SPECTRUM CONTROL INC
Form 10-Q
July 05, 2007

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

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

For the Period Ended May 31, 2007 | Commission File Number 0-8796

Spectrum Control, Inc.

Exact name of registrant as specified in its charter

Pennsylvania	25-1196447
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
8031 Avonia Road; Fairview, Pennsylvania	16415
(Address)	(Zip Code)
Registrant's telephone number, including area code:	(814) 474-2207

Former name, former address and former fiscal year, if changed since last report

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 the filing requirements for at least the past 90 days. Yes__X__ No___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer___ Accelerated filer___ Non-accelerated filer_X_

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

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

Class	Number of Shares Outstanding as of June 15, 2007
Common, no par value	13,402,642

SPECTRUM CONTROL, INC. AND SUBSIDIARIES

INDEX

PART I **FINANCIAL INFORMATION**

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets May 31, 2007 and November 30, 2006

Condensed Consolidated Statements of Income Three Months Ended and Six Months Ended May 31, 2007 and 2006

Condensed Consolidated Statements of Cash Flows Six Months Ended May 31, 2007 and 2006

Notes to Condensed Consolidated Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

PART II **OTHER INFORMATION**

Item 1A. Risk Factors

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

Item 6. Exhibits

Signature

Officer Certifications

SPECTRUM CONTROL, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Unaudited)

(Dollar Amounts in Thousands)	May 31, 2007	November 30, 2006
Assets		
Current assets		
Cash and cash equivalents	$ 4,027	$ 3,501
Accounts receivable, less allowances of $ 996 in 2007 and $ 851 in 2006	24,947	22,676
Insurance recovery receivable	-	1,500
Inventories	23,894	21,754
Deferred income taxes	1,253	1,253
Prepaid expenses and other current assets	1,762	1,778
Total current assets	55,883	52,462
Property, plant and equipment, net	24,535	24,236
Other assets		
Goodwill	35,760	34,508
Other noncurrent assets	7,685	8,001
Total other assets	43,445	42,509
Total assets	$ 123,863	$ 119,207
Liabilities And Stockholders' Equity		
Current liabilities		
Short-term debt	$ 7,000	$ 9,000
Accounts payable	6,622	7,227
Income taxes payable	610	71
Accrued liabilities	4,615	4,061
Current portion of long-term debt	95	295
Total current liabilities	18,942	20,654
Long-term debt	1,057	1,131

Other liabilities	1,760	2,013
Deferred income taxes	7,584	6,810
Stockholders' equity		
Common stock, no par value, authorized 25,000,000 shares, issued 14,078,642 shares in 2007 and 13,874,767 in 2006	46,337	45,361
Retained earnings	51,481	46,612
Treasury stock, 676,000 shares in 2007 and 2006, at cost	(3,628)	(3,628)
Accumulated other comprehensive income	330	254
Total stockholders' equity	94,520	88,599
Total liabilities and stockholders' equity	$ 123,863	$ 119,207

The accompanying notes are an integral part of the financial statements.

Top of Report

SPECTRUM CONTROL, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(Unaudited)

(Amounts in Thousands, Except Per Share Data)

	For the Three Months Ended May 31,		For the Six Months Ended May 31,	
	2007	2006	2007	2006
Net sales	$ 33,558	$ 31,884	$ 66,445	$ 57,444
Cost of products sold	24,425	24,074	49,510	44,414
Gross margin	9,133	7,810	16,935	13,030
Selling, general and administrative expense	4,639	4,961	9,076	9,853
Income from operations	4,494	2,849	7,859	3,177
Other income (expense) :				
Interest expense	(159)	(98)	(326)	(139)
Other income and expense, net	31	(2)	196	180
	(128)	(100)	(130)	41
Income before provision for income taxes	4,366	2,749	7,729	3,218

Provision for income taxes	1,616	1,020	2,860	1,199
Net income	$ 2,750	$ 1,729	$ 4,869	$ 2,019
Earnings per common share :				
Basic	$ 0.21	$ 0.13	$ 0.37	$ 0.15
Diluted	$ 0.20	$ 0.13	$ 0.36	$ 0.15
Average number of common shares outstanding :				
Basic	13,364	13,093	13,298	13,078
Diluted	13,798	13,341	13,694	13,267
Dividends per common share	$ -	$ -	$ -	$ -

The accompanying notes are an integral part of the financial statements.

Top of Report

SPECTRUM CONTROL, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(Dollar Amounts in Thousands)	For the Six Months Ended May 31,	
	2007	2006
Cash Flows From Operating Activities :		
Net income	$ 4,869	$ 2,019
Adjustments to reconcile net income to net cash provided by (used in) operating activities :		
Depreciation	1,785	1,690
Amortization	440	390
Deferred income taxes	774	320
Equity-based compensation	15	104
Asset impairment loss	-	200
Non-cash insurance recoveries	(253)	(110)
Changes in assets and liabilities, excluding effects of business acquisitions:		
Accounts receivable	(1,876)	(5,085)
Inventories	(1,746)	(1,398)
Prepaid expenses and other assets	27	(4,867)
Accounts payable and accrued expenses	371	160
Net cash provided by (used in) operating activities	4,406	(6,577)

Cash Flows From Investing Activities :		
Proceeds from sale of property, plant and equipment	-	236
Insurance proceeds related to property, plant and equipment	1,748	-
Purchase of property, plant and equipment	(1,981)	(5,309)
Payment for acquired businesses, net of cash received	(2,365)	-
Net cash used in investing activities	(2,598)	(5,073)
Cash Flows From Financing Activities :		
Net proceeds (repayment) of short-term borrowings:	(2,000)	5,000
Repayment of long-term debt	(274)	(270)
Net proceeds from issuance of common stock	961	282
Net cash provided by (used in) financing activities	(1,313)	5,012
Effect of exchange rate changes on cash	31	(73)
Net increase (decrease) in cash and cash equivalents	526	(6,711)
Cash and cash equivalents, beginning of period	3,501	8,386
Cash and cash equivalents, end of period	$ 4,027	$ 1,675

The accompanying notes are an integral part of the financial statements.

Top of Report

SPECTRUM CONTROL, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
May 31, 2007
(Unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying financial statements include all adjustments which are normal, recurring and necessary to present fairly the results for the interim periods. Operating results for interim periods are not necessarily indicative of the results that may be expected for the year.

The condensed consolidated financial statements include the accounts of Spectrum Control, Inc. and its Subsidiaries ("the Company"). All significant intercompany accounts are eliminated upon consolidation.

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of

the financial statements, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The income tax rates utilized for interim financial statement purposes for the periods ended May 31, 2007 and 2006 are based on estimates of income and other pertinent tax matters for the entire year.

The balance sheet at November 30, 2006 has been derived from the audited financial statements at that date but does not include all of the information and notes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and notes thereto included in the Spectrum Control, Inc. and Subsidiaries annual report on Form 10-K for the fiscal year ended November 30, 2006.

Note 2 - Nature of Operations

The Company designs and manufactures control products and systems for the electronics industry, and has operations in the United States, Mexico, China and Germany. The Company offers a broad line of signal, power, microwave, and sensor products which are used to condition, regulate, transmit, receive, or govern electronic performance. Although its products are used in many industries worldwide, the Company's largest markets are military/aerospace and telecommunications equipment.

Note 3 - Revenue Recognition and Product Warranties

Product sales are generally recorded at the time of shipment when title passes under the terms FOB shipping point. Sales of consigned inventories are recorded when the customer has taken title and assumed the risks and rewards of ownership as specified in the customer's purchase order or sales agreement. Sales to third party distributors are made under contractual agreements which allow for limited rights of return and replacement. The contractual agreements do not provide any price protection for unsold inventory held by the distributor. Service revenues are recorded when the related services are performed. Patent licensing fees are recorded when the related technology rights are transferred.

The Company's contracts and customer purchase orders do not include any customer acceptance clauses. In addition, the Company does not normally offer or grant any discounts. The Company's product warranties generally extend for one year, and are limited to the repair and replacement value of the product. The Company does not have any other post shipment obligations. Sales returns and warranty expense are recorded as incurred and were not material in any of the periods presented herein.

Note 4 - Acquisition

On January 26, 2007, the Company acquired substantially all of the assets and assumed certain liabilities of EMF Systems, Inc. ("EMF"). EMF, based in State College, Pennsylvania, designs and manufactures custom oscillator-based products. In addition to a broad line of oscillator components, EMF primarily designs and manufactures integrated microwave assemblies ("IMA"), including synthesizers and phase locked oscillators. These sophisticated products are used in numerous military and commercial applications such as military radar systems, secured communications, and commercial weather radar. The Company believes that the IMA product offerings and oscillator components included with this acquisition are a natural complement and extension to its existing Microwave Components and Systems business segment. The Company also believes that its vertical manufacturing processes, low-cost manufacturing capabilities, and established military sales channels will provide additional revenue opportunities and improved profitability for EMF products. These factors contributed to a purchase price resulting in the recognition of goodwill.

The aggregate cash purchase price for EMF was approximately $2,365,000. The purchase price has been allocated to the assets acquired and liabilities assumed based upon their respective fair market values. Machinery and equipment values were determined by reference to undepreciated cost as of the date of acquisition, which approximates fair value. The fair market values of identifiable intangible assets were determined by estimating the present value of future cash flows. The excess of the aggregate purchase price over the fair values of the net assets acquired was recognized as goodwill. The aggregate cash purchase price, which includes legal fees and other costs directly related to the acquisition of approximately $26,000, was primarily funded by borrowings under the Company's domestic line of credit.

A preliminary allocation of the purchase price to the assets acquired and liabilities assumed is as follows (in thousands):

Accounts receivable	$ 352
Inventories	388
Prepaid expenses and other current assets	2

Machinery and equipment	100
Identifiable intangible assets	375
Accounts payable	(11)
Accrued liabilities	(93)
Goodwill	1,252
	$ 2,365

The identifiable intangible assets (consisting of customer-related intangible assets such as customer lists, sales order backlog, and noncontractual customer relationships) will be amortized to expense over estimated useful lives ranging from three to ten years, with a weighted average amortization period of approximately 8.6 years.

The goodwill acquired has been assigned to the Company's Microwave Components and Systems reportable operating segment. For tax purposes, the Company will amortize the acquired goodwill ratably over a 15 year period.

The results of operations of the acquired business have been included in the accompanying consolidated financial statements since the date of acquisition. The following unaudited pro forma consolidated financial information has been prepared as if the acquisition had occurred on December 1, 2005 (in thousands, except per share data):

	Three Months Ended May 31,		Six Months Ended May 31,	
	2007	2006	2007	2006
Net sales	$ 33,558	$ 32,614	$ 66,931	$ 58,915
Net income	2,750	1,772	4,898	2,095
Earnings per common share:				
Basic	0.21	0.14	0.37	0.16
Diluted	0.20	0.13	0.36	0.16

Pro forma amounts are based upon certain assumptions and estimates, and do not reflect any benefits from economies which might be achieved from combined operations. The pro forma information does not necessarily represent results which would have occurred if the acquisition had taken place on the basis assumed above, nor are they necessarily indicative of the results of future combined operations.

Note 5 - Asset Impairment Loss

In August 2005, the Company's ceramic manufacturing operations in New Orleans, Louisiana, were severely damaged by Hurricane Katrina and related flooding (the "Hurricane"). As a result, the Company recorded an asset impairment loss of $274,000 in the fourth quarter of fiscal year 2005 (after expected aggregate insurance proceeds of $6,000,000), and reduced the carrying value of the affected land and building to its estimated fair value of $450,000. On March 7, 2006, the Company sold the New Orleans land and building at a net selling price of approximately $250,000. Accordingly, for the three month period ended February 28, 2006, the Company reduced the carrying value of the land and building to $250,000 and recorded an additional asset impairment loss of $200,000. This asset impairment loss has been included in the Company's general and administrative expense for the six month period ended May 31, 2006.

