses | 6,214 | 3,930 | 5,964 |
| Other | 1,519 | 1,446 | 1,594 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | | |
| Accounts receivable | 1,143 | (11,886) | (7,118) |
| Inventories | 5,166 | (2,182) | (5,123) |
| Prepaid expenses and other current assets | (15,865) | (10,620) | (5,732) |
| Accounts payable | (5,542) | (1,077) | (9,455) |
| Income taxes payable | 465 | (144) | (5,275) |
| Other | <u>(2,668)</u> | <u>2,661</u> | <u>(5,104)</u> |
| |) |) | |
| Net cash provided by operating activities | <u>117,838</u> | <u>98,327</u> | <u>91,113</u> |
| Investing Activities | | | |
| Purchases of property, plant and equipment | (37,107) | (63,078) | (103,286) |
| Proceeds from disposal of property, plant and equipment | 280 | 5,193 | 1,396 |
| Acquisition of businesses, net of cash acquired | (34,100) | (37,363) | (12,580) |

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| | | | |
|--|--------------------|--------------------|-------------------|
| Other investing activities | <u> --</u> | <u> --</u> | <u> 418</u> |
| Net cash used in investing activities | <u>(70,927)</u> | <u>(95,248)</u> | <u>(114,052)</u> |
| |) |) | |
| | | | |
| Financing Activities | | | |
| Proceeds from issuance of short-term and long-term debt | 154,908 | 268,684 | 165,672 |
| Repayment of short-term and long-term debt | (194,876) | (248,677) | (114,346) |
| Purchase of common shares for treasury | (17,332) | (16,000) | (43,048) |
| Cash dividends paid | (2,026) | (1,960) | (2,049) |
| Proceeds from issuance of stock under option plan | <u> 29,384</u> | <u> 3,158</u> | <u> 4,044</u> |
| Net cash provided by (used in) financing activities | <u>(29,942)</u> | <u> 5,205</u> | <u> 10,273</u> |
| |) | | |
| Effect of exchange rate changes on cash and cash equivalents | <u> 1,747</u> | <u>(1,930)</u> | <u>(1,020)</u> |
| |) |) | |
| Net increase (decrease) in cash and cash equivalents | 18,716 | 6,354 | (13,686) |
| Cash and cash equivalents at beginning of year | <u> 13,046</u> | <u> 6,692</u> | <u> 20,378</u> |
| Cash and cash equivalents at end of year | \$ 31,762 ===== | \$ 13,046 ===== | \$ 6,692 ===== |

See Notes to Consolidated Financial Statements, which are an integral part of these statements.

F-4

MINERALS TECHNOLOGIES INC. AND
SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF
SHAREHOLDERS' EQUITY

(in thousands)

Common
Stock

Additional
Paid-in
Capital

Retained
Earnings

Accumulated
Other
Comprehensive
Income (Loss)

Treasury Stock

Shares

Par Value

Shares

Cost

Total

Balance as of
January 1, 2000

| | |
|---------------------------------|--------------------|
| | <u>25,705</u> |
| | <u>\$2,571</u> |
| | <u>\$150,315</u> |
| | <u>\$527,022</u> |
| | <u>\$(28,865)</u> |
| | <u>(4,819)</u> |
| | <u>\$(166,007)</u> |
| | <u>\$485,036</u> |
| Comprehensive income: | |
| Net income | -- |
| | -- |
| | -- |
| | 54,208 |
| | -- |
| | -- |
| | -- |
| | 54,208 |
| Currency translation adjustment | -- |
| | -- |
| | -- |
| | -- |
| | <u>(15,208)</u> |

| | | |
|---|----------------------------|-----------------|
|) | | <u> --</u> |
| | | <u> --</u> |
| | | <u>(15,208)</u> |
|) | | |
| | Total comprehensive income | <u> --</u> |
| | | <u> --</u> |
| | | <u> --</u> |
| | | <u>54,208</u> |
| | | <u>(15,208)</u> |
|) | | <u> --</u> |
| | | <u> --</u> |
| | | <u>39,000</u> |
| | Dividends declared | -- |
| | | -- |
| | | -- |
| | | (2,049) |
| | | -- |

| | |
|---|---------------|
| | -- |
| | -- |
| | (2,049) |
| Employee benefit transactions | |
| | 148 |
| | 14 |
| | 4,030 |
| | -- |
| | -- |
| | -- |
| | -- |
| | 4,044 |
| Income tax benefit arising from employee stock option plans | |
| | -- |
| | -- |
| | 656 |
| | -- |
| | -- |
| | -- |
| | -- |
| | 656 |
| Purchase of common stock | |
| | <u> --</u> |
| | <u> --</u> |
| | <u> --</u> |
| | 21 |

| | |
|---------------------------------|------------------|
| | <u> --</u> |
| | <u> --</u> |
| | <u>(1.067)</u> |
|) | |
| | <u>(43.048)</u> |
|) | |
| | <u>(43.048)</u> |
|) | |
| Balance as of December 31, 2000 | |
| | <u>25.853</u> |
| | <u>2.585</u> |
| | <u>155.001</u> |
| | <u>579.181</u> |
| | <u>(44.073)</u> |
| | <u>(5.886)</u> |
| | <u>(209.055)</u> |
|) | |
| | <u>483.639</u> |
| Comprehensive income: | |
| Net income | |
| | -- |
| | -- |
| | -- |
| | 22 |

| | |
|--------------------------------------|-----------|
| | 49,793 |
| | -- |
| | -- |
| | -- |
| | 49,793 |
| Currency translation adjustment | |
| | -- |
| | -- |
| | -- |
| | -- |
| | (11,896) |
| | -- |
| | -- |
| | (11,896) |
| Minimum pension liability adjustment | |
| | -- |
| | -- |
| | -- |
| | -- |
| | 500 |
| | -- |
| | -- |
| | 500 |
| Net gain on cash flow hedges | |
| | <u>--</u> |
| | <u>--</u> |
| | 23 |

| | |
|----------------------------|-----------------|
| | <u> --</u> |
| | <u> --</u> |
| | <u> 174</u> |
| | <u> --</u> |
| | <u> --</u> |
| | <u> 174</u> |
| Total comprehensive income | <u> --</u> |
| | <u> --</u> |
| | <u> --</u> |
| | <u>49,793</u> |
| | <u>(11,222)</u> |
|) | <u> --</u> |
| | <u> --</u> |
| | <u>38,571</u> |
| Dividends declared | <u> --</u> |

| | |
|---|---------|
| | -- |
| | -- |
| | (1,960) |
| | -- |
| | -- |
| | -- |
| | (1,960) |
| Employee benefit transactions | |
| | 109 |
| | 11 |
| | 3,147 |
| | -- |
| | -- |
| | -- |
| | -- |
| | 3,158 |
| Income tax benefit arising from employee stock option plans | |
| | -- |
| | -- |
| | 411 |
| | -- |
| | -- |
| | -- |
| | -- |
| | 411 |
| Purchase of common stock | |
| | 25 |

| | |
|---------------------------------|---------------|
| | <u> --</u> |
| | <u> --</u> |
| | <u> --</u> |
| | <u> --</u> |
| | <u> --</u> |
| | <u> --</u> |
| | <u> --</u> |
|) | <u> --</u> |
| | <u> --</u> |
|) | <u> --</u> |
| | <u> --</u> |
|) | <u> --</u> |
| Balance as of December 31, 2001 | <u> --</u> |
| | 25,962 |
| | 2,596 |
| | 158,559 |
| | 627,014 |
| | (55,295) |
| | (6,348) |
| | (225,055) |
| | 507,819 |
| Comprehensive income: | |
| Net income | -- |

| | |
|--------------------------------------|--------|
| | -- |
| | -- |
| | 53,752 |
| | -- |
| | -- |
| | -- |
| | 53,752 |
| Currency translation adjustment | |
| | -- |
| | -- |
| | -- |
| | -- |
| | 22,137 |
| | -- |
| | -- |
| | 22,137 |
| Minimum pension liability adjustment | |
| | -- |
| | -- |
| | -- |
| | -- |
| | (829) |
| | -- |
| | -- |
| | (829) |
| Cash flow hedges: | |

Net derivative losses arising during the year

--
 --
 --
 --
 (968)
 --
 --
 (968)

Reclassification adjustment

 --

 --

 --

 --

 (79)

)

 --

 --

)

Total comprehensive income

(79)

 --

 --

| | |
|-------------------------------|---------------|
| | -- |
| | <u>53,752</u> |
| | <u>20,261</u> |
| | -- |
| | -- |
| | <u>74,013</u> |
| Dividends declared | -- |
| | -- |
| | -- |
| | (2,026) |
| | -- |
| | -- |
| | -- |
| | (2,026) |
| Employee benefit transactions | 975 |
| | 98 |
| | 29,286 |
| | -- |
| | -- |
| | -- |
| | 29 |

26,937
 =====
 \$2,694
 =====
 \$190,144
 =====
 \$678,740
 =====
 \$(35,034)
 =====
 (6,781)
 =====
 \$(242,387)
 =====
 \$594,157
 =====

See Notes to Consolidated Financial Statements, which are an integral part of these statements.

