

MINERALS TECHNOLOGIES INC
Form 10-K/A
August 04, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-K/A

Amendment No. 1

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

For the fiscal year ended December 31, 2003

Commission file number 1-3295

MINERALS TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

25-1190717

(I.R.S. Employer
Identification Number)

The Chrysler Building

405 Lexington Avenue

New York, New York

(Address of principal executive office)

10174-1901

(Zip Code)

(212) 878-1800

(Registrant's telephone number including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, \$.10 par value	New York Stock Exchange

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

None

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

Yes No

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

Indicate by check mark whether the Registrant (1) is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing price at which the stock was sold as of June 27, 2003, was approximately \$978 million. Solely for the purposes of this calculation, shares of common stock held by officers, directors and beneficial owners of 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 5, 2004, the Registrant had outstanding 20,492,149 shares of common stock, all of one class.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement dated April 5, 2004

Part III

EXPLANATORY NOTE

Minerals Technologies Inc. (the "Company") is filing this Amendment No. 1 to its Annual Report on Form 10-K/A (this "Form 10-K/A") to reflect a revision to the accounting treatment of the reversal in 2003 of tax reserves for potential exposure items no longer necessary due to the expiration of the statute of limitations on the Company's U.S. tax returns for earlier years. As a result of this revision, the Company is restating its audited financial statements for the fiscal year ended December 31, 2003.

During the third and fourth quarters of 2003, the Company reversed tax reserves no longer necessary due to the expiration of the statute of limitations on the Company's U.S. tax returns for earlier years. In its Annual Report on Form 10-K for the year ended December 31, 2003 (the "Form 10-K") filed with the Securities and Exchange Commission (the "Commission") on March 11, 2004, the Company reported that this reversal resulted in a reduction to the 2003 income tax provision of approximately \$15 million and a reduction to the overall effective tax rate for 2003 from 26.4% to 5.7%. This Form 10-K/A reflects the Company's determination that the reversal of such tax reserves should be treated as an equity transaction and reflected as an increase in additional paid-in capital of \$15 million because such tax reserves were established for potential exposure items related to the tax bases of assets caused by the initial public offering of the Company's common stock in October 1992. For a detailed description of the effect of the restatement of the financial statements see Note 2 to the financial statements.

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This technical restatement has no impact on the income from operations, cash flows, or assets and liabilities of the Company. In addition, the original treatment or the restatement had no effect on any payments under the Company's officer and management compensation plans.

In accordance with the rules of the Commission, the affected items of the Form 10-K, Items 6, 7, 7A, 8, and 9A of Part I and Item 15 of Part IV, are being amended and restated in their entirety. This Form 10-K/A does not reflect events occurring after December 31, 2003 or substantively modify or update the disclosure contained in the Form 10-K in any way other than as required to reflect the amendments discussed above and reflected below.

MINERALS TECHNOLOGIES INC. AMENDMENT NO. 1 TO ANNUAL REPORT ON FORM 10-K/A FOR THE YEAR ENDED DECEMBER 31, 2003

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PART I

Item 6. Selected Financial Data

	Restated 2003	2002	2001	2000	1999
Thousands, Except Per Share Data	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Income Statement Data:					
Net sales	\$813,743	\$752,680	\$684,419	\$670,917	\$662,475
Cost of goods sold	615,749	567,985	502,525	477,512	466,702
Marketing and administrative expenses	83,809	74,160	70,495	71,404	72,208
Research and development expenses	25,149	22,697	23,509	26,331	24,788
Bad debt expenses	5,307	6,214	3,930	5,964	1,234
Restructuring charges	3,323	--	3,403	--	--
Write-down of impaired assets	<u>3,202</u>	<u>750</u>	<u>--</u>	<u>4,900</u>	<u>--</u>
Income from operations	77,204	80,874	80,557	84,806	97,543
Income before provision for taxes					
on income and minority interests	72,344	75,734	72,670	79,772	92,535
Provision for taxes on income	19,116	20,220	21,148	23,735	28,920
Minority interests	<u>1,575</u>	<u>1,762</u>	<u>1,729</u>	<u>1,829</u>	<u>1,499</u>
Income before cumulative effect of accounting change	51,653	53,752	49,793	54,208	62,116
Cumulative effect of accounting change	<u>3,433</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net income	\$ 48,220 =====	\$ 53,752 =====	\$ 49,793 =====	\$ 54,208 =====	\$ 62,116 =====
	Restated 2003	2002	2001	2000	1999
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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Earnings Per Share