As of November 30, 2006, the Company had received $4,500,000 of insurance proceeds for its Hurricane-related claims, and the Company had recorded an insurance recovery receivable of $1,500,000 for expected additional insurance proceeds. On January 16, 2007, the Company received insurance proceeds of $1,748,000 upon the final settlement of all related claims. Accordingly, $248,000 was credited against the Company's general and administrative expense for the three month period ended February 28, 2007, representing the excess of the final insurance proceeds received over the previously recorded insurance recovery receivable. This credit has been included in the Company's general and administrative expense for the six month period ended May 31, 2007.

Note 6 - Equity - Based Compensation

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised), "Share-Based Payment" ("SFAS No. 123R"), which requires all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value. SFAS No. 123R applies to all awards granted after the required effective date; to awards modified, repurchased, or cancelled after that date; and all nonvested options outstanding as of the effective date.

Effective December 1, 2005, the Company adopted the provisions of SFAS No. 123R using a modified version of prospective application. Under this transition method, compensation cost is recognized from the effective date on the portion of outstanding awards for which the requisite service has not yet been rendered. The compensation cost for these awards is determined based on their grant date fair value previously calculated for pro forma disclosure under Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure".

For each of the periods ended May 31, 2007 and 2006, total equity-based compensation expense and the related impact on the Company's net income and earnings per share are summarized below. All of the amounts in the following table relate to stock options granted prior to December 1, 2005, under the Company's two stock option plans:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2007	2006	2007	2006
Equity-based compensation, included in general and administrative expense	$ 7,000	$ 52,000	$ 15,000	$ 104,000
Decrease in net income	6,000	44,000	12,000	87,000
Decrease in earnings per common share:				
Basic	-	-	-	0.01
Diluted	-	-	-	0.01

The Company has two plans that provide for granting to officers, directors, employees and advisors options to purchase shares of the Company's Common Stock. Under the plans, the Company may issue non-qualified stock options or incentive stock options. Option prices are not less than the market price of the Company's Common Stock on the date of the grant. The options become exercisable at varying dates and generally expire five years from the date of grant. Once granted, an option's exercise price and number of shares to be issued remain fixed throughout the option term. At May 31, 2007, options to purchase 1,193,599 shares of Common Stock were available for grant under the Company's stock option plans. Since November 30, 2005, no stock options have been granted by the Company. Prior to that date, the fair value of each option granted under the Company's stock option plans was estimated as of the date of grant using the Black-Scholes option pricing model.

A summary of the Company's stock option activity for the six month period ended May 31, 2007 is as follows:

	Number of Shares Under Option	Option Price		
		Per Share	Weighted Average	Aggregate
Outstanding - November 30, 2006	1,377,534	$ 5.05 - 8.68	$ 6.77	$ 9,331,000
Granted during the period	-	-	-	-
Exercised during the period	(251,167)	5.05 - 8.68	6.23	(1,566,000)
Forfeitures and expirations	(3,400)	5.25 - 6.05	5.52	(19,000)
Outstanding - May 31, 2007	1,122,967	$ 5.05 - 8.68	$ 6.90	$ 7,746,000
Exercisable - May 31, 2007	296,032	$ 5.05 - 8.68	$ 6.90	$ 2,042,000

The following table summarizes significant ranges of outstanding and exercisable stock options at May 31, 2007:

Option Price Range	Number of Shares Under Option	
Per Share	Outstanding	Exercisable
$5.05 - 6.00	156,400	132,400
6.01 - 8.00	749,567	52,966
8.01 - 8.68	217,000	110,6663

At May 31, 2007, based upon a closing market price of $14.44 per share for the Company's Common Stock, the aggregate intrinsic value of all outstanding stock options was $8,469,000, including an aggregate intrinsic value of $2,233,000 for all exercisable stock options. During the six month period ended May 31, 2007, stock options were exercised for 251,167 shares. Based upon the market price of the Company's Common Stock on the date of exercise, the aggregate intrinsic value of the shares exercised amounted to $1,537,000. At May 31, 2007, the weighted average remaining contractual life of outstanding options was 2.5 years.

At May 31, 2007, the total future equity-based compensation expense (determined using the Black-Scholes option pricing model) related to outstanding nonvested options is expected to be recognized as follows:

2007	$ 15,000
2008	1,000
	$ 16,000

Note 7 - Inventories

Inventories by major classification are as follows (in thousands):

	May 31, 2007	November 30, 2006
Finished goods	$ 2,574	$ 2,419
Work-in-process	7,381	6,586
Raw materials	13,939	12,749
	$23,894	$21,754

Inventories are presented net of aggregate inventory reserves of $2,153,000 at May 31, 2007 and $1,341,000 at November 30, 2006.

Note 8 - Property, Plant and Equipment

Property, plant and equipment by major classification are as follows (in thousands):

	May 31, 2007	November 30, 2006
Land and improvements	$ 2,190	$ 2,190
Buildings and improvements	15,383	15,035
Machinery and equipment	33,777	32,030

	51,350	49,255
Less accumulated depreciation	26,815	25,019
	$24,535	$24,236

Note 9 - Goodwill

Changes in the carrying amount of goodwill for the periods ended May 31, 2007 and 2006, in total and for each reportable segment, are summarized as follows (in thousands):

	Three Months Ended May 31,		Six Months Ended May 31,	
	2007	2006	2007	2006
Goodwill, beginning of period	$ 35,760	$ 28,732	$ 34,508	$ 28,361
Goodwill acquired	-	-	1,252	371
Goodwill impairment losses	-	-	-	-
Goodwill, end of period	$ 35,760	$ 28,732	$ 35,760	$ 28,732

	Signal and Power Integrity Components	Microwave Components and Systems	Sensors and Controls
Six Months Ended May 31, 2007			
Goodwill, beginning of period	$ 14,243	$ 12,559	$ 7,706
Goodwill acquired	-	1,252	-
Goodwill impairment losses	-	-	-
Goodwill, end of period	$ 14,243	$ 13,811	$ 7,706
2006			
Goodwill, beginning of period	$ 14,243	$ 12,559	$ 1,559
Goodwill acquired	-	-	371
Goodwill impairment losses	-	-	-
Goodwill, end of period	$ 14,243	$ 12,559	$ 1,930

Based upon the Company's preliminary allocation of its aggregate purchase price for EMF, goodwill of $1,252,000 was recorded in the first quarter of fiscal 2007.

On October 31, 2005, the Company acquired all of the outstanding common stock of JDK Controls, Inc. ("JDK") at an aggregate cash purchase price of $4,110,000. In the first quarter of fiscal 2006, the Company finalized the allocation of this purchase price to the assets acquired and liabilities assumed. As a result of this final allocation, additional goodwill of $371,000 was recorded along with a deferred income tax liability in the same amount.

Note 10 - Other Noncurrent Assets

Other noncurrent assets by major classification are as follows (in thousands):

	May 31, 2007	November 30, 2006
Amortizable assets:		
Customer-related intangibles	$ 5,659	$ 5,284
Patents and patent rights	305	278
Debt issuance costs	205	205
	6,169	5,767
Less accumulated amortization	2,234	1,794
	3,935	3,973
Other assets:		
Prepaid environmental liability insurance (see Note 13)	3,611	3,850
Deferred charges	139	178
	3,750	4,028
Other noncurrent assets	$ 7,685	$ 8,001

For the three month periods ended May 31, 2007 and 2006, amortization of intangible assets was $230,000 and $194,000, respectively. For the six month periods ended May 31, 2007 and 2006, amortization of intangible assets was $440,000 and $390,000, respectively. For each of the five fiscal years ending November 30, 2011, amortization expense is expected to be as follows (in thousands):

2007	$ 863
2008	664
2009	508
2010	471
2011	429

Note 11 - Short-Term Debt

Short-term debt consists of the following (in thousands):

	May 31, 2007	November 30, 2006
Notes payable - domestic line of credit (1)	$ 7,000	$ 9,000
Notes payable - foreign line of credit (2)	-	-

	$ 7,000	$ 9,000

(1) The Company maintains a domestic line of credit with its principal lending institution (the "Bank") in the aggregate amount of $25,000,000, with an additional $10,000,000 expansion feature. Borrowings under the line of credit are secured by substantially all of the Company's tangible and intangible personal property, and bear interest at rates below the prevailing prime rate. During the six month period ended May 31, 2007, weighted average borrowings under the revolving line of credit amounted to $7,901,000, with an average interest rate of 6.65%, and maximum month-end borrowings of $9,000,000. During the six month period ended May 31, 2006, weighted average borrowings amounted to $2,352,000, with an average interest rate of 5.88%, and maximum month-end borrowings of $5,000,000. The line of credit agreement contains certain covenants, the most restrictive of which require the Company to maintain designated minimum levels of net worth and profitability, and impose certain restrictions on the Company regarding additional indebtedness. At May 31, 2007, the Company was in compliance with all debt covenants. The current line of credit agreement expires in December 2010.

(2) The Company's wholly-owned German subsidiary maintains an unsecured Euro line of credit with a German financial institution aggregating $1,344,000 (Euro 1,000,000). During the six month periods ended May 31, 2007 and 2006, no borrowings were outstanding under this line of credit arrangement. Future borrowings, if any, will bear interest at rates below the prevailing prime rate and will be payable upon demand.

Note 12 - Accrued Liabilities

Accrued liabilities by major classification are as follows (in thousands):

	May 31, 2007	November 30, 2006
Accrued salaries and wages	$ 2,849	$ 3,209
Accrued environmental remediation costs (see Note 13)	457	456
Accrued interest	71	151
Accrued other expenses	1,238	245
	$4,615	$4,061

Note 13 - Other Liabilities

Other liabilities consist of the following (in thousands):

	May 31, 2007	November 30, 2006
Accrued environmental remediation costs	$ 2,217	$ 2,469
Less current portion	457	456
	$ 1,760	$ 2,013

On December 30, 2005, the Company acquired certain land and manufacturing facilities in State College, Pennsylvania. The property, which was acquired from Murata Electronics North America ("Murata"), consists of approximately 53 acres of land and 250,000 square feet of manufacturing facilities. The acquired facilities have become the design and manufacturing center for the Company's ceramic operations, replacing the ceramic operations previously conducted by the Company in New Orleans, Louisiana.

The purchase price for the acquired property consisted of: (a) $1.00, plus (b) closing costs of $695,000 including realtor commissions, transfer taxes, and legal fees; plus (c) the assumption of, and indemnification of Murata against, all environmental liabilities related to the property. The acquired property has known environmental conditions that require remediation, and certain hazardous materials previously used on the property have migrated into neighboring third party areas. These environmental issues arose from the use of chlorinated organic solvents including tetrachloroethylene ("PCE") and trichloroethylene ("TCE"). As a condition to the purchase, the Company entered into an agreement with the Pennsylvania Department of Environmental Protection ("PADEP") pursuant to which: (a) the Company agreed to remediate all known environmental conditions relating to the property to a specified industrial standard, with the Company's costs for remediating such conditions being capped at $4,000,000; (b) PADEP released Murata from further claims by Pennsylvania under specified state laws for the known environmental conditions; and (c) the Company purchased an insurance policy providing clean-up cost cap coverage (for known and unknown pollutants) with a combined coverage limit of approximately $8,200,000, and pollution legal liability coverage (for possible third party claims) with an aggregate coverage limit of $25,000,000. The total premium cost for the insurance policy, which has a ten year term and an aggregate deductible of $650,000, was $4,762,000. The cost of the insurance is being charged to general and administrative expense on a pro rata basis over the ten year policy term, which approximates the period of remediation of the environmental liability.

Based upon estimates prepared by the Company's environmental consultants, a liability of $2,888,000 was recorded by the Company to cover probable future environmental expenditures related to the remediation, the cost of which is expected to be entirely covered by the insurance policy. As of May 31, 2007, remediation expenditures of $671,000 have been incurred and charged against the environmental liability, with all such expenditures being reimbursed by the insurance carrier. The remaining aggregate undiscounted expenditures of $2,217,000, which are anticipated to be incurred over the next nine years, principally consist of: (a) continued operation and monitoring of the existing on-site groundwater extraction, treatment, and recharge system; (b) implementation of a chemical oxidation system, subject to the results of a laboratory treatability study; (c) completion of soil investigations to determine the extent of potential soil contamination; (d) excavation and off-site disposal of soil containing contaminates above acceptable standards; and (e) implementation of soil vapor extraction systems in certain areas. Depending upon the results of future environmental testing and remediation actions, it is possible that the ultimate costs incurred could exceed the current aggregate estimate of $2,888,000. The Company expects such increase, if any, to be entirely covered by the insurance policy. Insurance recoveries for actual environmental remediation costs incurred are recorded when it is probable that such insurance reimbursement will be received and the related amounts are determinable. Such insurance recoveries are credited to the Company's general and administrative expenses.