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**MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Minerals Technologies Inc. (the "Company") and its wholly and majority-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The Company employs accounting policies that are in accordance with generally accepted accounting principles in the United States of America and require management to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of

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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 taxes, income tax valuation allowances and litigation and environmental liabilities. Actual results could differ from those estimates.

Business

The Company is a resource- and technology-based company that develops, produces and markets on a worldwide basis a broad range of specialty mineral, mineral-based and synthetic mineral products and related systems and technologies. The Company's products are used in manufacturing processes of the paper and steel industries, as well as by the building materials, polymers, ceramics, paints and coatings, glass and other manufacturing industries.

Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. Cash equivalents amounted to \$3.8 million and \$2.9 million at December 31, 2002 and 2001, respectively.

Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on historical write-off experience and specific allowances for bankrupt customers. The Company also analyzes the collection history and financial condition of its other customers considering current industry conditions and determines whether an allowance needs to be established. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Significant improvements are capitalized, while maintenance and repair expenditures are charged to operations as incurred. The Company capitalizes interest cost as a component of construction in progress. In general, the straight-line method of depreciation is used for financial reporting purposes and accelerated methods are used for U.S. and certain foreign tax reporting purposes. The annual rates of depreciation are 4%-8% for buildings, 8%-12% for machinery and equipment and 8%-12% for furniture and fixtures.

Property, plant and equipment are depreciated over their useful lives. Useful lives of satellite precipitated calcium carbonate (PCC) plants are based on management's estimates of the period that the assets can generate revenue, which does not necessarily coincide with the remaining term of a customer's contractual obligation to purchase PCC from those facilities. Failure of a PCC customer to renew an agreement or continue to purchase PCC from the Company could result in an impairment of assets charge at such facility.

In the third quarter of 2002, the Company reduced the useful lives of satellite PCC plants at International Paper Company (IP) mills due to an increased risk that some or all of these PCC contracts will not be renewed. The accelerated depreciation reduced diluted earnings by approximately \$0.04 per share in the second half of 2002.

Depletion of the mineral and quarry properties is provided for on a unit-of-extraction basis as the related materials are mined for financial reporting purposes and on a percentage depletion basis for tax purposes.

**MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Mining costs associated with waste gravel and rock removal in excess of the expected average life of mine stripping ratio are deferred. These costs are charged to production on a unit-of-production basis when the ratio of waste to ore mined is less than the average life of mine stripping ratio.

Accounting for the 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 establishes a uniform accounting model for long-lived assets to be disposed of. This Statement also requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to estimated undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. During the first quarter of 2002, the Company recorded a write-down of impaired assets of \$750,000 for a precipitated calcium carbonate plant at a paper mill that had ceased operations.

Prior to adoption of SFAS No. 144, the Company accounted for long-lived assets in accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." In accordance with this pronouncement, the Company recorded a write-down of impaired assets of approximately \$4.9 million in the fourth quarter of 2000 for three satellite PCC plants at paper mills that had ceased or were expected to cease operations.

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. On January 1, 2002, the Company adopted 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 tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to the estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

The Company evaluates the recoverability of goodwill using a two-step impairment test approach at the reporting unit level. In the first step the fair value for the reporting unit is compared to its book value including goodwill. In the case that the fair value of the reporting unit is less than the book value, a second step is performed which compares the fair value of the reporting unit's goodwill to the book value of the goodwill. The fair value for the goodwill is determined based on the difference between the fair values of the reporting units and the net fair values of the identifiable assets and liabilities of such reporting unit. If the fair value of the goodwill is less than the book value the difference is recognized as an impairment.

Prior to the adoption of SFAS No. 142, goodwill was amortized on a straight-line basis over 20-25 years, and assessed for recoverability by determining whether the amortization of the goodwill balance over its remaining life

could be recovered through undiscounted future operating cash flows of the acquired operation. All other intangible assets were amortized on a straight-line basis up to 17 years. The amount of goodwill and other intangible asset impairment, if any, was measured based on the Company's ability to recover the carrying amount from expected future operating cash flows on a discounted basis.

Derivative Financial Instruments

The Company enters into derivative financial instruments to hedge certain foreign exchange and interest rate exposures pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." See the Notes on Derivative Financial Instruments and Hedging Activities and Financial Instruments and Concentration of Credit Risk in the Consolidated Financial Statements for a full description of the Company's hedging activities and related accounting policies.

Revenue Recognition

Revenue from sale of products is recognized at the time the goods are shipped and title passes to the customer. In most of the Company's PCC contracts, the price per ton is based upon the total number of tons sold to the customer during the year. Under those contracts the price billed to the customer for shipments during the year is based on periodic estimates of the total annual volume that will be sold to such customer. Revenues are adjusted at the end of each year to reflect the actual volume sold.

Foreign Currency

The assets and liabilities of most of the Company's international subsidiaries are translated into U.S. dollars using exchange rates at the respective balance sheet date. The resulting translation adjustments are recorded in accumulated other comprehensive loss in shareholders' equity. Income statement items are generally translated at average exchange rates

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

prevailing during the period. Other foreign currency gains and losses are included in net income. International subsidiaries operating in highly inflationary economies translate nonmonetary assets at historical rates, while net monetary assets are translated at current rates, with the resulting translation adjustments included in net income.

Income Taxes

Income taxes are provided for based on the asset and liability method of accounting pursuant to SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The accompanying financial statements generally do not include a provision for U.S. income taxes on international subsidiaries' unremitted earnings, which, for the most part, are expected to be reinvested overseas.

Research and Development Expenses

Research and development expenses are expensed as incurred.

Stock-Based Compensation

The Company has elected to recognize compensation cost based on the intrinsic value of the equity instrument awarded as promulgated in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." The Company has disclosed below under " Stock and Incentive Plan" the pro forma effect of the fair value method on net income and earnings per share.

Pension and Post-retirement Benefits

The Company has defined benefit pension plans covering substantially all of its employees. The benefits are based on years of service.

The Company also provides post-retirement healthcare benefits for substantially all retirees and employees in the United States. The Company measures the costs of its obligation based on its best estimate. The net periodic costs are recognized as employees render the services necessary to earn the post-retirement benefits.

Earnings Per Share

Basic earnings per share have been computed based upon the weighted average number of common shares outstanding during the period.

Diluted earnings per share have been computed 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.

Income Taxes

Income before provision for taxes, by domestic and foreign source is as follows:

| Thousands of Dollars | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|--|--------------------|--------------------|--------------------|
| Domestic | \$ 44,768 | \$ 40,777 | \$ 51,098 |
| Foreign | <u>30,966</u> | <u>31,893</u> | <u>28,674</u> |
| Total income before provision for income taxes | \$ 75,734 ===== | \$ 72,670 ===== | \$ 79,772 ===== |

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The provision for taxes on income consists of the following:

Thousands of Dollars

| | <u>2002</u> |
|-------------------------|---------------|
| | <u>2001</u> |
| | <u>2000</u> |
| Domestic | |
| Taxes currently payable | |
| Federal | \$ 5,797 |
| | \$ 8,906 |
| | \$ 11,741 |
| State and local | 179 |
| | 1,484 |
| | 2,380 |
| Deferred income taxes | <u>5,873</u> |
| | <u>998</u> |
| | <u>406</u> |
| Domestic tax provision | <u>11,849</u> |
| | <u>11,388</u> |
| | <u>14,527</u> |

Foreign

Taxes currently payable

11,601

10,889

8,412

Deferred income taxes

(3,230)

(1,129)

)

796

Foreign tax provision

8,371

9,760

9,208

Total tax provision

\$ 20,220

=====

\$ 21,148

=====

\$ 23,735

=====

The provision for taxes on income shown in the previous table is classified based on the location of the taxing authority, regardless of the location in which the taxable income is generated.