Basic:

Before cumulative effect of accounting change	\$ 2.56	\$ 2.66	\$ 2.54	\$ 2.65	\$ 2.90
	<u>(0.17)</u>				
Cumulative effect of accounting change)	_____--	_____--	_____--	_____--
Basic earnings per share	\$ 2.39	\$ 2.66	\$ 2.54	\$ 2.65	\$ 2.90
	=====	=====	=====	=====	=====

Diluted:

Before cumulative effect of accounting change	\$ 2.53	\$ 2.61	\$ 2.48	\$ 2.58	\$ 2.80
	<u>(0.17)</u>				
Cumulative effect of accounting change)	_____--	_____--	_____--	_____--
Basic earnings per share	\$ 2.36	\$ 2.61	\$ 2.48	\$ 2.58	\$ 2.80
	=====	=====	=====	=====	=====

Weighted average number of common shares outstanding

Basic	20,208	20,199	19,630	20,479	21,394
Diluted	20,431	20,569	20,063	21,004	22,150
Dividends declared per common share	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10

Balance Sheet Data:

Working capital	\$ 218,090	\$167,028	\$ 86,261	\$ 81,830	\$102,405
Total assets	1,035,500	899,877	847,810	799,832	769,131
Long-term debt	98,159	89,020	88,097	89,857	75,238
Total debt	131,681	120,351	160,031	138,727	88,677

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Total shareholders' equity 707,381 594,157 507,819 483,639 485,036

Note: For a detailed description of the restatement, see Note 2 to the financial statements.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (As Restated)

Income and Expense Items as a Percentage of Net Sales

Year Ended December 31,	Restated 2003	2002	2001
	<u> </u>	<u> </u>	<u> </u>
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	75.7	75.5	73.4
Marketing and administrative expenses	10.3	9.9	10.3
Research and development expenses	3.1	3.0	3.4
Bad debt expenses	0.6	0.8	0.6
Restructuring charges	0.4	--	0.5
Write-down of impaired assets	<u>0.4</u>	<u>0.1</u>	<u>--</u>
Income from operations	9.5	10.7	11.8
Income before provision for taxes on income and minority interests	8.9	10.0	10.6

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Provision for taxes on income	2.4	2.7	3.1
Minority interests	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
Income before cumulative effect of accounting change		7.1	
	6.3		7.3
Cumulative effect of accounting change	<u>0.4</u>	<u>--</u>	<u>--</u>
Net income	5.9%	7.1%	7.3%
	===	===	===

Executive Summary

At Minerals Technologies, more than 85% of our sales are to customers in two industries: papermaking and steelmaking. The economic downturn of the past three years has had severe effects on the paper industry, by far our largest customer group, as paper mills have closed or taken significant downtime and the industry has consolidated. The effect on the steel industry has been even more dramatic, with several large steelmakers having sought bankruptcy protection. Although the overall economy began to improve in late 2003 and early 2004, the paper and steel industries have been slow to participate in the recovery, and have reduced their output while maintaining pricing pressure on their suppliers.

Even in this very difficult business environment, our sales increased by 8% from 2002 to 2003, about half of this increase being the favorable effect of foreign exchange. This was despite the loss of approximately 10 customers to bankruptcy, and the effect of an agreement with our largest customer, International Paper, which reduced our sales in the short run, but which we believe will add significant value over the next several years. Our operating income, essentially flat from 2001 to 2002, decreased in 2003 by 5% as a result of charges taken for workforce reductions and asset impairments. Our net income, however, after increasing 8% from 2001 to 2002, decreased 10% in 2003, primarily due to restructuring charges and the cumulative effect of an accounting change.