Based on the current remediation plan developed by the Company's environmental consultants, $457,000 of the total remediation costs are expected to be incurred during the next twelve months.

Note 14 - Derivatives and Hedging Activities

From time to time, the Company enters into forward currency exchange contracts in the regular course of business to manage its exposure against foreign currency fluctuations on sales denominated in foreign currencies. The terms of these contracts are generally nine months or less.

At May 31, 2007 and 2006, the Company had no forward contracts outstanding.

Note 15 - Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings per common share for the periods indicated:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2007	2006	2007	2006
Numerator for basic and diluted earnings per common share (in thousands):				
Net income	$ 2,750	$ 1,729	$ 4,869	$ 2,019
Denominator for basic earnings per common share (in thousands):				

Weighted average shares outstanding	13,364	13,093	13,298	13,078
Denominator for diluted earnings per common share (in thousands):				
Weighted average shares outstanding	13,364	13,093	13,298	13,078
Effect of dilutive stock options	434	248	396	189
	13,798	13,341	13,694	13,267
Earnings per common share:				
Basic	$ 0.21	$ 0.13	$ 0.37	$ 0.15
Diluted	$ 0.20	$ 0.13	$ 0.36	$ 0.15

Options to purchase 235,000 shares of Common Stock, at a weighted average exercise price of $8.67 per share, were outstanding at May 31, 2006, but were not included in the computation of diluted earnings per share because their inclusion would be antidilutive.

Note 16 - Comprehensive Income

The components of comprehensive income are as follows (in thousands):

	Three Months Ended May 31,		Six Months Ended May 31,	
	2007	2006	2007	2006
Net income	$ 2,750	$ 1,729	$ 4,869	$ 2,019
Foreign currency translation adjustments	113	155	76	179
Comprehensive income	$ 2,863	$ 1,884	$ 4,945	$ 2,198

The components of accumulated other comprehensive income are as follows (in thousands):

	May 31, 2007	November 30, 2006
Foreign currency translation adjustments	$ 330	$ 254

Note 17 - Supplemental Cash Flow Information

Supplemental cash flow information consists of the following (in thousands):

	Six Months Ended May 31,	
	2007	2006
Cash paid during the period of:		
Interest	$ 406	$ 97
Income taxes	894	1,350
Liabilities assumed in connection with:		
Purchase of land and buildings	-	2,888
Business acquisitions	104	-

Note 18 - Reportable Operating Segments

The Company was founded as a solutions-oriented company, designing and manufacturing products to suppress or eliminate electromagnetic interference ("EMI"). In recent years, the Company has broadened its focus and product lines to become a control products and systems company, providing a wide range of components and systems used to condition, regulate, transmit, receive, or govern electronic performance.

The Company's current operations are conducted in four reportable segments: signal and power integrity components; microwave components and systems; power management systems; and sensors and controls. The Company's Signal and Power Integrity Components Business designs and manufactures a broad range of products including low pass EMI filters, filter plates, filtered connectors, specialty ceramic capacitors, power entry modules, power line filters, and our motor line feed thru ("MLFT") filters. Our Microwave Components and Systems Business designs and manufactures microwave filters, waveguides, amplifiers, frequency mixers, oscillators, synthesizers, multiple channel filter banks, and related products and integrated assemblies. The Power Management Systems Business designs and manufactures breaker and fuse interface panels, custom power outlet strips, and our Smart Start power management systems. Our Sensors and Controls Business designs and manufactures rotary and linear precision potentiometers, temperature sensing probes, thermistors, resistance temperature detector sensors, and related assemblies. The reportable segments are each managed separately because they manufacture and sell distinct products with different production processes.

The Company evaluates performance and allocates resources to its reportable segments based upon numerous factors, including segment income before income taxes. The accounting policies of the reportable segments are the same as those utilized in the preparation of the Company's consolidated financial statements. However, substantially all of the Company's general and administrative expenses, and nonoperating expenses, are not allocated to the Company's reportable operating segments. Accordingly, these expenses are not deducted in arriving at segment income.

Prior period amounts in the following tables have been restated to correspond with the current business segment presentation. For each period presented, the accounting policies and procedures used to determine segment income have been consistently applied. Reportable segment information for the periods ended May 31, 2007 and 2006, is as follows (in thousands):

	Signal and Power Integrity Components	Microwave Components and Systems	Power Management Systems	Sensors and Controls
Three Months Ended May 31:				
2007				

Revenue from unaffiliated customers	$ 14,790	$ 11,727	$ 1,875	$ 5,166
Segment income	2,806	2,203	323	732
2006				
Revenue from unaffiliated customers	14,964	13,433	1,473	2,014
Segment income	1,508	2,748	347	77
Six Months Ended May 31:				
2007				
Revenue from unaffiliated customers	30,054	22,813	3,433	10,145
Segment income	4,873	3,928	537	1,450
2006				
Revenue from unaffiliated customers	26,372	23,918	3,393	3,761
Segment income	1,374	4,725	990	175

A reconciliation of total reportable segment income to consolidated income before provision for income taxes for the periods ended May 31, 2007 and 2006 is as follows (in thousands):

	Three Months Ended May 31,		Six Months Ended May 31,	
	2007	2006	2007	2006
Total income for reportable segments	$ 6,064	$ 4,680	$ 10,788	$ 7,264
Unallocated amounts:				
General and administrative expense	(1,570)	(1,831)	(2,929)	(4,087)
Interest expense	(159)	(98)	(326)	(139)
Other income and (expense), net	31	(2)	196	180
Consolidated income before provision for income taxes	$ 4,366	$ 2,749	$ 7,729	$ 3,218

Note 19 - Contingencies

The Company is subject to certain legal proceedings and claims arising in the ordinary course of business. In the opinion of management, the amount of any ultimate liability with respect to these actions will not materially affect the Company's consolidated financial position, results of operations, or cash flows.

Note 20 - Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Financial Accounting Standards No. 109, "Accounting for Income Taxes". FIN 48 prescribes a minimum recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006 (the Company's 2008 fiscal year). The Company is currently reviewing the provisions of FIN 48, but does not expect it will have a material impact on its financial position, results of operations, or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. Prior to this Statement, there were different definitions of fair value and limited guidance for applying those definitions in GAAP. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of SFAS No. 157 will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years (the Company's 2008 fiscal year). The Company is currently reviewing the provisions of SFAS No. 157, but does not expect it will have a material impact on its financial position, results of operations, or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 provides the option to report certain financial assets and liabilities at fair value, with the intent to mitigate volatility in financial reporting that can occur when related assets and liabilities are recorded on different bases. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007 (the Company's 2008 fiscal year). The Company is currently reviewing the provisions of SFAS No. 159, but does not expect it will have a material impact on its financial position, results of operations, or cash flows.

Top of Report

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

The following discussion and analysis may be understood more fully by reference to the consolidated financial statements, notes to the consolidated financial statements, and management's discussion and analysis contained in the Spectrum Control, Inc. and Subsidiaries annual report on Form 10-K for the fiscal year ended November 30, 2006. All references to "we", "us", "our", or the "Company" in the following discussion and analysis mean Spectrum Control, Inc. and its Subsidiaries.

Company Profile

We were founded as a solutions-oriented company, designing and manufacturing products to suppress or eliminate electromagnetic interference ("EMI"). In recent years, we broadened our focus and product lines to become a control products and systems company, providing a wide range of components and systems used to condition, regulate, transmit, receive, or govern electronic performance. Although our components and systems are used in many industries worldwide, our largest markets are military/aerospace and telecommunications equipment which represented 54.0% and 26.0%, respectively, of our fiscal 2006 sales. Military/aerospace applications for our products include missile defense systems, smart weapons and munitions, electronic jamming devices, secure communications, simulation equipment, and avionic upgrades. In telecommunications, our products are used in numerous systems including wireless base stations, broadband switching equipment, global positioning systems, and optical networks. Automotive represents an emerging market for our products, with significant applications in DC motors, telematics, and electronic safety controls.

Other markets for our products include medical instrumentation, industrial equipment, computers, and storage devices.

Our operations are currently conducted in four reportable segments: signal and power integrity components; microwave components and systems; power management systems; and sensors and controls. Our Signal and Power Integrity Components Business designs and manufactures a broad range of products including low pass EMI filters, filter plates, filtered connectors, specialty ceramic capacitors, power entry modules, power line filters, and our motor line feed thru ("MLFT") filters. Our Microwave Components and Systems Business designs and manufactures microwave filters, waveguides, amplifiers, frequency mixers, oscillators, synthesizers, multiple channel filter banks, and related products and integrated assemblies. The Power Management Systems Business designs and manufactures breaker and fuse interface panels, custom power outlet strips, and our Smart Start power management systems. Our Sensors and Controls Business designs and manufactures rotary and linear precision potentiometers, temperature sensing probes, thermistors, resistance temperature detector sensors, and related assemblies.

Acquisition

On January 26, 2007, we acquired substantially all of the assets and assumed certain liabilities of EMF Systems, Inc. ("EMF"). EMF, based in State College, Pennsylvania, designs and manufactures custom oscillator-based products. In addition to a broad line of oscillator components, EMF primarily designs and manufactures integrated microwave assemblies ("IMA"), including synthesizers and phase locked oscillators. These sophisticated products are used in numerous military and commercial applications such as military radar systems, secured communications, and commercial weather radar. The aggregate cash purchase price for EMF was $2.4 million, which was primarily funded by borrowings under our domestic line of credit.

On July 14, 2006, we acquired all of the outstanding common stock of Advanced Thermal Products, Inc. ("ATP"). ATP, based in St. Marys, Pennsylvania, designs and manufactures a broad line of custom temperature sensors. ATP's products include temperature sensing probes and assemblies, positive and negative temperature coefficient thermistors, and resistance temperature detector sensors and related assemblies. These products are used in numerous applications within the heating and air conditioning industry, consumer electronics, energy management, food service, and electronic controls market. The aggregate cash purchase price for ATP was $9.5 million, which was primarily funded by borrowings under our domestic line of credit.

The results of operations of the acquired businesses have been included in the accompanying financial statements since their respective acquisition dates. Accordingly, our consolidated net sales for the three month period ended May 31, 2007, include EMF net sales of $974,000 and ATP net sales of $2.4 million. For the six month period ended May 31, 2007, our consolidated net sales include EMF net sales of $1.4 million and ATP net sales of $4.7 million. For operating segment purposes, EMF is reported within our Microwave Components and Systems business segment and ATP is included in our Sensors and Controls business segment.

Asset Impairment Loss

In August 2005, our ceramic manufacturing operations in New Orleans, Louisiana, were severely damaged by Hurricane Katrina and related flooding (the "Hurricane"). As a result, we recorded an asset impairment loss of $274,000 in the fourth quarter of fiscal year 2005 (after expected aggregate insurance proceeds of $6.0 million), and reduced the carrying value of the affected land and building to its estimated fair value of $450,000. On March 7, 2006, we sold the New Orleans land and building at a net selling price of approximately $250,000. Accordingly, for the three month period ended February 28, 2006, we reduced the carrying value of the land and building to $250,000 and recorded an asset impairment loss of $200,000. This asset impairment loss has been included in our general and administrative expense for the six month period ended May 31, 2006.

As of November 30, 2006, we had received $4.5 million of insurance proceeds for our Hurricane-related claims, and we had recorded an insurance recovery receivable of $1.5 million for expected additional proceeds. On January 16, 2007, we received insurance proceeds of $1.748 million upon the final settlement of all related claims. Accordingly, $248,000 was credited against our general and administrative expense for the three month period ended February 28, 2007, representing the excess of the final insurance proceeds received over the previously recorded insurance recovery receivable. This credit has been included in our general and administrative expense for the six month period ended May 31, 2007.