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The major elements contributing to the difference between the U.S. federal statutory tax rate and the consolidated effective tax rate are as follows:

| Percentages | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|---|--------------|--------------|--------------|
| U.S. statutory tax rate | 35.0% | 35.0% | 35.0% |
| Depletion | (4.7) | (4.5) | (5.0) |
| Difference between tax provided on foreign earnings and the U.S. statutory rate | (3.2) | (1.9) | (1.0) |
| State and local taxes, net of Federal tax benefit | 1.4 | 1.5 | 1.9 |
| Tax credits | (0.9) | (1.4) | (1.3) |
| Other | <u>(0.9)</u> | <u>0.4</u> | <u>0.2</u> |
| |) | | |
| Consolidated effective tax rate | 26.7% === | 29.1% === | 29.8% === |

The Company believes that its accrued liabilities are sufficient to cover its U.S. and foreign tax contingencies. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

| Thousands of Dollars | <u>2002</u> | <u>2001</u> |
|--|-----------------|-----------------|
| Deferred tax assets: | | |
| Pension and post-retirement benefits cost reported for financial statement purposes in excess of amounts deductible for tax purposes | \$ -- | \$ 3,207 |
| State and local taxes | 3,554 | 2,955 |
| Accrued expenses | 3,131 | 2,943 |
| Deferred expenses | 4,244 | 1,606 |
| Net operating loss carry forwards | 7,745 | 2,875 |
| Other | <u>1,125</u> | <u>1,231</u> |
| Total deferred tax assets | 19,799 ===== | 14,817 ===== |

Deferred tax liabilities:

| | | |
|--|-------------------|-------------------|
| Plant and equipment, principally due to differences in depreciation | 63,590 | 61,427 |
| Pension and post-retirement benefits cost deducted for tax purposes in excess of amounts reported for financial statements | 2,885 | -- |
| Other | <u>1,507</u> | <u>3,825</u> |
| Total deferred tax liabilities | <u>67,982</u> | <u>65,252</u> |
| Net deferred tax liabilities | \$48,183 ===== | \$50,435 ===== |

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**MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

A valuation allowance for deferred tax assets has not been recorded since management believes it is more likely than not that the existing net deductible temporary differences will reverse during periods in which the Company generates net taxable income.

Net cash paid for income taxes was \$14.6 million, \$20.8 million, and \$24.9 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Foreign Operations

The Company has not provided for U.S. federal and foreign withholding taxes on \$83.9 million of foreign subsidiaries' undistributed earnings as of December 31, 2002 because such earnings, for the most part, are intended to be reinvested overseas. To the extent the parent company has received foreign earnings as dividends, the foreign taxes paid on those earnings have generated tax credits, which have substantially offset related U.S. income taxes. On repatriation, certain foreign countries impose withholding taxes. The amount of withholding tax that would be payable on remittance of the entire amount of undistributed earnings would approximate \$2.9 million.

Net foreign currency exchange gains and (losses), included in other deductions in the Consolidated Statement of Income, were \$233,000, \$201,000, and (\$425,000) for the years ended December 31, 2002, 2001 and 2000, respectively.

Inventories

The following is a summary of inventories by major category:

| Thousands of Dollars | <u>2002</u> | <u>2001</u> |
|----------------------|-------------|-------------|
| Raw materials | \$32,967 | \$28,541 |

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| | | |
|------------------------|---------------|---------------|
| Work in process | 7,153 | 9,083 |
| Finished goods | 25,459 | 22,775 |
| Packaging and supplies | <u>17,330</u> | <u>17,234</u> |
| | \$82,909 | \$77,633 |
| Total inventories | ===== | ===== |

Property, Plant and Equipment

The major categories of property, plant and equipment and accumulated depreciation and depletion are presented below:

| Thousands of Dollars | <u>2002</u> | <u>2001</u> |
|--|------------------|------------------|
| Land | \$ 21,516 | \$ 20,136 |
| Quarries/mining properties | 27,918 | 26,981 |
| Buildings | 140,550 | 125,489 |
| Machinery and equipment | 801,788 | 755,471 |
| Construction in progress | 39,548 | 41,024 |
| | <u>84,684</u> | <u>76,526</u> |
| Furniture and fixtures and other | 1,116,004 | 1,045,627 |
| | <u>(578,580)</u> | <u>(509,288)</u> |
| Less: Accumulated depreciation and depletion |) |) |
| | \$ 537,424 | \$ 536,339 |
| Property, plant and equipment, net | ===== | ===== |

Restructuring Charge

During the second quarter of 2001, the Company announced plans to restructure its operations in an effort to reduce operating costs and to improve efficiency. The restructuring, together with workforce reductions associated with the acquisition of the refractory operations of Martin Marietta Magnesia Specialties Inc., resulted in a total workforce reduction of approximately 120 people or five percent of the Company's worldwide workforce. The Company recorded a pre-tax restructuring charge of \$3.4 million in the second quarter of 2001 to reflect these actions. This charge consisted of severance and other employee benefits. As of December 31, 2002, substantially all of the employees identified in the workforce reduction were terminated and there was no remaining restructuring liability. As of December 31, 2001, the remaining restructuring liability was approximately \$0.8 million.

MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acquisitions

In 2002, the Company acquired the following three entities for a total cash cost of \$34.1 million:

- On February 6, 2002, the Company purchased a PCC manufacturing facility in Hermalle-sous-Huy, Belgium for approximately \$10.2 million. The Company acquired this facility to accelerate the development of its European coating PCC program. The terms of the acquisition also provide for additional consideration of \$1.0 million to be paid if certain volumes of coating PCC are produced and shipped from this facility for any six consecutive months within five years following the acquisition.
- On April 26, 2002, the Company acquired for approximately \$1.4 million the assets of a company that develops and manufactures a refractory lining monitoring system.
- On September 9, 2002, the Company acquired the business and assets of Polar Minerals Inc., a privately owned producer of industrial minerals in the Midwest United States, for approximately \$22.5 million.

In 2001, the Company acquired the following two entities for a total cash cost of \$37.4 million:

- On May 1, 2001, the Company acquired the refractories business of Martin Marietta Magnesia Specialties Inc.
- On September 24, 2001, the Company purchased all of the outstanding shares of Rijnstaal B.V., a Netherlands-based producer of cored metal wires used mainly in the steel and foundry industries.

These acquisitions were accounted for under the purchase method and the operations of these entities have been included in the Company's financial statements since the aforementioned dates of the acquisitions.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of the acquisitions:

| Millions of Dollars | <u>2002</u> | <u>2001</u> |
|-----------------------------------|----------------|--------------|
| Current assets | \$11.6 | \$ 8.1 |
| Property, plant and equipment | 17.7 | 6.4 |
| Intangible assets | 0.7 | 1.4 |
| Goodwill | 5.5 | 30.1 |
| | <u>3.4</u> | <u>--</u> |
| Net operating loss carry forwards | | |
| Total assets acquired | 38.9 | 46.0 |
| | | <u>(8.6)</u> |
| Liabilities assumed | <u>(4.8)</u>) | |
| Net cash paid | \$34.1 | \$37.4 |

===

Goodwill and Other Intangible Assets

Effective January 1, 2002, the Company adopted 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 reviewed for impairment at least annually in accordance with the provisions of SFAS No. 142. This statement also required an initial goodwill impairment assessment in the year of adoption. The Company completed the initial impairment analysis and performed a subsequent impairment analysis in the fourth quarter. These analyses did not result in an impairment charge.

The carrying amount of goodwill was \$51.3 million and \$43.5 million as of December 31, 2002 and December 31, 2001, respectively. The net change in goodwill since January 1, 2002 was primarily attributable to the acquisition of Polar Minerals Inc. in the Specialty Minerals segment and the effect of foreign exchange.