Forward-Looking Information

The following discussion includes certain "forward-looking statements" within the meaning of the federal securities laws, including statements regarding: (1) our expected ability to meet future manufacturing requirements for specialty ceramic capacitors, (2) our belief as to future market conditions and operating margins, (3) our anticipated capital expenditures, and (4) our expected future operating requirements and financing needs. The words "believe", "expect", "anticipate" and similar expressions identify forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties which could cause actual results to differ materially from historical results or those anticipated. Factors that could cause or contribute to such differences include those discussed in "Risk Factors That May Affect Future Results", as well as those discussed elsewhere herein. Readers are cautioned not to place

undue reliance on these forward-looking statements.

Executive Summary

During the second quarter of fiscal 2007, our sales increased by $1.7 million or 5.3% from the same period last year. This increase was principally driven by our recent business acquisitions. Sales of our sensors and controls increased by $3.2 million in the current quarter, compared to the same period a year ago. In addition to ATP product sales of $2.4 million, the current quarter sales growth for these products primarily reflects increased orders for our custom position sensors and related assemblies, which are used in numerous military/aerospace and commercial applications. Sales of our microwave components and systems decreased by $1.7 million, as certain major military/defense programs were going through a normal transition period of renewal or replacement. Later this year, we expect our microwave products to resume their historical positive growth rate. Total consolidated customer orders received in the second quarter of fiscal 2007 were $35.4 million, an increase of $1.2 million from the comparable period of 2006.

In the second quarter of fiscal 2007, our gross margin was $9.1 million or 27.2% of sales, compared to $7.8 million or 24.5% of sales for the same quarter last year. Our improved gross margin percentage primarily reflects reduced ceramic component costs.

After losing our New Orleans ceramic manufacturing facility to Hurricane Katrina in August of 2005, we began purchasing ceramic components from third party suppliers at prices significantly greater than our previous manufactured costs. As a result, our material costs increased and our gross margin, as a percentage of sales, decreased below historical levels. To re-establish our own ceramic manufacturing capabilities, and replace the operations previously conducted in New Orleans, we acquired in December 2005 a facility in State College, Pennsylvania. In June 2006, limited ceramic component production commenced at our new State College operations with additional production being systematically increased thereafter. During the second quarter of fiscal 2007, full ceramic production was achieved and, accordingly, substantially all purchases of specialty ceramic components from third party suppliers have been eliminated. Current inventories of third party ceramics are expected to be fully consumed later this year. When this occurs, we expect our material costs to further decrease and our gross margin to return to a more historical level of 28.0% to 29.0% of sales.

Selling, general and administrative expense decreased by $322,000 in the current quarter, compared to the same period a year ago. Selling expense declined by $101,000, reflecting reductions in advertising and other discretionary expenditures. General and administrative expense decreased by $221,000. In the second quarter last year, general and administrative expense included $193,000 of facility costs and pre-production start-up expenses associated with our new State College facility. These expenses did not recur during the current quarter.

As a result of our greater sales volume, improved gross margin, and lower operating expenses, our overall profitability significantly increased. We generated net income of $2.8 million or 20 cents per share (diluted) in the second quarter of 2007, compared to net income of $1.7 million or 13 cents per share for the same period last year.

With our enhanced profitability, net cash provided by operating activities grew to $4.4 million during the first half of fiscal 2007. Our positive cash flow enabled us to repay $2.0 million of borrowings under our domestic line of credit, as well as fund the $2.4 million cash purchase price for EMF.

Results of Operations

The following table sets forth certain financial data, as a percentage of net sales, for the three and six months ended May 31, 2007 and 2006:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2007	2006	2007	2006
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of products sold	72.8	75.5	74.5	77.3
Gross margin	27.2	24.5	25.5	22.7
Selling, general and administrative expense	13.8	15.6	13.7	17.2
Income from operations	13.4	8.9	11.8	5.5

Other income (expense)				
Interest expense	(0.5)	(0.3)	(0.5)	(0.2)
Other income and expense, net	0.1	-	0.3	0.3
Income before provision for income taxes	13.0	8.6	11.6	5.6
Provision for income taxes	4.8	3.2	4.3	2.1
Net income	8.2 %	5.4 %	7.3 %	3.5 %

The following table sets forth the Company's net sales by reportable operating segments for the three and six months ended May 31, 2007 and 2006 (in thousands):

	Three Months Ended May 31,		Six Months Ended May 31,	
	2007	2006	2007	2006
Signal and Power Integrity Components	$ 14,790	$ 14,964	$ 30,054	$ 26,372
Microwave Components and Systems	11,727	13,433	22,813	23,918
Power Management Systems	1,875	1,473	3,433	3,393
Sensors and Controls	5,166	2,014	10,145	3,761
	$ 33,558	$ 31,884	$ 66,445	$ 57,444

Second Quarter 2007 Versus Second Quarter 2006

Net Sales

Our consolidated net sales were $33.6 million in the second quarter of fiscal 2007, an increase of $1.7 million or 5.3% from the comparable period last year. This increase primarily reflects the positive impact of our recent acquisitions of EMF and ATP. Sales of our sensors and controls were $5.2 million in the current quarter, an increase of $3.2 million from the second quarter of fiscal 2006. In addition to ATP product sales of $2.4 million, the current quarter growth in sensor sales reflects increased orders for our custom position sensors and related assemblies. These products are used in various commercial, aerospace and military markets, with major applications in medical and meteorological instruments, animatronics and robotics, aircraft flap position actuators, cockpit instrumentation, military vehicles, and various automotive controls. Sales of our power management systems increased by $402,000 in the current period, as certain of our telecom equipment customers resumed ordering after completing consumption of their temporary excess inventories. Sales of our signal and power integrity components were relatively stable, with sales of $14.8 million in the current quarter and $15.0 million in the comparable period a year ago. For our microwave components and systems, aggregate sales amounted to $11.7 million in the second quarter of fiscal 2007, down $1.7 million from the same period last year. After experiencing significant growth throughout the last two years, shipments of these products decreased in the current period as certain major military-related programs were completed and not yet fully renewed or replaced with the next generation of products. We expect this normal program transition period to be completed later this year, after which we believe our microwave components and systems will resume their positive historical growth rate.

Total consolidated customer orders received in the second quarter of fiscal 2007 amounted to $35.4 million, up $1.2 million from the comparable period of 2006. Overall, average selling prices remained relatively stable throughout all of our product lines.

Gross Margin

In the second quarter of fiscal 2007, gross margin was $9.1 million or 27.2% of sales, compared to $7.8 million or 24.5% of sales for the same quarter last year. This increase in gross margin percentage principally reflects reduced material costs from the resumption of internal ceramic manufacturing.

Prior to its destruction by Hurricane Katrina in late August of 2005, our New Orleans operations designed and manufactured specialty ceramic capacitors. These custom ceramic components are an essential element of our signal integrity products. With this disruption to our internal ceramic manufacturing capabilities, we began purchasing these ceramic components from third party suppliers at prices significantly greater than our previous manufactured costs. To address our ongoing ceramic component needs and to re-establish our own ceramic manufacturing capabilities, we acquired in December 2005 a ceramic manufacturing facility in State College, Pennsylvania. The acquired facility has become the design and manufacturing center for our ceramic products, replacing the operations previously conducted in New Orleans. In June 2006, limited production commenced at our new State College operations with additional production being systematically increased thereafter. During the second quarter of fiscal 2007, full ceramic production was achieved and, accordingly, substantially all purchases of specialty ceramic components from third party suppliers have been eliminated. Current inventories of third party ceramics are expected to be fully consumed later this year. When this occurs, we expect our material costs to further decrease and our gross margin to return to a more historical level of 28.0% to 29.0% of sales.

Selling, General and Administrative Expense

During the current quarter, selling expense amounted to $2.6 million or 7.8% of sales, compared to $2.7 million or 8.6% of sales for the same period last year. The decrease in selling expense principally reflects reductions in advertising and other discretionary expenditures. General and administrative expense was $2.0 million in the second quarter of fiscal 2007, versus $2.2 million in the second quarter of fiscal 2006. In the second quarter last year, general and administrative expense included $193,000 of facility costs and pre-production start-up expenses associated with our new State College facility. These expenses did not recur during the current quarter.

Interest Expense

In order to support the capital requirements associated with the start-up of our new State College facility, the acquisitions of EMF and ATP, and the working capital requirements from our increased business activity, we have borrowed additional funds under our domestic line of credit. In the second quarter of fiscal 2007, interest expense from short-term borrowings amounted to $127,000, with weighted average borrowings of $7.6 million and a weighted average interest rate of 6.56%. In the second quarter of fiscal 2006, interest expense from short-term borrowings amounted to $62,000, with weighted average borrowings of $4.1 million and a weighted average interest rate of 5.98%.

Six Months 2007 Versus Six Months 2006

Net Sales

For the first half of fiscal 2007, our net sales increased by $9.0 million or 15.7%, with consolidated sales of $66.4 million in 2007 and $57.4 million in 2006. Of this $9.0 million increase, $6.1 million relates to our recent acquisitions of EMF and ATP. Sales of our signal and power integrity products were $30.0 million in the first six months of fiscal 2007, up $3.7 million from a year ago, primarily reflecting improved overall market conditions. Additionally, in the first half of fiscal 2006, our signal integrity product sales were negatively impacted by the aftermath of Hurricane Katrina and our inability to obtain the ceramic components necessary to complete certain signal product orders. Sales of our sensors and controls were $10.1 million in the current period, an increase of $6.4 million from the first six months of fiscal 2006. In addition to ATP product sales of $4.7 million, the current year growth in sensor sales principally reflects increased demand for our custom position sensors used in various medical, commercial weather instruments, and military applications. Sales of our power management systems remained relatively constant, with sales of $3.4 million in the first half of fiscal 2007 and 2006. We continue to be optimistic about the long-term growth potential of these advanced systems, which are used in various infrastructure equipment including voice-over-internet protocol ("VoIP") equipment, unmanned military transport equipment, wireless base stations, and switching gear. Sales of our microwave components and systems declined slightly in the first half of fiscal 2007, with sales of $22.8 million in the current period and $23.9 million in the comparable period last year.

Total customer orders received in the first half of fiscal 2007 amounted to $69.5 million, up $6.5 million or 10.3% from the first half of fiscal 2006.

Gross Margin

For the first six months of fiscal 2007, gross margin was $16.9 million or 25.5% of sales, compared to $13.0 million or 22.7% of sales for the same period last year. The improvement in gross margin, as a percentage of sales, reflects the reduction in material costs realized from our recent elimination of third party ceramic component purchases and the resumption of our own internal ceramic manufacturing. Total material costs amounted to $17.7 million or 26.6% of sales in the first half of fiscal 2007, compared to $17.4 million or 30.3% of sales for the first half of fiscal 2006. Total labor costs were $8.1 million or 12.2% of sales in the current period, compared to $6.4 million or 11.1% of sales in the same period last year. In addition to greater sales volume and changes in product mix, the increase in labor costs primarily reflects our resumption of internal ceramic production. As a percentage of sales,

manufacturing overhead decreased slightly in fiscal 2007, reflecting economies of scale achieved with higher sales volume. Aggregate manufacturing overhead was $23.7 million or 35.7% of sales in the first half of fiscal 2007, versus $20.6 million or 35.9% of sales for the comparable period of fiscal 2006.

Selling, General and Administrative Expense

During the first six months of fiscal 2007, selling expense amounted to $5.4 million or 8.2% of sales, compared to $5.1 million or 8.8% of sales for the same period last year. The decrease in selling expense, as a percentage of sales, principally reflects the impact of higher sales volume and certain fixed selling expenses.

General and administrative expense was $3.7 million in the first half of fiscal 2007, versus $4.8 million in the first half of fiscal 2006. This $1.1 million decrease in general and administrative expense was driven by numerous factors, including the following: (1) $448,000 associated with asset impairments from Hurricane Katrina, reflecting the difference between the asset impairment loss of $200,000 recorded in the first half of fiscal 2006 and the $248,000 credit to general and administrative expense realized in the first half of fiscal 2007 upon the final settlement of all related insurance claims; (2) Pre-production start-up costs and environmental liability insurance expense of $270,000 recognized in 2006 in connection with our State College facility; (3) $178,000 of expenses incurred in 2006 associated with the final clean-up of our New Orleans facility from the damage inflicted by Hurricane Katrina, and (4) $89,000 of additional equity-based compensation expense recorded in 2006 from our adoption of Statement of Financial Accounting Standards No. 123 (revised), "Share-Based Payment".

Interest Expense

During the first half of fiscal 2007, interest expense was $326,000, up $187,000 from the first half of fiscal 2006, primarily reflecting our increase in short-term borrowings. For the first six months of fiscal 2007, interest expense on borrowings under our domestic line of credit amounted to $265,000, with weighted average borrowings of $7.9 million and a weighted average interest rate of 6.65%. For the first half of fiscal 2006, interest expense on our line of credit borrowings was $69,000, with weighted average borrowings of $2.4 million and a weighted average interest rate of 5.88%.

Other Income and Expense

We hold several United States and foreign patents relating to polymer multilayer ("PML") technology, and we have granted several licenses to other entities for the use of PML technology. In connection with our PML technology, we received license fee and royalty income of $116,000 in the first six months of fiscal 2007 and $114,000 in the comparable period of 2006. It is not known what remaining commercial value, if any, our PML licenses may have.

Investment income of $61,000 in 2007 and $66,000 in 2006 was realized from temporary cash investments.

Income Taxes

Our effective income tax rate was 37.0% in 2007 and 37.3% in 2006, compared to an applicable federal and state statutory income tax rate of approximately 40.0%. Differences between the effective tax rate and statutory tax rate primarily arise from state tax provisions and foreign income tax rates.

Risk Factors That May Affect Future Results

Military aircraft and naval vessels generally contain extensive communications equipment, electronic countermeasure equipment for defense against enemy weapons, smart weapons and munitions, and radar systems. We provide low pass filters, multisection assemblies, and various microwave components and integrated assemblies to major equipment manufacturers for installation into these systems. In addition, our precision position sensors are used in numerous military vehicles and aircraft. We also provide various EMI filtered arrays and filtered connectors to aerospace manufacturers for use in commercial applications such as point to point telemetry and avionic upgrades. In fiscal 2006, military/aerospace sales were approximately 54.0% of our consolidated sales. Demand for military/aerospace products may be impacted by numerous economic, technological and political factors. Accordingly, there can be no assurance that sales to such customers will not decrease in the future.

In fiscal year 2006, approximately 24.0% of our sales were to customers in the telecommunications industry. Our three largest telecom customers, original equipment manufactures of telecommunications equipment, represented 7.0% of our total consolidated net sales in 2006. Several years ago, the telecommunications equipment industry experienced a severe slowdown. Recently, market conditions in the industry have demonstrated improvement, but overall market trends and forecasts remain unpredictable. If the current market conditions deteriorate, it will have a material negative impact on our future operating performance.

Raw materials used in the manufacture of certain ceramic capacitors include silver, palladium, and platinum. Precious metals are available from many sources; however, their prices may be subject to significant fluctuations and such fluctuations may have a material and adverse affect on our operating results.

In addition, our results of operations may be negatively affected in the future by a variety of other factors including: time delays and cost overages in conducting ceramic capacitor manufacturing at our new State College facilities; competitive pricing pressures; new technologies which decrease the demand for our products; new product offerings by our competitors; product cost changes; changes in the overall economic climate; cancellation of existing customer order backlog; unanticipated impairment of assets; difficulties in integrating acquired businesses and product lines; and changes in product mix.

Liquidity, Capital Resources and Financial Condition

We maintain a domestic line of credit with our principal lending institution, PNC Bank, N.A. of Erie, Pennsylvania (the "Bank"), in the aggregate amount of $25.0 million, with an additional $10.0 million expansion feature. Borrowings under the line of credit are secured by substantially all of our tangible and intangible personal property, and bear interest at rates below the prevailing prime rate. At May 31, 2007, $7.0 million was outstanding under this line of credit arrangement. The line of credit agreement contains certain covenants, the most restrictive of which require us to maintain designated minimum levels of net worth and profitability, and impose certain restrictions on us regarding additional indebtedness. At May 31, 2007, we were in compliance with all debt covenants. The current line of credit agreement expires in December 2010. Our ability to borrow in the future under this credit facility is dependent on our ongoing compliance with the restrictive covenants. Whether we continue to comply with these covenants is largely dependent on our ability to attain certain levels of operating performance and profitability in the future, for which there can be no assurance.

Our wholly-owned German subsidiary maintains an unsecured Euro line of credit with a German financial institution aggregating approximately $1.3 million (Euro 1.0 million). At May 31, 2007, no borrowings were outstanding under this line of credit. Future borrowings, if any, will bear interest at rates below the prevailing prime rate and will be payable upon demand.

Our net working capital and current ratio increased throughout the current period. At May 31, 2007, we had net working capital of $36.9 million, compared to $31.8 million at November 30, 2006. At May 31, 2007, current assets were 2.95 times current liabilities, compared to 2.54 at the end of fiscal 2006.

Excluding the assets acquired from EMF, our capital expenditures for property, plant and equipment amounted to $2.0 million in the first half of fiscal 2007. These capital expenditures primarily related to routine replacement of older fixed assets, as well as capacity expansion for certain product lines. At May 31, 2007, we had not entered into any material commitments for additional capital expenditures.

We have adopted a stock repurchase program. Under this program, we may repurchase up to $6.0 million of the Company's outstanding Common Stock. Acquired shares are to be purchased in the open market or through privately negotiated transactions at prevailing market prices. Funding for these repurchases is expected to come from available cash reserves and borrowings under our revolving line of credit facilities. The amount and timing of the shares repurchased are based on our ongoing assessment of the Company's capital structure, liquidity, and the market price of the Company's Common Stock. The repurchased shares are held as treasury stock. During the first six months of fiscal 2007, no shares were purchased. Since the adoption of the stock repurchase program, 676,000 shares have been repurchased at a total cost of $3.6 million.

As of May 31, 2007, our obligations and firm commitments are as follows (in thousands):

				Payments Due by Period			
Contractual obligations	Total	2007	2008	2009	2010	2011	Thereafter
Long-term debt	$ 1,152	$ 21	$ 100	$ 487	$ 65	$ 70	$ 409
Operating leases	3,201	603	933	915	684	66	-

Current financial resources, including working capital and existing lines of credit, and anticipated funds from operations are expected to be sufficient to meet operating cash requirements throughout the next twelve months, including scheduled long-term debt repayment, lease commitments, planned capital equipment expenditures and possible stock repurchases. There can be no assurance, however, that unplanned capital replacement or other future events will not require us to seek additional debt or equity financing and, if

so required, that it will be available on terms acceptable to us.

With our enhanced profitability, net cash provided by operating activities grew to $4.4 million during the first half of fiscal 2007. During the comparable period of fiscal 2006, net cash of $6.6 million was used in operating activities. With sales volume and production requirements significantly increasing during the first half of last year, accounts receivable and inventories in 2006 increased by $5.1 million and $1.4 million, respectively. Operating cash flow in the first six months of fiscal 2006 was also negatively impacted by the payment of a ten year insurance premium in the amount of $4.8 million. The related insurance policy provides environmental clean-up cost cap coverage and pollution legal liability coverage for our recently acquired State College facility. In fiscal 2007, our positive operating cash flow enabled us to repay $2.0 million of borrowings under our domestic line of credit, as well as fund the $2.4 million cash purchase price for EMF.

At May 31, 2007, the aggregate carrying value of goodwill was $35.8 million or 28.9% of our total assets and 37.8% of our total stockholders' equity. This amount includes approximately $7.0 million of goodwill recognized in connection with our recent acquisitions of EMF and ATP. On an annual basis, and when there is reason to suspect that the carrying value of goodwill has been diminished or impaired, goodwill must be tested for impairment and a writedown of the asset may be necessary. For all of the periods presented herein, no events occurred which would require impairment testing and no goodwill impairment losses were recognized.

Environmental Matters

On December 30, 2005, we acquired certain land and ceramic manufacturing facilities in State College, Pennsylvania. The property, which was acquired from Murata Electronics North America ("Murata"), consists of approximately 53 acres of land and 250,000 square feet of manufacturing facilities. The acquired facilities have become the design and manufacturing center for our ceramic operations, replacing the ceramic operations previously conducted in New Orleans, Louisiana.

The purchase price for the acquired property consisted of: (a) $1.00, plus (b) closing costs of $695,000 including realtor commissions, transfer taxes, and legal fees; plus (c) the assumption of, and indemnification of Murata against, all environmental liabilities related to the property. The acquired property has known environmental conditions that require remediation, and certain hazardous materials previously used on the property have migrated into neighboring third party areas. These environmental issues arose from the use of chlorinated organic solvents including tetrachloroethylene ("PCE") and trichloroethylene ("TCE"). As a condition to the purchase, we entered into an agreement with the Pennsylvania Department of Environmental Protection ("PADEP") pursuant to which: (a) we agreed to remediate all known environmental conditions relating to the property to a specified industrial standard, with our costs for remediating such conditions being capped at $4.0 million; (b) PADEP released Murata from further claims by Pennsylvania under specified state laws for the known environmental conditions; and (c) we purchased an insurance policy providing clean-up cost cap coverage (for known and unknown pollutants) with a combined coverage limit of approximately $8.2 million, and pollution legal liability coverage (for possible third party claims) with an aggregate coverage limit of $25.0 million. The total premium cost for the insurance policy, which has a ten year term and an aggregate deductible of $650,000, was $4.8 million. The cost of the insurance is being charged to general and administrative expense on a pro rata basis over the ten year policy term, which approximates the period of remediation of the environmental liability.

Based upon estimates prepared by our environmental consultants, we recorded a liability of $2.9 million to cover probable future environmental expenditures related to the remediation, the cost of which is expected to be entirely covered by the insurance policy. As of May 31, 2007, remediation expenditures of $671,000 have been incurred and charged against the environmental liability, with all such expenditures being reimbursed by the insurance carrier. The remaining aggregate undiscounted expenditures of $2.2 million, which are anticipated to be incurred over the next nine years, principally consist of: (a) continued operation and monitoring of the existing on-site groundwater extraction, treatment, and recharge system; (b) implementation of a chemical oxidation system, subject to the results of a laboratory treatability study; (c) completion of soil investigations to determine the extent of potential soil contamination; (d) excavation and off-site disposal of soil containing contaminates above acceptable standards; and (e) implementation of soil vapor extraction systems in certain areas. Depending upon the results of future environmental testing and remediation actions, it is possible that the ultimate costs incurred could exceed the current aggregate estimate of $2.9 million. We expect such increase, if any, to be entirely covered by the insurance policy. Insurance recoveries for actual environmental remediation costs incurred are recorded when it is probable that such insurance reimbursement will be received and the related amounts are determinable. Such insurance recoveries are credited to our general and administrative expense.

Based on the current remediation plan developed by our environmental consultants, $457,000 of the total remediation costs are expected to be incurred during the next twelve months.

Critical Accounting Policies

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the results we report in our financial statements. The U.S. Securities and Exchange Commission has defined the most critical accounting policies

as the ones that are most important to the portrayal of our financial condition and results, and require us to make our most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we believe our most critical accounting policies relate to the valuation and carrying amounts of accounts receivable, inventories, long-lived assets, and deferred tax assets.

We evaluate the collectibility of our accounts receivable based on a combination of factors including an assessment of the customer's financial condition and the length of time a receivable is past due. At May 31, 2007, our allowance for doubtful accounts was $996,000, or 3.8% of our aggregate accounts receivable. In determining the adequacy of this allowance, we have assumed that market conditions in the telecommunications equipment industry will continue to improve throughout the remainder of fiscal 2007. If this improvement does not occur, or if market conditions deteriorate, our customers may not be able to meet their financial obligations to us. Accordingly, our estimate of the recoverability of amounts due us could be reduced by a material amount.

At May 31, 2007, we had recorded inventory reserves in the aggregate amount of $2.2 million for excess and slow-moving items. In determining the adequacy of these reserves, we considered numerous factors including current customer forecasts and estimated usage. Should these forecasts and estimates change due to market, technological or other factors, the net realizable value of our inventories may be materially less than our current carrying values.