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table reconciles previously reported net income as if the provisions of SFAS No. 142 had come into effect in 2000:

| (thousands of dollars) | Year Ended December 31, | | |
|--------------------------------|-------------------------|--------------------|--------------------|
| | <u>2002</u> | <u>2001</u> | <u>2000</u> |
| Reported net income | \$ 53,752 | \$ 49,793 | \$ 54,208 |
| Addback: goodwill amortization | <u> --</u> | <u> 818</u> | <u> 268</u> |
| Adjusted net income | \$ 53,752 ===== | \$ 50,611 ===== | \$ 54,476 ===== |
| Basic earnings per share: | | | |
| Reported net income | \$ 2.66 | \$ 2.54 | \$ 2.65 |
| Goodwill amortization | <u> --</u> | <u> 0.04</u> | <u> 0.01</u> |
| Adjusted net income | \$ 2.66 ===== | \$ 2.58 ===== | \$ 2.66 ===== |
| Diluted earnings per share: | | | |

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| | | | |
|-----------------------|--------------------|--------------------|--------------------|
| Reported net income | \$ 2.61 | \$ 2.48 | \$ 2.58 |
| Goodwill amortization | <u> --</u> | <u> 0.04</u> | <u> 0.01</u> |
| Adjusted net income | <u> \$ 2.61</u> | <u> \$ 2.52</u> | <u> \$ 2.59</u> |
| | ===== | ===== | ===== |

Acquired intangible assets subject to amortization as of December 31, 2002 and December 31, 2001 were as follows:

| | <u>December 31, 2002</u> | | <u>December 31, 2001</u> | |
|------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| (millions of dollars) | | | | |
| Patents and trademarks | \$ 5.8 | \$ 0.7 | \$ 5.0 | \$ 0.4 |
| Customer lists | 1.4 | 0.1 | 1.4 | 0.1 |
| Other | <u> 0.2</u> | <u> =</u> | <u> =</u> | <u> =</u> |
| | <u> \$ 7.4</u> | <u> \$ 0.8</u> | <u> \$ 6.4</u> | <u> \$ 0.5</u> |
| | ===== | ===== | ===== | ===== |

The weighted average amortization period for acquired intangible assets subject to amortization is approximately 15 years. Amortization expense was \$0.3 million in 2002 and the estimated amortization expense is \$0.4 million for each of the next five years through 2007.

Derivative Instruments and Hedging Activities

The Company is exposed to foreign currency exchange rate fluctuations and interest rate changes in the normal course of its business. As part of the Company's risk management strategy, the Company uses interest-rate related derivative instruments to manage its exposure on its debt instruments, as well as forward exchange contracts (FEC) to manage its exposure to foreign currency risk on certain raw material purchases. The Company's objective is to offset gains and losses resulting from these exposures with gains and losses on the derivative contracts used to hedge them. The Company has not entered into derivative instruments for any purpose other than to hedge certain expected cash flows. The Company does not speculate using derivative instruments.

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

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

Based on criteria established by SFAS No. 133, the Company designated its derivatives as a cash flow hedge. During 2001, the Company entered into three-year interest rate swap agreements with notional amounts totaling \$30 million that expire in

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**MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

January 2005. These agreements effectively convert a portion of the Company's floating-rate debt to a fixed-rate basis with an interest rate of 4.5%, thus reducing the impact of the interest rate changes on future cash flows and income. The Company uses FEC designated as cash flow hedges to protect against foreign currency exchange rate risks inherent in its forecasted inventory purchases. The Company had no open forward exchange contracts at December 31, 2002.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is initially recorded in accumulated other comprehensive income as a separate component of stockholders' equity and subsequently reclassified into earnings in the period during which the hedged transaction is recognized in earnings. The gains and losses associated with these forward exchange contracts and interest rate swaps are recognized into cost of sales and interest expense, respectively.

Financial Instruments and Concentrations of Credit Risk

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents, accounts receivable and payable, and accrued liabilities: The carrying amounts approximate fair value because of the short maturities of these instruments.

Short-term debt and other liabilities: The carrying amounts of short-term debt and other liabilities approximate fair value because of the short maturities of these instruments.

Long-term debt: The fair value of the long-term debt of the Company is estimated based on the quoted market prices for that debt or similar debt and approximates the carrying amount.

Forward exchange contracts: The fair value of forward exchange contracts (used for hedging purposes) is estimated by obtaining quotes from brokers. If appropriate, the Company would enter into forward exchange contracts to mitigate the impact of foreign exchange rate movements on

the Company's operating results. It does not engage in speculation. Such foreign exchange contracts would not subject the Company to additional risk from exchange rate movements because gains and losses on these contracts would offset losses and gains on the assets, liabilities and transactions being hedged. The fair value of these instruments was \$132,000 at December 31, 2001. The Company had no open forward exchange contracts at December 31, 2002.

Interest rate swap agreements: The Company enters into interest rate swap agreements as a means to hedge its interest rate exposure on debt instruments. At December 31, 2002, the Company had two interest rate swaps with major financial institutions that effectively converted variable-rate debt to a fixed rate. One swap has a notional amount of \$20 million and the other swap has a notional amount of \$10 million. These swap agreements are under three-year terms expiring in January 2005 whereby the Company pays 4.50% and receives a three-month LIBOR rate plus 45 basis points. The fair value of these instruments was determined based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date. The fair value of these instruments was a liability of approximately \$1.5 million and an asset of \$158,000 at December 31, 2002 and December 31, 2001, respectively.

Credit risk: Substantially all of the Company's accounts receivable are due from companies in the paper, construction and steel industries. Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. The Company regularly monitors its credit risk exposures and takes steps to mitigate the likelihood of these exposures resulting in actual loss. The Company's extension of credit is based on an evaluation of the customer's financial condition and collateral is generally not required.

The Company's bad debt expense for the years ended December 31, 2002, 2001 and 2000 was \$6.2 million, \$3.9 million and \$6.0 million, respectively.

MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Long-Term Debt and Commitments

The following is a summary of long-term debt:

| (thousands of dollars) | December 31, 2002 | December 31, 2001 |
|---|----------------------|----------------------|
| | _____ | _____ |
| 7.49% Guaranteed Senior Notes Due July 24, 2006 | \$50,000 | \$50,000 |
| Yen-denominated Guaranteed Credit Agreement Due March 31, 2007 | 8,957 | 8,734 |
| Variable/Fixed Rate Industrial Development Revenue Bonds Due 2009 | 4,000 | 4,000 |
| Economic Development Authority Refunding Revenue Bonds Series 1999 Due 2010 | 4,600 | 4,600 |
| Variable/Fixed Rate Industrial Development Revenue Bonds Due August 1, 2012 | 8,000 | 8,000 |

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| | | |
|---|--------------|------------|
| Variable/Fixed Rate Industrial Development Revenue Bonds Series 1999 Due November 1, 2014 | 8,200 | 8,200 |
| Variable/Fixed Rate Industrial Development Revenue Bonds Due March 31, 2020 | 5,000 | 5,000 |
| Other borrowings | <u>1,594</u> | <u>--</u> |
| | 90,351 | 88,534 |
| Less: Current maturities | <u>1,331</u> | <u>437</u> |
| | \$89,020 | \$88,097 |
| Long-term debt | ===== | ===== |

On July 24, 1996, through a private placement, the Company issued \$50 million of 7.49% Guaranteed Senior Notes due July 24, 2006. The proceeds from the sale of the notes were used to refinance a portion of the short-term commercial bank debt outstanding. No required principal payments are due until July 24, 2006. Interest on the notes is payable semi-annually.

On May 17, 2000, the Company's majority-owned subsidiary, Specialty Minerals FMT K.K., entered into a Yen-denominated Guaranteed Credit Agreement with the Bank of New York due March 31, 2007. The proceeds were used to finance the construction of a PCC satellite facility in Japan. Principal payments began on June 30, 2002. Interest is payable quarterly at a rate of 2.05% per annum.

The Variable/Fixed Rate Industrial Development Revenue Bonds due 2009 are tax-exempt 15-year instruments issued to finance the expansion of a PCC plant in Selma, Alabama. The bonds are dated November 1, 1994, and provide for an optional put by the holder (during the Variable Rate Period) and a mandatory call by the issuer. The bonds bear interest at either a variable rate or fixed rate, at the option of the Company. Interest is payable semi-annually under the fixed rate option and monthly under the variable rate option. The Company has selected the variable rate option on these borrowings and the average interest rates were approximately 1.57% and 3.18% for the years ended December 31, 2002 and 2001, respectively.

The Economic Development Authority Refunding Revenue Bonds due 2010 were issued on February 23, 1999 to refinance the bonds issued in connection with the construction of a PCC plant in Eastover, South Carolina. The bonds bear interest at either a variable rate or fixed rate, at the option of the Company. Interest is payable semi-annually under the fixed rate option and monthly under the variable rate option. The Company has selected the variable rate option on these borrowings and the average interest rates were approximately 1.51% and 2.61% for the years ended December 31, 2002 and 2001, respectively.

The Variable/Fixed Rate Industrial Development Revenue Bonds due August 1, 2012 are tax-exempt 15-year instruments that were issued on August 1, 1997 to finance the construction of a PCC plant in Courtland, Alabama. The bonds bear interest at either a variable rate or fixed rate, at the option of the Company. Interest is payable semi-annually under the fixed rate option and monthly under the variable rate option. The Company has selected the variable rate option on these borrowings and the average interest rates were approximately 1.56% and 3.35% for the years ended December 31, 2002 and 2001, respectively.