We review goodwill for possible impairment at least annually. Impairment losses are recognized when the implied fair value of goodwill is less than its carrying value. The implied fair value of goodwill is contingent upon many factors, including estimates of future discounted operating cash flows. Long-lived assets other than goodwill are reviewed for impairment whenever indicators of possible impairment exist. Impairments are recognized when the expected future operating cash flows derived from such assets are less than their carrying values. Other than certain losses associated with Hurricane Katrina, no impairment losses have been recognized in any of the periods presented herein. However, our future cash flow expectations assume that market conditions throughout the telecommunications equipment industry will improve and conditions throughout the military/aerospace sector will continue to be strong. If these long-term market expectations do not occur, our long-lived assets may become materially impaired.

We record valuation allowances to reduce deferred tax assets when it is more likely than not that some portion of the asset may not be realized. Presently, we believe that all deferred tax assets will more likely than not be realized and a valuation allowance is not required. We evaluate the need for valuation allowances on a regular basis and make adjustments as needed. These adjustments, when made, may have a materially negative impact on our financial statements.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Financial Accounting Standards No. 109, "Accounting for Income Taxes." FIN 48 prescribes a minimum recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006 (The Company's 2008 fiscal year). We are currently reviewing the provisions of FIN 48, but we do not expect it will have a material impact on our financial position, results of operations, or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS no. 157"). SFAS No. 157, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles "(GAAP"), and expands disclosures about fair value measurements. Prior to this Statement, there were different definitions of fair value and limited guidance for applying those definitions in GAAP. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of SFAS No. 157 will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years (the Company's 2008 fiscal year). We are currently reviewing the provisions of SFAS No. 157, but we do not expect it will have a material impact on our financial position, results of operations, or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 provides the option to report certain financial assets and liabilities at fair value, with the intent to mitigate volatility in financial reporting that can occur when related assets and liabilities are recorded on difference bases. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007 (the Company's 2008 fiscal year). We are currently reviewing the provisions of SFAS No. 159, but we do not expect it will have a material impact on our financial position, results of operations, or cash flows.

Top of Report

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency

Certain of our European sales and related selling expenses are denominated in Euros, British Pounds Sterling, and other local currencies. In addition, certain of our operating expenses are denominated in Mexican Pesos and Chinese Yuan. As a result, fluctuations in currency exchange rates may affect our operating results and cash flows. To manage our exposure to the Euro and British Pound Sterling, we occasionally enter into forward currency exchange contracts. At May 31, 2007, no forward currency exchange contracts were outstanding. For each of the periods presented herein, currency exchange rate gains and losses were not material.

Interest Rate Exposure

We have market risk exposure relating to possible fluctuations in interest rates. From time to time, we utilize interest rate swap agreements to minimize the risks and costs associated with variable rate debt. We do not enter into derivative financial instruments for trading or speculative purposes. The interest rate swap agreements are entered into with major financial institutions thereby minimizing the risk of credit loss. At May 31, 2007, no interest rate swap agreements were outstanding.

Top of Report

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e), as of the end of the period covered

by this Quarterly Report on Form 10-Q. Based on their review and evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries are made known to them by others within those entities in a timely manner, particularly during the period in which this quarterly " HEIGHT="1">

(millions of dollars)	Other Benefits			
	Three Months Ended		Six Months Ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
Service cost	$ 0.7	$ 0.5	$ 1.4	$ 0.9
Interest cost	0.6	0.5	1.2	1.0
Amortization*:				
Prior service cost	0.1	--	0.3	--
Recognized net actuarial loss	0.3	0.2	0.5	0.5
Net periodic benefit cost	$ 1.7	$ 1.2	$ 3.4	$ 2.4

* Current year amortization amounts are recorded as increases to accumulated other comprehensive income, totaling $2.1 million, net of tax, in accordance with the provisions of SFAS No. 158.

Employer Contributions

The Company expects to contribute $15 million to its pension plan and $2 million to its other post retirement benefit plans in 2007. As of July 1, 2007, $11.1 million has been contributed to the pension plans and approximately $0.8 million has been contributed to the post retirement benefit plans.

10

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

Note 11. Comprehensive Income (Loss)

The following are the components of comprehensive income (loss):

(millions of dollars)	Three Months Ended		Six Months Ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
Net income	$ 14.4	$ 12.6	$ 25.2	$ 25.4
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	7.8	9.7	15.0	14.7
Pension plan adjustments	1.0	--	2.1	--
Cash flow hedges:				
Net derivative gains (losses) arising during the period	--	--	(0.1)	0.1
Reclassification adjustment	--	0.1	0.1	--
Comprehensive income (loss)	$ 23.2	$ 22.4	$ 42.3	$ 40.2

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

(millions of dollars)	July 1, 2007	December 31, 2006
Foreign currency translation adjustments	$ 48.2	$ 33.2
Unrecognized pension costs	(52.2)	(54.3)
Net gain (loss) on cash flow hedges	(0.1)	(0.1)
Accumulated other comprehensive income (loss)	$ (4.1)	$ (21.2)

Note 12. Accounting for Asset Retirement Obligations

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

capitalized as part of the carrying amount of the long-lived asset.

The following is a reconciliation of asset retirement obligations as of July 1, 2007:

(thousands of dollars)	
Asset retirement liability, December 31, 2006	$ 11,650
Accretion expense	299
Payments made	(22)
Foreign currency translation	158
Asset retirement liability, July 1, 2007	$ 12,085

Approximately $0.2 million is included in other current liabilities and $11.9 million is included in other non-current liabilities in the Condensed Consolidated Balance Sheet as of July 1, 2007.

Note 13. Transaction with Former Parent Company

Under the terms of certain agreements entered into in connection with the Company's initial public offering in 1992, Pfizer Inc ("Pfizer") agreed to indemnify the Company against any liability arising from claims for remediation, as defined in the agreements, of on-site environmental conditions relating to activities prior to the

closing of the initial public offering. The Company had asserted to Pfizer a number of indemnification claims pursuant to those agreements during the ten-year period following the closing of the initial public offering. Since the initial public offering, the Company has incurred and expensed approximately $6 million of environmental claims under these agreements. On January 20, 2006, Pfizer and the Company agreed to settle those claims, along with certain other potential environmental liabilities of Pfizer, in consideration of a payment by Pfizer of $4.5 million. Such payment was recorded as additional paid-in-capital, net of its related tax effect.

Note 14. Non-Operating Income and Deductions

	Three Months Ended		Six Months Ended	
(thousands of dollars)	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
Interest income	$ 609	$ 264	$ 1,093	$ 779
Interest expense	(2,585)	(1,700)	(5,139)	(3,264)
Gain on insurance settlement	--	--	--	1,822
Foreign exchange gains (losses)	225	83	(104)	225
Other deductions	1	(244)	(196)	(448)
Non-operating deductions, net	$ (1,750)	$ (1,597)	$ (4,346)	$ (886)

During the first quarter of 2006, the Company recognized an insurance settlement gain of $1.8 million, net of related deductible, for property damage sustained at one of our facilities in 2004 as a result of Hurricane Ivan. Claims submitted to the insurance carrier for damages related to a combination of replacement costs for fixed assets and reimbursement of expenses associated with the clean-up and repairs at the facility. The insurance settlement gain related to the reimbursement of replacement costs for fixed assets in excess of the net book value of such assets.

Note 15. Segment and Related Information

Segment information for the three and six-month periods ended July 1, 2007 was as follows:

Net Sales

	Three Months Ended		Six Months Ended	
(thousands of dollars)	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
Specialty Minerals	$ 188,853	$ 179,494	$ 372,873	$ 360,609
Refractories	90,622	86,862	180,143	170,449
Total	$ 279,475	$ 266,356	$ 553,016	$ 531,058

Income from Operations

	Three Months Ended		Six Months Ended	
(thousands of dollars)	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
Specialty Minerals	$ 15,741	$ 13,341	$ 28,923	$ 25,463
Refractories	8,522	7,617	15,224	14,337
Total	$ 24,263	$ 20,958	$ 44,147	$ 39,800

The carrying amount of goodwill by reportable segment as of July 1, 2007 and December 31, 2006 was as follows:

Goodwill

(thousands of dollars)	July 1, 2007	December 31, 2006
Specialty Minerals	$ 16,786	$ 16,560
Refractories	56,025	52,417

Total	$ 72,811	$ 68,977

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

Income Before Provision For Taxes on
Income and Minority Interests

(thousands of dollars)	Three Months Ended		Six Months Ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
Income from operations for reportable segments	$ 24,263	$ 20,958	$ 44,147	$ 39,800
Non-operating deductions, net	1,750	1,597	4,346	886
Income before provision for taxes on income and minority interests	$ 22,513	$ 19,361	$ 39,801	$ 38,914

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

(thousands of dollars)	Sales by Product Category			
	Three Months Ended		Six Months Ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
Paper PCC	$ 133.9	$ 123.6	$ 267.6	$ 250.4
Specialty PCC	15.6	14.1	30.5	29.2
Talc	15.4	16.1	30.2	30.9
Ground Calcium Carbonate	22.6	23.5	41.8	45.6
SYNSIL®	1.4	2.2	2.8	4.5
Refractory Products	73.1	66.1	144.7	127.2
Metallurgical Products	17.5	20.8	35.4	43.3
Net Sales	$ 279.5	$ 266.4	$ 553.0	$ 531.1

REVIEW REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Minerals Technologies Inc.:

We have reviewed the condensed consolidated balance sheet of Minerals Technologies Inc. and subsidiary companies as of July 1, 2007 and the related condensed consolidated statements of income for the three-month and six-month periods ended July 1, 2007 and July 2, 2006, and the related condensed consolidated statements of cash

flows for the six-month periods ended July 1, 2007 and July 2, 2006. These condensed consolidated financial statements are the responsibility of the company's management.

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

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

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Minerals Technologies Inc. and subsidiary companies as of December 31, 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 27, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2006 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

As discussed in the Notes to Condensed Consolidated Financial Statements, effective January 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes."

KPMG LLP

New York, New York
July 31, 2007

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

	Income and Expense Items as a Percentage of Net Sales			
	Three Months Ended		Six Months Ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	79.0	79.0	79.5	79.3
Marketing and administrative expenses	9.7	10.2	9.8	10.4
Research and development expenses	2.6	2.9	2.7	2.8
Income from operations	8.7	7.9	8.0	7.5

Net income	5.1 %	4.7 %	4.6 %	4.8 %

Executive Summary

Consolidated sales for the second quarter of 2007 increased 5% over the prior year to $279.5 million from $266.4 million. Foreign exchange had a favorable impact on sales of approximately $6.1 million, or 2 percentage points of growth. Income from operations increased 16% to $24.3 million from $21.0 million in the prior year. Net income increased 14% to $14.4 million from $12.6 million in the prior year.

Despite this growth, our profitability in 2007 continues to be affected negatively by three major, long-term business development initiatives - the *SYNSIL*®product line; the European PCC merchant coating program; and the refractory manufacturing facility in China.

•The commercial introduction of the *SYNSIL*® product line has been more difficult and is taking longer than anticipated.
•Although volumes have improved from the prior year from our coating development program in Europe, these volumes remain below our expectations.
•Our refractory manufacturing facility in China began operation in the third quarter of 2006, and is operating well below capacity.

We are currently assessing all aspects of our business through an in-depth strategic review. We expect to complete this process before the end of the year to determine the Company's direction, structure, business portfolios and technologies for the future in order to improve our financial performance.

We face some significant risks and challenges in the future:

•Our success depends in part on the performance of the industries we serve, particularly papermaking and steel making. Some of our customers may continue to experience consolidations and shutdowns;
•Consolidations in the paper and steel industries concentrate purchasing power in the hands of fewer customers, increasing pricing pressure on suppliers such as Minerals Technologies Inc.;
•Most of our Paper PCC sales are subject to long-term contracts that may be terminated pursuant to their terms, or may be renewed on terms less favorable to us;
•Our filler-fiber composite technology continues in development through customer trials, but has yet to be proven on a long-term commercial scale.
•We are subject to cost fluctuations on raw materials, including shipping costs, particularly for magnesia and talc imported from China;
•The coating development program in Europe continues to operate at a significant loss despite improvement in volumes over the prior year.
•Although the *SYNSIL*® Products family has received favorable reactions from current and potential customers, this product line is not yet profitable. To date, the introduction of *SYNSIL*® technology to customers has progressed more slowly than anticipated, resulting in overcapacity at our facilities. The commercial viability of this product line cannot be assured;•
The cost of employee benefits, particularly health coverage, has risen significantly in recent years and continues to do so; and

- • As we expand our operations abroad we face the inherent risks of doing business in many foreign countries, including foreign exchange risk, import and export restrictions, and security concerns.