The Variable/Fixed Rate Industrial Development Revenue Bonds due November 1, 2014 are tax-exempt 15-year instruments and were issued on November 30, 1999 to refinance the bonds issued in connection with the construction of a PCC plant in Jackson, Alabama. The bonds bear interest at either a variable rate or fixed rate at the option of the Company. Interest is payable semi-annually under the fixed rate option and monthly under the variable rate option. The Company has selected the

**MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

variable rate option on these borrowings and the average interest rates were approximately 1.56% and 3.10% for the years ended December 31, 2002 and 2001, respectively.

On June 9, 2000 the Company entered into a twenty-year, taxable, Variable/Fixed Rate Industrial Development Revenue Bond agreement to finance a portion of the construction of a merchant manufacturing facility for the production of Specialty PCC in Mississippi. The Company has selected the variable rate option for this borrowing and the average interest rate was approximately 2.33% and 6.69% for the years ended December 31, 2002 and 2001, respectively.

The aggregate maturities of long-term debt are as follows: 2003 - \$1.3 million; 2004 - \$2.3 million; 2005 - \$2.8 million; 2006 - \$52.8 million, 2007 - \$1.0 million; thereafter - \$30.2 million.

The Company had available approximately \$115.0 million in uncommitted, short-term bank credit lines, of which \$30.0 million was in use at December 31, 2002. The interest rate for these borrowings was approximately 3.85% for the year ended December 31, 2002.

During 2002, 2001 and 2000, respectively, the Company incurred interest costs of \$6.4 million, \$8.8 million and \$7.2 million including \$0.6 million, \$0.9 million and \$1.9 million, respectively, which were capitalized. Interest paid approximated the incurred interest costs.

Benefit Plans

Pension Plans and Other Postretirement Benefit Plans

The Company and its subsidiaries have pension plans covering substantially all eligible employees on a contributory or non-contributory basis.

The funded status of the Company's pension plans and other postretirement benefit plans at December 31, 2002 and 2001 is as follows:

| Millions of Dollars | Pension Benefits | | Other Benefits | |
|---|------------------|-------------|----------------|-------------|
| | <u>2002</u> | <u>2001</u> | <u>2002</u> | <u>2001</u> |
| Change in benefit obligation | | | | |
| Benefit obligation at beginning of year | \$107.2 | \$104.9 | \$ 21.6 | \$ 19.0 |
| Service cost | 5.1 | 5.2 | 1.1 | 1.1 |
| Interest cost | 7.3 | 6.9 | 1.5 | 1.4 |
| Actuarial gain | 7.5 | 5.7 | 1.6 | 0.8 |

| | | | | |
|-----------------------------------|------------|--------------|-----------|-----------|
| Benefits paid | (4.1) | (14.1) | (1.5) | (1.3) |
| Acquisitions | -- | -- | -- | 0.6 |
| Other | <u>2.8</u> | <u>(1.4)</u> | <u>--</u> | <u>--</u> |
| | |) | | |
| Benefit obligation at end of year | \$125.8 | \$107.2 | \$ 24.3 | \$ 21.6 |
| | ===== | ===== | ===== | ===== |

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| Millions of Dollars | Pension Benefits | | Other Benefits | |
|--|------------------|--------------|----------------|--------------|
| | <u>2002</u> | <u>2001</u> | <u>2002</u> | <u>2001</u> |
| Change in plan assets | | | | |
| Fair value of plan assets at beginning of year | \$102.7 | \$110.5 | \$ -- | \$ -- |
| Actual return on plan assets | (9.2) | (3.5) | -- | -- |
| Employer contributions | 20.2 | 10.7 | 1.6 | 1.3 |
| Plan participants' contributions | 0.2 | 0.2 | -- | -- |
| Benefits paid | (4.1) | (14.1) | (1.6) | (1.3) |
| | <u>1.6</u> | <u>(1.1)</u> | <u>--</u> | <u>--</u> |
| Other | |) | | |
| Fair value of plan assets at end of year | \$111.4 | \$102.7 | \$ -- | \$ -- |
| | ===== | ===== | ===== | ===== |
| Funded status | \$(14.4) | \$ (4.5) | \$(24.3) | \$(21.6) |
| Unrecognized transition amount | -- | 0.2 | -- | -- |
| Unrecognized net actuarial loss | 42.0 | 16.6 | 4.4 | 2.9 |
| | <u>4.7</u> | <u>4.9</u> | <u>--</u> | <u>(0.4)</u> |
| Unrecognized prior service cost | | |) | |
| Prepaid (accrued) benefit cost | | | | |

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| | | | | |
|--|------------|------------|-----------|-----------|
| | \$ 32.3 | \$ 17.2 | \$(19.9) | \$(19.1) |
| | === | === | === | === |
| Amounts recognized in the consolidated balance sheet consist of: | | | | |
| Prepaid benefit cost | \$ 36.1 | \$ 20.4 | \$ -- | \$ -- |
| Accrued benefit liabilities | (7.2) | (5.5) | (19.9) | (19.1) |
| Intangible asset | 1.2 | 1.5 | -- | -- |
| | <u>2.2</u> | <u>0.8</u> | <u>--</u> | <u>--</u> |
| Accumulated other comprehensive loss | | | | |
| | \$ 32.3 | \$ 17.2 | \$(19.9) | \$(19.1) |
| Net amount recognized | === | === | === | === |

The weighted average assumptions used in the accounting for the pension benefit plans and other benefit plans as of December 31 are as follows:

| | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|--------------------------------|-------------|-------------|-------------|
| Discount rate | 6.75% | 7.25% | 7.50% |
| Expected return on plan assets | 8.75% | 9.25% | 9.50% |
| Rate of compensation increase | 3.50% | 4.00% | 4.00% |

For measurement purposes, health care cost trend rates of approximately 10.0% for pre-age-65 and post-age-65 benefits were used in 2002. These trend rates were assumed to decrease gradually to 5.0% for 2007 and remain at that level thereafter.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$31.5 million, \$26.4 million and \$17.8 million, respectively, as of December 31, 2002 and \$9.4 million, \$8.4 million and \$2.9 million, respectively as of December 31, 2001.

The components of net periodic benefit costs are as follows:

| Millions of Dollars | <u>Pension Benefits</u> | | | <u>Other Benefits</u> | | |
|-----------------------------------|-------------------------|-------------|-------------|-----------------------|-------------|-------------|
| | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> |
| Service cost | \$ 5.1 | \$ 5.2 | \$ 5.1 | \$ 1.1 | \$ 1.1 | \$ 0.9 |
| Interest cost | 7.3 | 6.9 | 6.9 | 1.5 | 1.4 | 1.3 |
| Expected return on plan assets | (9.0) | (9.5) | (9.3) | -- | -- | -- |
| Amortization of transition amount | 0.1 | 0.8 | 0.7 | -- | -- | -- |
| Amortization of prior service | 0.5 | 0.5 | 0.4 | (0.4) | (1.7) | (1.7) |

cost

| | | | | | | |
|---|-----------|------------|-----------|-----------|-----------|-----------|
| Recognized net actuarial loss (gain) | 0.8 | (0.2) | (0.5) | -- | -- | -- |
| | <u>--</u> | <u>1.9</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>--</u> |

SFAS No. 88 settlement

| | | | | | | |
|---------------------------|--------|--------|--------|--------|--------|--------|
| Net periodic benefit cost | \$ 4.8 | \$ 5.6 | \$ 3.3 | \$ 2.2 | \$ 0.8 | \$ 0.5 |
| | === | === | === | === | === | === |

Unrecognized prior service cost is amortized on an accelerated basis over the average remaining service period of each active employee.

Benefits under defined benefit plans are generally based on years of service and an employee's career earnings. Employees become fully vested after five years.

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
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Under the provisions of SFAS No. 88, lump sum distributions from the Company's Supplemental Retirement Plan caused a partial settlement of such plan, resulting in a charge of \$1.9 million in 2001.

The Company's funding policy for U.S. plans generally is to contribute annually into trust funds at a rate that is intended to remain at a level percentage of compensation for covered employees. The funding policy for the international plans conforms to local governmental and tax requirements. The plans' assets are invested primarily in stocks and bonds.

The Company provides postretirement health care and life insurance benefits for substantially all of its U.S. retired employees. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of creditable service. The Company does not pre-fund these benefits and has the right to modify or terminate the plan in the future.

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

| | 1-Percentage-Point Increase | 1-Percentage-Point Decrease |
|---|--------------------------------|--------------------------------|
| | <hr/> | <hr/> |
| Effect on total service and interest cost components | \$ 17,000 | \$ (21,000) |
| Effect on postretirement benefit obligation Savings and Investment Plans | \$204,000 | \$(231,000) |

The Company maintains a voluntary Savings and Investment Plan for most non-union employees in the U.S. Within prescribed limits, the Company bases its contribution to the Plan on employee contributions. The Company's contributions amounted to \$2.9 million, \$2.9 million and \$3.0 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Leases

The Company has several noncancelable operating leases, primarily for office space and equipment. Rent expense amounted to approximately \$4.6 million, \$4.4 million and \$5.1 million for the years ended December 31, 2002, 2001 and 2000, respectively. Total future minimum rental commitments under all noncancelable leases for each of the years 2003 through 2007 and in the aggregate thereafter are approximately \$3.2 million, \$3.2 million, \$3.0 million, \$2.4 million, \$2.3 million, respectively and \$11.8 million thereafter.

Total future minimum payments to be received under direct financing leases for each of the years 2003 through 2007 and in the aggregate thereafter are approximately \$2.6 million, \$2.0 million, \$1.7 million, \$1.1 million, \$0.7 million, respectively and \$2.8 million thereafter.

Litigation

On or about July 14, 2000, MTI, Specialty Minerals Inc. and Minteq International Inc. received from the Connecticut Department of Environmental Protection ("DEP") a proposed administrative consent order relating to the Canaan, Connecticut site at which both Minteq and Specialty Minerals have operations. Following extensive discussions among the parties, the proposed order was revised by the DEP on February 11, 2003. The proposed order would settle claims relating to an accidental discharge of machine oil alleged to have contained polychlorinated biphenyls at or above regulated levels, as well as alleged violations of requirements pertaining to stormwater and waste water discharge and management of underground storage tanks. The proposed order would require payment of a civil penalty in the amount of \$11,000 and funding of several supplemental environmental projects totaling \$330,000. These amounts are included in other current liabilities in the consolidated balance sheet as of December 31, 2002. Cost of remediation at the site remains uncertain.

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

Capital Stock

The Company's authorized capital stock consists of 100 million shares of common stock, par value \$0.10 per share, of which 20,155,787 shares and 19,613,947 shares were outstanding at December 31, 2002 and 2001, respectively, and 1,000,000 shares of preferred stock, none of which were issued and outstanding.

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cash Dividends

Cash dividends of \$2.0 million or \$0.10 per common share were paid during 2002. In January 2003, a cash dividend of approximately \$0.5 million or \$0.025 per share, was declared, payable in the first quarter of 2003.

Preferred Stock Purchase Rights

On August 27, 1999, the Company's Board of Directors redeemed the Company's current rights plan effective September 13, 1999 and simultaneously replaced it with a new rights plan. The redemption price for the old rights of \$0.01 per right was paid to the stockholders of record as of September 13, 1999.

Under the Company's new Preferred Stock Purchase Rights Plan, each share of the Company's common stock carries with it one preferred stock purchase right. Subject to the terms and conditions set forth in the plan, the rights will become exercisable if a person or group acquires beneficial ownership of 15% or more of the Company's common stock or announces a tender or exchange offer that would result in the acquisition of 30% or more thereof. If the rights become exercisable, separate certificates evidencing the rights will be distributed, and each right will entitle the holder to purchase from the Company a new series of preferred stock, designated as Series A Junior Preferred Stock, at a predefined price. The rights also entitle the holder to purchase shares in a change-of-control situation. The preferred stock, in addition to a preferred dividend and liquidation right, will entitle the holder to vote on a pro rata basis with the Company's common stock.

The rights are redeemable by the Company at a fixed price until 10 days or longer, as determined by the Board, after certain defined events or at any time prior to the expiration of the rights on September 13, 2009 if such events do not occur.

Stock and Incentive Plan

The Company has adopted a Stock and Incentive Plan (the "Plan"), which provides for grants of incentive and non-qualified stock options, stock appreciation rights, stock awards or performance unit awards. The Plan is administered by the Compensation and Nominating Committee of the Board of Directors. Stock options granted under the Plan have a term not in excess of ten years. The exercise price for stock options will not be less than the fair market value of the common stock on the date of the grant, and each award of stock options will vest ratably over a specified period, generally three years.

In 2001, the shareholders approved an amendment to increase the number of shares of common stock available under the Plan by an additional 0.5 million.

The following table summarizes stock option activity for the Plan:

| | Shares Available | Under Option | |
|---------------------------|------------------|-----------------------|---------------------------------|
| | | Shares | Weighted Average Exercise Price |
| | <u>For Grant</u> | <u>Per Share (\$)</u> | |
| Balance January 1, 2000 | 1,339,552 | 2,580,799 | 33.25 |
| Granted | (107,000) | 107,000 | 50.34 |
| Exercised | -- | (148,148) | 28.20 |
| Canceled | <u>20,437</u> | <u>(20,437)</u> | 39.26 |
| | |) | |
| Balance December 31, 2000 | 1,252,989 | 2,519,214 | 34.23 |
| Authorized | 500,000 | -- | -- |

| | | | |
|---------------------------|------------------|------------------|-------|
| Granted | (252,500) | 252,500 | 34.81 |
| Exercised | -- | (109,504) | 29.04 |
| Canceled | <u>42,057</u> | <u>(42,057)</u> | 38.57 |
| | |) | |
| Balance December 31, 2001 | 1,542,546 | 2,620,153 | 34.43 |
| Granted | (285,728) | 285,728 | 46.92 |
| Exercised | -- | (977,363) | 30.03 |
| Canceled | <u>20,335</u> | <u>(20,335)</u> | 50.83 |
| | |) | |
| Balance December 31, 2002 | <u>1,277,153</u> | <u>1,908,183</u> | 38.54 |
| | ===== | ===== | |

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
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SFAS No. 123, "Accounting for Stock-Based Compensation," requires the disclosure of pro forma net income and net income per share as if the Company adopted the fair-value method of accounting for stock-based awards. The fair value of stock-based awards to employees was calculated using the Black-Scholes option-pricing model, modified for dividends, with the following weighted average assumptions:

| | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|-------------------------|-------------|-------------|-------------|
| Expected life (years) | 7 | 7 | 7 |
| Interest rate | 3.27% | 4.69% | 5.03% |
| Volatility | 31.21% | 30.41% | 31.13% |
| Expected dividend yield | 0.21% | 0.28% | 0.20% |

As required by SFAS No. 123, the Company has determined that the weighted average estimated fair values of options granted in 2002, 2001 and 2000 were \$18.30, \$14.36 and \$21.85 per share, respectively. Pro forma net income and earnings per share reflecting compensation cost for the fair value of stock options awarded in 2002, 2001 and 2000 were as follows:

| Millions of Dollars, Except Per Share Amounts | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|---|-------------|-------------|-------------|
|---|-------------|-------------|-------------|

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| | | | |
|---|----------------|----------------|----------------|
| Net income, as reported | \$ 53.8 | \$ 49.8 | \$ 54.2 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | <u>2.2</u> | <u>5.5</u> | <u>4.8</u> |
| Pro forma net income | \$ 51.6 === | \$ 44.3 === | \$ 49.4 === |

| | | | | |
|--------------------------|-------------|---------|---------|---------|
| Basic earnings per share | As reported | \$ 2.66 | \$ 2.54 | \$ 2.65 |
| | Pro forma | \$ 2.55 | \$ 2.26 | \$ 2.41 |

| | | | | |
|----------------------------|-------------|---------|---------|---------|
| Diluted earnings per share | As reported | \$ 2.61 | \$ 2.48 | \$ 2.58 |
| | Pro forma | \$ 2.51 | \$ 2.21 | \$ 2.35 |

The following table summarizes information concerning Plan options outstanding at December 31, 2002:

| Options Outstanding | | | | Options Exercisable | |
|------------------------|--------------------|--|---------------------------|---------------------|---------------------------|
| Range of | Number Outstanding | Weighted Average Remaining Contractual | Weighted Average Exercise | Number Exercisable | Weighted Average Exercise |
| <u>Exercise Prices</u> | <u>at 12/31/02</u> | <u>Term (Years)</u> | <u>Price</u> | <u>at 12/31/02</u> | <u>Price</u> |
| \$22.625 --29.750 | 56,265 | 0.1 | \$ 23.61 | 56,265 | \$ 23.61 |
| \$30.625 --34.825 | 598,062 | 4.3 | \$ 32.13 | 455,875 | \$ 31.28 |
| \$38.438 --39.531 | 874,433 | 6.1 | \$ 39.53 | 870,933 | \$ 39.53 |
| \$42.070 --52.375 | 379,423 | 8.6 | \$ 48.15 | 77,673 | \$ 50.15 |

MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Earnings Per Share (EPS)

Thousands of Dollars, Except Per Share Amounts

| Basic EPS | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|---|------------------|------------------|------------------|
| Net income | \$ <u>53,752</u> | \$ <u>49,793</u> | \$ <u>54,208</u> |
| Weighted average shares outstanding | <u>20,199</u> | <u>19,630</u> | <u>20,479</u> |
| Basic earnings per share | \$ 2.66 === | \$ 2.54 === | \$ 2.65 === |
| | | | |
| Diluted EPS | <u>2002</u> | <u>2001</u> | <u>2000</u> |
| Net income | \$ <u>53,752</u> | \$ <u>49,793</u> | \$ <u>54,208</u> |
| Weighted average shares outstanding | 20,199 | 19,630 | 20,479 |
| Dilutive effect of stock options | <u>370</u> | <u>433</u> | <u>525</u> |
| Weighted average shares outstanding, adjusted | <u>20,569</u> | <u>20,063</u> | <u>21,004</u> |
| | | | |
| Diluted earnings per share | \$ 2.61 === | \$ 2.48 === | \$ 2.58 === |

The weighted average diluted common shares outstanding for the years ending December 31, 2002, 2001 and 2000 excludes the dilutive effect of approximately 445,000, 376, 000 and 388,000 options, respectively, since such options had an exercise price in excess of the average market value of the Company's common stock during such years.