Despite these risks and challenges, we believe there are opportunities for continued growth open to us, including:

- •Increasing our sales of PCC for paper by further penetration of the markets for paper filling at both freesheet and groundwood mills;
- •Increasing our sales of PCC for paper coating, particularly from our merchant coating PCC facilities in Walsum, Germany and Hermalle, Belgium;
- •Achieving commercialization of a filler-fiber composite technology for the paper industry through our continued research and development activities;
- •Developing new satellite PCC opportunities;
- •Achieving market acceptance of the *SYNSIL*® Products family of composite minerals for the glass industry;
- •Continuing our penetration in emerging markets through our new manufacturing facility in China and our recent acquisition in Turkey, both within the Refractories segment; and
- •Further increasing market penetration in the Refractories segment through development of high-performance products and equipment systems.

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

Results of Operations

Sales

(millions of dollars)	Second Quarter 2007	% of Total Sales	Growth	Second Quarter 2006	% of Total Sales
Net Sales					
U.S	$ 156.8	56.1 %	(2) %	$ 160.1	60.1 %
International	122.7	43.9 %	15 %	106.3	39.9 %
Net sales	$ 279.5	100.0 %	5 %	$ 266.4	100.0 %
Paper PCC	$ 133.9	47.9 %	8 %	$ 123.6	46.4 %
Specialty PCC	15.6	5.6 %	11 %	14.1	5.3 %
PCC Products	$ 149.5	53.5 %	9 %	$ 137.7	51.7 %
Talc	$ 15.4	5.5 %	(4) %	$ 16.1	6.1 %
Ground Calcium Carbonate (GCC)	22.6	8.1 %	(4) %	23.5	8.8 %
SYNSIL®	1.4	0.5 %	(36) %	2.2	0.8 %

Processed Minerals Products	$ 39.4	14.1 %	(6) %	$ 41.8	15.7 %
Specialty Minerals Segment	$ 188.9	67.6 %	5 %	$ 179.5	67.4 %
Refractory Products	$ 73.1	26.2 %	11 %	$ 66.1	24.8 %
Metallurgical Products	17.5	6.2 %	(16) %	20.8	7.8 %
Refractories Segment	$ 90.6	32.4 %	4 %	$ 86.9	32.6 %
Net sales	$ 279.5	100.0 %	5 %	$ 266.4	100.0 %

Worldwide net sales in the second quarter of 2007 increased 5% from the previous year to $279.5 million. Foreign exchange had a favorable impact on sales of approximately $6.1 million, or 2 percentage points of growth. Sales in the Specialty Minerals segment, which includes the PCC and Processed Minerals product lines, increased 5% to $188.9 million compared with $179.5 million for the same period in 2006. Sales in the Refractories segment grew 4% over the previous year to $90.6 million from $86.9 million in the prior year.

Worldwide net sales of PCC, which is primarily used in the manufacturing process of the paper industry, increased 9% in the second quarter to $149.5 million from $137.7 million in the prior year. Paper PCC sales grew 8% to $133.9 million in the second quarter of 2007 from $123.6 million in the prior year due to increased selling

prices primarily from the pass-through to our customers of raw material cost increases, and foreign currency. Total Paper PCC volumes declined slightly due to weakness in the North American market. Sales of Specialty PCC increased 11% to $15.6 million from $14.1 million. This was primarily driven by increased volumes at our facility in the United Kingdom.

Net sales of Processed Minerals products decreased 6% in the second quarter to $39.4 million from $41.8 million in the prior year. Talc sales decreased 4% to $15.4 million from $16.1 million. GCC products also decreased 4% to $22.6 million from $23.5 million in the prior year. The Processed Minerals product line continues to be affected by weakness in the residential construction markets, as well as the automotive market. *SYNSIL*® products sales decreased 36% to $1.4 million from $2.2 million in the prior year. This decline was due to a reduction in demand from our sampling facility in Ohio and reduced volumes at our facility in Chester, South Carolina.

Net sales in the Refractories segment in the second quarter of 2007 increased 4% to $90.6 million from $86.9 million in the prior year. Sales of refractory products and systems to steel and other industrial applications increased 11% to $73.1 million from $66.1 million in the prior year. This increase was attributable to the incremental sales from the recent acquisition in Turkey and to foreign currency. Sales of metallurgical products within the Refractories segment decreased 16% to $17.5 million as compared with $20.8 million in the same period last year. The decline in sales was primarily attributable to lower volumes in North America and Latin America, and to lower prices as a result of a reduction in the cost of raw materials for this product line that is passed through to the customers.

Net sales in the United States declined 2% to $156.8 million in the second quarter of 2007. International sales in the second quarter of 2007 increased 15% to $122.7 million, of which foreign currency and the recent acquisition in Turkey represented 11 percentage points of such growth.

Operating Costs and Expenses	Second Quarter	Second Quarter	Growth

(millions of dollars)	2007	2006	
Cost of goods sold	$ 220.8	$ 210.3	5 %
Marketing and administrative	$ 27.0	$ 27.2	(1) %
Research and development	$ 7.4	$ 7.9	(6) %

Consolidated cost of goods sold was 79.0% of sales, the same percentage as in the prior year. In the Specialty Minerals segment, production margins increased 4% as compared with 5% sales growth. This segment has been affected by weakness in the Processed Minerals product line, paper machine and paper mill shutdowns and production losses in our *SYNSIL®* product lines, partially offset by the recovery of raw materials and the benefit of foreign currency. In the Refractories segment, production margins increased 5%, as compared with 4% sales growth.

Marketing and administrative costs decreased 1% in the second quarter to $27.0 million and represented 9.7% of net sales as compared with 10.2% of net sales in the prior year. The reduction in marketing and administrative expenses was primarily attributable to an expense control program introduced in the first quarter and was achieved despite increased expenses associated with our acquisition in Turkey, and the impact of foreign currency.

Research and development expenses decreased 6% to $7.4 million and represented 2.6% of net sales, compared to 2.9% in the prior year. This decrease was a result of lower trial activity primarily in the Paper PCC product line.

Income from Operations

(millions of dollars)	Second Quarter 2007	Second Quarter 2006	Growth
Income from operations	$ 24.3	$ 21.0	16 %

Income from operations in the second quarter of 2007 increased 16% to $24.3 million from $21.0 million in the prior year. Income from operations represented 8.7% of net sales in the second quarter of 2007 compared with 7.9% of net sales in the prior year.

Income from operations for the Specialty Minerals segment increased 18% to $15.7 million and was 8.3% of its net sales as compared with 7.4% of its net sales in the prior year. Operating income for this segment was impacted

by the aforementioned factors affecting production margin, and by lower expense levels than in the prior year. Operating income for the Refractories segment increased 12% to $8.5 million and was 9.4% of its net sales as compared with 8.8% of its net sales in 2006. The Refractories segment experienced improved operating income margins in the second quarter due to a more favorable product mix in the refractory products and systems product line partially offset by weakness in metallurgical products.

Non-Operating Deductions

(millions of dollars)	Second Quarter 2007	Second Quarter 2006	Growth
Non-operating deductions, net	$ 1.8	$ 1.6	13 %

The increase in non-operating deductions was due primarily to increased net interest expense as a result of higher debt levels.

Provision for Taxes on Income Second Second Growth

(millions of dollars)	Quarter 2007	Quarter 2006	
Provision for taxes on income	$ 7.3	$ 5.9	24 %

The effective tax rate increased to 32.5% in the second quarter of 2007 from 30.3% in the prior year due to a change in the mix of earnings.

Net Income (millions of dollars)	Second Quarter 2007	Second Quarter 2006	Growth
Net income	$ 14.4	$ 12.6	14 %

Net income increased 14% in the second quarter of 2007 to $14.4 million. Earnings per common share, on a diluted basis were $0.74 in the second quarter of 2007, as compared with $0.63 in the same period last year.

Six months ended July 1, 2007 as compared with six months ended July 2, 2006

(millions of dollars)	First Half 2007	% of Total Sales	Growth	First Half 2006	% of Total Sales
Net Sales					
U.S	$ 309.6	56.0 %	(4) %	$ 321.9	60.6 %
International	243.4	44.0 %	16 %	209.2	39.4 %
Net sales	$ 553.0	100.0 %	4 %	$ 531.1	100.0 %
Paper PCC	$ 267.6	48.4 %	7 %	$ 250.4	47.1 %
Specialty PCC	30.5	5.5 %	4 %	29.2	5.5 %
PCC Products	$ 298.1	53.9 %	7 %	$ 279.6	52.6 %
Talc	$ 30.2	5.5 %	(2) %	$ 30.9	5.8 %
Ground Calcium Carbonate	41.8	7.6 %	(8) %	45.6	8.6 %
SYNSIL®	2.8	0.5	(38) %	4.5	0.9 %
Processed Minerals Products	$ 74.8	13.5 %	(8) %	$ 81.0	15.3 %
Specialty Minerals Segment	$ 372.9	67.4 %	3 %	$ 360.6	67.9 %
Refractory Products	$ 144.7	26.2 %	14 %	$ 127.2	23.9 %
Metallurgical Products	35.4	6.4 %	(18) %	43.3	8.2 %
Refractories Segment	$ 180.1	32.6 %	6 %	$ 170.5	32.1 %
Net Sales	$ 553.0	100.0 %	4 %	$ 531.1	100.0 %

Worldwide net sales in the first half of 2007 increased 4% from the previous year to $553.0 million. Foreign exchange had a favorable impact on sales of approximately $11.5 million or 2 percentage points of growth. Sales in the Specialty Minerals segment, which includes the PCC and Processed Minerals product lines, increased 3% to $372.9 million compared with $360.6 million for the same period in 2006. This growth was due to a combination of higher prices passed through to customers and foreign exchange. Sales in the Refractories segment grew 6% over the previous year to $180.1 million from $170.5 million.

Worldwide net sales of PCC, which is primarily used in the manufacturing process of the paper industry, increased 7% in the first half to $298.1 million from $279.6 million in the prior year. Foreign exchange had a favorable impact on sales of approximately 3 percentage points of growth. Paper PCC sales grew 7% to $267.6 million in the first half of 2007 from $250.4 million in the prior year. This growth was primarily attributable to higher selling prices passed through to customers from raw material cost increases and foreign currency which more than offset weakness in the North American paper market. Sales of Specialty PCC grew 5% to $30.5 million from $29.2 million in 2006.

Net sales of Processed Minerals products decreased 8% in the first half of 2007 to $74.8 million from $81.0 million in the first half of 2006. Talc sales decreased 2% to $30.2 million from $30.9 million in the prior year. GCC products decreased 8% to $41.8 million from $45.6 million in the prior year. This decrease was attributable primarily to the continued weakness in the residential and construction markets and the automotive market. *SYNSIL®* products sales decreased 38% in the first half of 2007 to $2.8 million from $4.5 million in the previous year. This decline was primarily attributable to a reduction in commercial demand from the Company's sampling facility in Ohio. In addition, sales from the Company's two commercial facilities remain below expectations.

Net sales in the Refractories segment in the first half of 2007 increased 6% to $180.1 million from $170.5 million in the prior year. Foreign currency had a favorable impact on sales of approximately $3.9 million or 2 percentage points of growth. Sales of refractory products and systems to steel and other industrial applications increased 14 percent to $144.7 million from $127.2 million. This increase was primarily attributable to sales from our acquisition in Turkey and to foreign currency. Sales of metallurgical products within the Refractories segment decreased 18 percent to $35.4 million as compared with $43.3 million in the same period last year. This decrease was due to lower volumes in all regions of the world, and lower prices resulting from the reduction in the cost of raw materials for this product that is traditionally passed through to the customers.