Comprehensive Income

Comprehensive income includes changes in the fair value of certain financial derivative instruments that qualify for hedge accounting to the extent they are effective, the minimum pension liability and cumulative foreign currency translation adjustments.

The following table reflects the accumulated balances of other comprehensive income (loss) (in millions):

| | Currency Translation | Minimum Pension | Net Gain (Loss) On Cash Flow | Accumulated Other Comprehensive |
|---------------------------------|-------------------------|--------------------|------------------------------------|---------------------------------------|
| | <u>Adjustment</u> | <u>Liability</u> | <u>Hedges</u> | <u>Income (Loss)</u> |
| Balance at January 1, 2000 | \$(27.9) | \$(1.0) | \$ -- | \$(28.9) |
| Current year change | <u>(15.2)</u> | <u>--</u> | <u>--</u> | <u>(15.2)</u> |
|) |) |) |) |) |
| Balance at December 31, 2000 | (43.1) | (1.0) | -- | (44.1) |
| | <u>(11.9)</u> | <u>0.5</u> | <u>0.2</u> | <u>(11.2)</u> |
| Current year change |) |) |) |) |
| Balance at December 31, 2001 | (55.0) | (0.5) | 0.2 | (55.3) |
| | <u>22.2</u> | <u>(0.8)</u> | <u>(1.1)</u> | <u>20.3</u> |
| Current year change |) |) |) |) |
| Balance at December 31, 2002 | \$(32.8) | \$(1.3) | \$(0.9) | \$(35.0) |
| | <u>===</u> | <u>===</u> | <u>===</u> | <u>===</u> |

The income tax expense (benefit) associated with items included in other comprehensive income (loss) was approximately \$(1.1) million, \$0.4 million and \$(0.5) million for the years ended December 31, 2002, 2001 and 2000, respectively.

Segment and Related Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's operating segments are strategic business units that offer different products and serve different markets. They are managed separately and require different technology and marketing strategies.

The Company has two operating segments: Specialty Minerals and Refractories. The Specialty Minerals segment produces and sells precipitated calcium carbonate and lime, and mines, processes and sells the natural mineral

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products limestone and talc. This segment's products are used principally in the paper, building materials, paints and coatings, glass, ceramic, polymers, food, and pharmaceutical industries. The Refractories segment produces and markets monolithic and shaped refractory materials and services used primarily by the steel, cement and glass industries.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on the operating income of the respective business units. Depreciation expense related to corporate assets is allocated to the business segments and is included in their income from operations. However, such corporate depreciable assets are not included in the segment assets. Specialty Minerals' segment sales to International Paper Company and affiliates represented approximately 11.5% of consolidated net sales for 2002 and 13% of consolidated net sales in 2001 and 2000, respectively. Intersegment sales and transfers are not significant.

Segment information for the years ended December 31, 2002, 2001 and 2000 was as follows (in millions):

| | 2002 | | |
|--|-----------------------|--------------|---------|
| | Specialty Minerals | Refractories | Total |
| Net sales | \$520.1 | \$232.6 | \$752.7 |
| Income from operations | 60.0 | 20.9 | 80.9 |
| Bad debt expenses | 3.8 | 2.4 | 6.2 |
| Depreciation, depletion and amortization | 59.0 | 10.0 | 69.0 |
| Segment assets | 612.7 | 238.6 | 851.3 |
| Capital expenditures | 27.3 | 9.7 | 37.0 |
| | 2001 | | |
| | Specialty Minerals | Refractories | Total |
| Net sales | \$483.3 | \$201.1 | \$684.4 |
| Income from operations | 55.5 | 25.1 | 80.6 |
| Bad debt expenses | 0.6 | 3.3 | 3.9 |
| Depreciation, depletion and amortization | 55.9 | 10.6 | 66.5 |
| Segment assets | 587.9 | 231.4 | 819.3 |
| Capital expenditures | 54.3 | 8.6 | 62.9 |
| | 2000 | | |
| | | Refractories | Total |

| | Specialty Minerals | | |
|--|-----------------------|---------|---------|
| Net sales | \$486.3 | \$184.6 | \$670.9 |
| Income from operations | 61.4 | 23.4 | 84.8 |
| Bad debt expenses | 1.2 | 4.8 | 6.0 |
| Depreciation, depletion and amortization | 51.8 | 9.0 | 60.8 |
| Write-down of impaired assets | 4.9 | -- | 4.9 |
| Segment assets | 612.4 | 169.5 | 781.9 |
| Capital expenditures | 95.6 | 7.7 | 103.3 |

Included in income from operations of the Specialty Minerals segment and the Refractories segment for the year ended December 31, 2001, is a restructuring charge of approximately \$3.0 million and \$0.4 million, respectively.

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|---|----------------|----------------|----------------|
| Income before provision for taxes on income and minority interests | | | |
| Income from operations for reportable segments | \$ 80.9 | \$ 80.6 | \$ 84.8 |
| Unallocated corporate expenses | <u> --</u> | <u> --</u> | <u> --</u> |
| Consolidated income from operations | 80.9 | 80.6 | 84.8 |
| Interest income | 1.1 | 0.8 | 1.1 |
| Interest expense | (5.8) | (7.9) | (5.3) |
| Other deductions | <u>(0.5)</u> | <u>(0.8)</u> | <u>(0.8)</u> |
| |) |) |) |
| Income before provision for taxes | \$ 75.7 | \$ 72.7 | \$ 79.8 |
| | <u> ===</u> | <u> ===</u> | <u> ===</u> |

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on income and minority interests

| | | | |
|---|------------------|------------------|------------------|
| Total assets | <u>2002</u> | <u>2001</u> | <u>2000</u> |
| Total segment assets | \$851.3 | \$819.3 | \$781.9 |
| Corporate assets | <u>48.6</u> | <u>28.5</u> | <u>17.9</u> |
| | | | |
| Consolidated total assets | \$899.9 ===== | \$847.8 ===== | \$799.8 ===== |
| | | | |
| Capital expenditures | <u>2002</u> | <u>2001</u> | <u>2000</u> |
| Total segment capital expenditures | \$ 37.0 | \$ 62.9 | \$103.3 |
| Corporate capital expenditures | <u>0.1</u> | <u>0.2</u> | <u>--</u> |
| | | | |
| Consolidated total capital expenditures | \$37.1 ==== | \$ 63.1 ==== | \$103.3 ===== |

The following is a schedule of amortization expense related to goodwill by segment:

| (thousands of dollars) | <u>Amortization of Goodwill</u> | | |
|------------------------|---------------------------------|------------------|----------------|
| | <u>Year Ended December 31,</u> | | |
| | <u>2002</u> | <u>2001</u> | <u>2000</u> |
| Specialty Minerals | \$ -- | \$ 373 | \$ 182 |
| Refractories | <u>--</u> | <u>991</u> | <u>298</u> |
| Total | \$ -- ==== | \$1,364 ===== | \$ 480 ==== |

The carrying amount of goodwill by reportable segment as of December 31, 2002 and December 31, 2001 was as follows:

| (thousands of dollars) | <u>Goodwill</u> | |
|------------------------|-----------------|------|
| | 2002 | 2001 |
| | | |

| | | |
|--------------------|---------------|---------------|
| Specialty Minerals | \$ 14,637 | \$ 8,038 |
| Refractories | <u>36,654</u> | <u>35,468</u> |
| Total | \$ 51,291 | \$ 43,506 |
| | ===== | ===== |

The net change in goodwill since January 1, 2002 was primarily attributable to the acquisition of Polar Minerals Inc. in the Specialty Minerals segment and the effect of foreign exchange.