Net sales in the United States declined 4% to $309.6 million in the first half of 2007. International sales in the first half of 2007 increased 16% to $243.4 million, due primarily to the recent acquisition and foreign currency.

Operating Costs and Expenses

(millions of dollars)	First Half 2007	First Half 2006	Growth
Cost of goods sold	$ 439.5	$ 421.3	4 %
Marketing and administrative	$ 54.4	$ 54.9	(1) %
Research and development	$ 15.1	$ 15.1	-- %

Cost of goods sold was 79.5% of sales compared with 79.3% of sales in the prior year. In the Specialty Minerals segment, production margin increased 2% as compared with 3% sales growth. This segment has been affected by weakness in the Processed Minerals product line, paper machine and paper mill shutdowns, and production losses in our *SYNSIL®* product lines, partially offset by the recovery of raw materials and the benefit of foreign currency. In the Refractories segment, production margin increased 6% as compared with the 6% sales growth.

Marketing and administrative costs decreased 1% in the first half to $54.4 million and represented 9.8% of net sales, as compared with 10.3% of net sales in the prior year. The reduction in marketing and administrative expenses was primarily attributable to a reduction in the provision for bad debt expenses and to an expense control program initiated in the first quarter and was achieved despite increased expenses associated with our acquisition in Turkey,

and the impact of foreign currency.

Research and development expenses were $15.1 million, the same as the prior year, and represented 2.7% of net sales as compared with 2.8% of net sales in the prior year.

Income from Operations (millions of dollars)	First Half 2007	First Half 2006	Growth
Income from operations	$ 44.1	$ 39.8	11 %

Income from operations in the first half of 2007 increased 11% to $44.1 million from $39.8 million in the first half of 2006. Income from operations represented 8.0% of net sales in the first half of 2007 compared with 7.5% in the prior year.

Income from operations for the Specialty Minerals segment increased 13% to $28.9 million from $25.5 million in the prior year, and was 7.8% of its net sales as compared with 7.1% of its net sales in the prior year. Operating income for the Refractories segment increased 6% to $15.2 million and was 8.5% of its net sales as compared with 8.4% of its net sales in 2006.

Non-Operating Deductions (millions of dollars)	First Half 2007	First Half 2006	Growth
Non-operating deductions, net	$ 4.3	$ 0.9	* %

*

Percentage not meaningful

Non-operating deductions increased over the prior year due to an increase in net interest cost of approximately $1.5 million due to increased borrowings. In addition, in the first half of 2006 we recognized an insurance settlement gain of approximately $1.8 million for property damage sustained at one of our facilities which reduced the prior year's non-operating deductions.

Provision for Taxes on Income (millions of dollars)	First Half 2007	First Half 2006	Growth
Provision for taxes on income	$ 12.9	$ 11.8	9 %

The effective tax rate increased in the first half of 2007 to 32.5% from 30.3% in the prior year. This was due to a change in the mix of earnings.

Net Income (millions of dollars)	First Half 2007	First Half 2006	Growth
Net income	$ 25.2	$ 25.4	(1) %

Net income decreased 1% in the first half of 2007 to $25.2 million. Earnings per common share, on a diluted basis, increased 2% to $1.30 in the second quarter of 2007 as compared with $1.27 in the prior year.

Liquidity and Capital Resources

Cash flows in the first six months of 2007 provided from operations were applied principally to fund capital expenditures, repay debt and repurchase common shares for treasury. Cash provided from operating activities amounted to $72.3 million in the first six months of 2007 as compared with $70.4 million for the same period last year.

We expect to utilize our cash to support the previously mentioned growth strategies.

On October 26, 2005, the Company's Board of Directors authorized the Company's Management Committee, at its discretion, to repurchase up to $75 million in additional shares over the next three-year period. As of July 1, 2007, we repurchased 924,872 shares of our common stock at an average price of $53.53 per share under this program.

On July 25, 2007, our Board of Directors declared a regular quarterly dividend on our common stock of $0.05 per share. No dividends will be payable unless declared by the Board and unless funds are legally available for payment thereof.

We have $186.5 million in uncommitted short-term bank credit lines, of which approximately $53 million was in use at July 1, 2007. We anticipate that capital expenditures for all of 2007 will be less than $75 million. We expect to meet our long-term financing requirements from internally generated funds, uncommitted bank credit lines and, where appropriate, project financing of certain satellite plants. The aggregate maturities of long-term debt are as follows: remainder of 2007 - $0.6 million; 2008 - $8.4 million; 2009 - $5.3 million; 2010 - $5.9 million; 2011 - $1.3 million; thereafter - $99.1 million.

Prospective Information and Factors That May Affect Future Results

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

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

Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement will apply to all other accounting pronouncements that require fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently

completing an analysis of the ultimate impact the new pronouncement will have on its financial statements.

In November 2006, the Emerging Issues Task Force ("EITF") reached a consensus on EITF issue 06-10, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements." Employers will be required to measure the asset associated with collateral-assignment split-dollar life insurance based on the arrangement's terms and to record postretirement benefit liabilities only if the employer will maintain the life insurance policy during the employee's retirement or provide the employee with a death benefit. This consensus is effective for fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact of this consensus on its financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." This Statement allows entities to choose to measure financial instruments and certain other items at fair value. This Statement is effective for fiscal periods beginning after November 15, 2006. The Company is currently evaluating the impact of SFAS No. 159 on its financial statements.

Critical Accounting Policies

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

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

Income Taxes

The Company accounts for uncertain tax positions in accordance with FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), an interpretation of FASB Statement No. 109 ("SFAS 109"). The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, we are required to make many subjective assumptions and judgements regarding our income tax exposures. Interpretations of and guidance surrounding income tax laws and regulations change over time. As such, changes in our subjective assumptions and judgements can materially affect amounts recognized in the consolidated balance sheets and statements of income. See Note 5 to the condensed consolidated financial statements, "Income Taxes," for additional detail on our uncertain tax positions.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in market prices and foreign currency and interest rates. We are exposed to market risk because of changes in foreign currency exchange rates as measured against the U.S. dollar. We do not anticipate that near-term changes in exchange rates will have a material impact on our future earnings or cash flows. However, there can be no assurance that a sudden and significant decline in the value of foreign currencies would not have a material adverse effect on our financial condition and results of operations. Approximately 65% of our bank debt bears interest at variable rates; therefore our results of operations would only be affected by interest rate changes to such outstanding

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

We do not enter into derivatives or other financial instruments for trading or speculative purposes. When appropriate, we enter into derivative financial instruments, such as forward exchange contracts and interest rate swaps, to mitigate the impact of foreign exchange rate movements and interest rate movements on our operating results. The counterparties are major financial institutions. Such forward exchange contracts and interest rate swaps would not subject us to additional risk from exchange rate or interest rate movements because gains and losses on these contracts would offset losses and gains on the assets, liabilities, and transactions being hedged. We have open forward exchange contracts to purchase approximately $5.5 million of foreign currencies as of July 1, 2007. The contracts mature between July 2007 and September 2008. The fair value of these instruments at July 1, 2007 was a liability of $0.1 million.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, and under the supervision and with participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures, pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic filings with the Securities and Exchange Commission.

Changes in Internal Control Over Financial Reporting

The Company is in the process of implementing a global enterprise resource planning ("ERP") system to manage its business operations. As of July 1, 2007, all of our domestic locations were using the new system. The worldwide implementation is expected to be completed over the next few years and involves changes in systems that include internal controls. Although the transition has proceeded to date without material adverse effects, the possibility exists that our migration to the new ERP system could adversely affect the Company's internal controls over financial reporting and procedures. We are reviewing each system as it is being implemented and the controls affected by the implementation of the new systems, and are making appropriate changes to affected internal controls as we implement the new systems. We believe that the controls as modified are appropriate and functioning effectively.

There was no change in the Company's internal control over financial reporting (other than the ongoing implementation of the ERP system discussed above) during the quarter ended July 1, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

As previously reported, certain of the Company's subsidiaries are among numerous defendants in a number of cases seeking damages for exposure to silica or to asbestos containing materials. The Company currently has 326 pending silica cases and 26 pending asbestos cases. To date, 1138 silica cases and 1 asbestos case have been

dismissed, of which 486 silica cases were dismissed in the second quarter of 2007. One new asbestos case was filed in the second quarter of 2007. Most of these claims do not provide adequate information to assess their merits, the likelihood that the Company will be found liable, or the magnitude of such liability, if any. Additional claims of this nature may be made against the Company or its subsidiaries. At this time management anticipates that the amount of the Company's liability, if any, and the cost of defending such claims, will not have a material effect on its financial position or results of operations.

The Company has not settled any silica or asbestos lawsuits to date. We are unable to state an amount or range of amounts claimed in any of the lawsuits because state court pleading practices do not require identifying the amount of the claimed damage. The aggregate cost to the Company for the legal defense of these cases in 2006 was $0.1 million. Costs for the legal defense of these cases in the first half of 2007 were $34,400. To date, the Company has not been liable to plaintiffs in any of these lawsuits and we do not expect to pay any settlements or jury verdicts in these lawsuits.

Environmental Matters

As previously reported, on April 9, 2003, the Connecticut Department of Environmental Protection ("DEP") issued an administrative consent order relating to our Canaan, Connecticut, plant where both our Refractories segment and Specialty Minerals segment have operations. We agreed to the order, which includes provisions requiring investigation and remediation of contamination associated with historic use of polychlorinated biphenyls (PCBs) at a portion of the site. The following is the present status of the remediation efforts:

• Building Decontamination.

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

• Groundwater.

We are still conducting investigations of potential groundwater contamination. To date, the results of investigation indicate that there is some oil contamination of the groundwater. We are conducting further investigations of the groundwater.

• Soil.

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

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

We estimate that the cost of the likely remediation above would approximate $200,000, and that amount has been recorded as a liability on our books and records.

The Company is evaluating options for upgrading the wastewater treatment facilities at its Adams, Massachusetts, plant. This work is being undertaken pursuant to an administrative consent order issued by the Massachusetts

Department of Environmental Protection on June 18, 2002. The order required payment of a civil fine in the amount of $18,500, the investigation of options for ensuring that the facility's wastewater treatment ponds will not result in discharge to groundwater, and closure of a historic lime solids disposal area. The Company informed Massachusetts Department of Environmental Protection of proposed improvements to the wastewater treatment system on June 29, 2007, and is committed to implementing the improvements by June 1, 2012. Preliminary engineering reviews indicate that the estimated cost of these upgrades to operate this facility beyond 2012 may be between $6 million and $8 million. The Company estimates that remediation costs would approximate $350,000, which has been accrued as of July 1, 2007.

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

ITEM 1A. Risk Factors

There have been no material changes to our risk factors during the second quarter since those reported in our Quarterly Report on Form 10-Q for the quarter ended April 1, 2007, and in our 2006 Annual Report on Form 10-K. For a description of Risk Factors, see Exhibit 99 attached to this report.

ITEM 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of the Publicly Announced Program	Dollar Value of Shares that May Yet be Purchased Under the Program
April 2 - April 29	--	$ --	915,172	$ 26,099,241
April 30 - May 27	--	$ --	915,172	$ 26,099,241
May 28 - July 1	9,700	$ 62.31	924,872	$ 25,494,867
Total	9,700	$ 62.31		

On October 26, 2005, the Company's Board of Directors authorized the Company's Management Committee, at its discretion, to repurchase up to $75 million in additional shares over the next three-year period. As of July 1, 2007, 924,872 shares were repurchased under this program at an average price of approximately $53.53 per share.

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

At the Annual Meeting of Stockholders held on May 23, 2007, the following two items were submitted to a vote of the stockholders of the Company:

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

Term Expiring in 2010	Votes For	Votes Withheld
Joseph C. Muscari	17,045,733	618,335
William C. Stivers	16,984,125	679,943

2. Votes regarding ratification of the appointment of KPMG LLP as the independent registered public accounting firm of the Company for the 2007 fiscal year were as follows:

17,590,726	votes for approval
46,945	votes against
26,397	abstentions

ITEM 6. Exhibits

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

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Minerals Technologies Inc.

By: /s/John A. Sorel

John A. Sorel

Senior Vice President-Finance and
Chief Financial Officer
(principal financial officer)

July 31, 2007