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Financial information relating to the Company's operations by geographic area was as follows (in millions):

| Net sales | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|------------------------------|------------------|------------------|------------------|
| United States | \$ <u>482.2</u> | \$ <u>442.7</u> | \$ <u>442.7</u> |
| Canada/Latin America | 68.5 | 63.6 | 62.0 |
| Europe/Africa | 156.0 | 129.6 | 116.8 |
| Asia | <u>46.0</u> | <u>48.5</u> | <u>49.4</u> |
| Total International | <u>270.5</u> | <u>241.7</u> | <u>228.2</u> |
| Consolidated total net sales | \$752.7 ===== | \$684.4 ===== | \$670.9 ===== |

Net sales and long-lived assets are attributed to countries and geographic areas based on the location of the legal entity. No individual foreign country represents more than 10% of consolidated net sales or consolidated long-lived assets.

| Long-lived assets | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|-------------------|-------------|-------------|-------------|
|-------------------|-------------|-------------|-------------|

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| | | | |
|--------------------------------------|------------------|------------------|------------------|
| United States | <u>\$400.6</u> | <u>\$411.1</u> | <u>\$387.4</u> |
| Canada/Latin America | 21.5 | 28.5 | 31.2 |
| Europe/Africa | 141.3 | 115.3 | 112.3 |
| Asia | <u>31.9</u> | <u>31.4</u> | <u>37.5</u> |
| Total International | <u>194.7</u> | <u>175.2</u> | <u>181.0</u> |
| Consolidated total long-lived assets | \$595.3 ===== | \$586.3 ===== | \$568.4 ===== |

Quarterly Financial Data (unaudited)

Thousands of Dollars, Except Per Share Amounts

| 2002 Quarters | <u>First</u> | <u>Second</u> | <u>Third</u> | <u>Fourth</u> |
|---|---------------|---------------|---------------|---------------|
| Net Sales by Product Line | | | | |
| PCC | \$102,876 | \$103,320 | \$107,562 | \$109,230 |
| Processed Minerals | <u>21,439</u> | <u>24,380</u> | <u>24,546</u> | <u>26,726</u> |
| Specialty Minerals Segment | 124,315 | 127,700 | 132,108 | 135,956 |
| Refractories Segment | <u>54,685</u> | <u>59,128</u> | <u>60,026</u> | <u>58,762</u> |
| Consolidated net sales | 179,000 | 186,828 | 192,134 | 194,718 |
| Gross profit | 45,576 | 46,166 | 46,397 | 45,806 |
| Net income | 13,543 | 13,997 | 14,213 | 11,999 |
| Earnings per share: | | | | |
| Basic | 0.68 | 0.68 | 0.70 | 0.60 |
| Diluted | 0.66 | 0.67 | 0.70 | 0.59 |
| Market Price Range Per Share of Common Stock: | | | | |
| High | 53.91 | 53.84 | 48.99 | 46.07 |
| Low | 44.06 | 49.12 | 33.17 | 36.38 |

| | | | | |
|---------------------------------|----------|----------|----------|----------|
| Close | 52.93 | 49.32 | 37.07 | 43.15 |
| Dividends paid per common share | \$ 0.025 | \$ 0.025 | \$ 0.025 | \$ 0.025 |

In the second quarter of 2002, the Company recorded a \$0.75 million write-down of impaired assets related to a satellite PCC plant at a paper mill that has ceased operations.

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**MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Thousands of Dollars, Except Per Share Amounts

| 2001 Quarters | <u>First</u> | <u>Second</u> | <u>Third</u> | <u>Fourth</u> |
|--|---------------|---------------|---------------|---------------|
| Net Sales by Product Line | | | | |
| PCC | \$ 99,669 | \$ 97,615 | \$ 98,695 | \$100,180 |
| Processed Minerals | <u>21,012</u> | <u>22,955</u> | <u>22,482</u> | <u>20,721</u> |
| Specialty Minerals Segment | 120,681 | 120,570 | 121,177 | 120,901 |
| Refractories Segment | <u>43,294</u> | <u>50,168</u> | <u>53,734</u> | <u>53,894</u> |
| Consolidated net sales | 163,975 | 170,738 | 174,911 | 174,795 |
| Gross profit | 43,499 | 45,483 | 46,091 | 46,821 |
| Net income | 11,658 | 10,341 | 13,591 | 14,203 |
| Earnings per share: | | | | |
| Basic | 0.59 | 0.53 | 0.69 | 0.73 |
| Diluted | 0.58 | 0.52 | 0.68 | 0.71 |
| Market Price Range Per Share of Common Stock: | | | | |
| High | 38.09 | 43.95 | 44.78 | 48.00 |
| Low | 31.92 | 33.62 | 33.23 | 35.98 |
| Close | 34.89 | 42.87 | 37.72 | 46.64 |
| Dividends paid per common share | \$ 0.025 | \$ 0.025 | \$ 0.025 | \$ 0.025 |

In the second quarter of 2001, the Company recorded a \$3.4 million restructuring charge.

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**MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Independent Auditors' Report

The Board of Directors and Shareholders
Minerals Technologies Inc.:

We have audited the accompanying consolidated balance sheet of Minerals Technologies Inc. and subsidiary companies as of December 31, 2002 and 2001 and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Minerals Technologies Inc. and subsidiary companies as of December 31, 2002 and 2001 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," as of January 1, 2002.

KPMG LLP

New York, New York
January 23, 2003

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Management's Responsibility for Financial Statements and System of Internal Control

The consolidated financial statements and all related financial information herein are the responsibility of the Company's management. The financial statements, which include amounts based on judgments, have been prepared in accordance with accounting principles generally accepted in the United States of America. Other financial information in the annual report is consistent with that in the financial statements.

The Company maintains a system of internal control over financial reporting, which it believes provides reasonable assurance that transactions are executed in accordance with management's authorization and are properly recorded, that assets are safeguarded, and that accountability for assets is maintained. Even an effective internal

control system, no matter how well designed, has inherent limitations and, therefore, can provide only reasonable assurance with respect to financial statement preparation. The system of internal control is characterized by a control-oriented environment within the Company, which includes written policies and procedures, careful selection and training of personnel, and audits by a professional staff of internal auditors.

The Company's independent accountants have audited and reported on the Company's consolidated financial statements. Their audits were performed in accordance with auditing standards generally accepted in the United States of America.

The Audit Committee of the Board of Directors is composed solely of outside directors. The Audit Committee meets periodically with our independent auditors, internal auditors and management to review accounting, auditing, internal control and financial reporting matters. Recommendations made by the independent auditors and the Company's internal auditors are considered and appropriate action is taken with respect to these recommendations. Both our independent auditors and internal auditors have free access to the Audit Committee.

Paul R. Saueracker

Chairman of the Board and
Chief Executive Officer

John A. Sorel

Senior Vice President, Finance and Chief Financial Officer

Michael A. Cipolla

Corporate Controller and Chief Accounting Officer

January 23, 2003

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MINERALS TECHNOLOGIES INC. & SUBSIDIARY COMPANIES
SCHEDULE II-VALUATION AND QUALIFYING ACCOUNTS
(thousands of dollars)

| <u>Description</u> | <u>Balance at Beginning of Period</u> | <u>Additions Charged to Costs, Provisions and Expenses</u> | <u>Deductions (a)(b)</u> | <u>Balance at End of Period</u> |
|--|---|--|------------------------------|---|
| Year ended December 31, 2002 | | | | |
| Valuation and qualifying accounts deducted from assets to which they apply: | | | | |
| Allowance for doubtful accounts | \$3,697 ===== | \$6,214 ===== | \$(2,832) ===== | \$7,079 ===== |
| Year ended December 31, 2001 | | | | |
| Valuation and qualifying accounts deducted from assets to which they apply: | | | | |
| Allowance for doubtful accounts | \$2,898 ===== | \$3,930 ===== | \$(3,131) ===== | \$3,697 ===== |
| Year ended December 31, 2000 | | | | |

Valuation and qualifying accounts deducted from
assets to which they apply:

| | | | | |
|---------------------------------|---------|---------|-----------|---------|
| Allowance for doubtful accounts | \$3,100 | \$5,964 | \$(6,166) | \$2,898 |
| | ===== | ===== | ===== | ===== |

(a) Includes impact of translation of foreign currencies.

(b) Uncollectible accounts charged against allowance for doubtful accounts, net of recoveries.

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