The comparison of our operating income and net income in the past three years has been affected by a number of factors:

- In 2001, we recorded restructuring charges of approximately \$3.4 million for workforce reductions;
- In 2002, we recorded an impairment charge of \$0.8 million related to a satellite PCC plant at a paper mill which was permanently shut down;
- We adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," in the first quarter of 2003, which resulted in a charge to earnings of about \$3.4 million, net of tax and annual ongoing costs of approximately \$0.04 per share;
- The impact of the revisions to the International Paper contracts reduced earnings by approximately \$0.12 per share in 2003;
- In the fourth quarter of 2003, we recorded charges relating to a reduction of approximately 3% in our worldwide workforce; the planned closure of the facility at River Rouge, Michigan, which we acquired in 2001 as part of the refractory business of Martin Marietta Materials; and the retirement of some SYNSIL^{®} product manufacturing assets, which had been made obsolete by improvements in the production process. The

total effect was to reduce pretax income by about \$6.5 million.

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 steelmaking. Our customers continue to face a very difficult business environment, and may experience further shutdowns or bankruptcies;

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- The recent wave of consolidations in the paper and steel industries concentrates purchasing power in the hands of fewer customers, increasing pricing pressure on suppliers such as MTI;
- Most of our PCC sales are under long-term contracts with paper companies at whose mills we operate satellite PCC plants; when they reach their expiration dates these contracts may not be renewed, or may be renewed on terms less favorable to us;
- The cost of employee benefits, particularly health insurance and pension expense, has risen significantly in recent years and continues to do so;
- Although the *SYNSIL*^{®} products family has produced favorable reactions from potential customers and we have signed one supply contract, this product line is not yet profitable and its commercial viability cannot be assured; 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 difficulties, we are optimistic about the opportunities for continued growth that are open to us, including:

- Increasing our sales of PCC for paper by further penetration of the markets for paper filling at both free sheet and groundwood mills;
- Increasing our sales of PCC for paper coating, particularly from the coating PCC facility under construction in Walsum, Germany, which we expect will be completed in September 2004;
- Continuing research and development activities for new products, in particular our joint project with International Paper to develop and implement a filler-fiber composite technology;
- Achieving market acceptance of the *SYNSIL*^{®} family of synthetic silicate materials for the glass industry;
- Increase market penetration in the Refractories segment through higher value specialty products and application systems.

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

Restatement of Previously Issued Financial Statements

We are filing this Form 10-K/A to reflect a revision to the accounting treatment of the reversal in 2003 of tax reserves for potential exposure items no longer necessary due to the expiration of the statute of limitations on our U.S. tax returns for earlier years. As a result of this technical correction, we are restating our audited financial statements for the fiscal year ended December 31, 2003.

During the third and fourth quarters of 2003, we reversed tax reserves no longer necessary due to the expiration of the statute of limitations on our U.S. tax returns for earlier years. In our Annual Report on Form 10-K for the year ended December 31, 2003, we reported that this reversal resulted in a reduction to the income tax provision of approximately \$15 million and a reduction to the overall effective tax rate for 2003 from 26.4% to 5.7%. This amendment reflects our determination that the reversal of such tax reserves should be treated as an equity transaction and reflected as an increase in additional paid-in capital because such tax reserves were established for potential exposure items related to the tax bases of assets caused by the initial public offering of our common stock in October 1992. For a detailed description of the effect of the restatement of the financial statements see Note 2 to the financial statements.

This technical restatement has no impact on our income from operations, cash flows, or assets and liabilities. In addition, the original treatment or the restatement had no effect on any payments under our officer and management compensation plans.

Results Of Operations

Sales

(Dollars in millions)	% of			% of			% of	
	2003	Total Sales	Growth	2002	Total Sales	Growth	2001	Total Sales
<u>Net Sales</u>								
U.S..	\$499.9	61.4%	3.7%	\$482.2	64.1%	8.9%	\$442.7	64.7%
International	\$313.8	38.6%	16.0%	\$270.5	35.9%	11.9%	\$241.7	35.3%
PCC Products	\$436.1	53.6%	3.1%	\$423.0	56.2%	6.8%	\$396.1	57.9%
Processed Minerals Products	\$121.0	14.9%	24.6%	\$ 97.1	12.9%	11.4%	\$ 87.2	12.7%
Specialty Minerals Segment	\$557.1	68.5%	7.1%	\$520.1	69.1%	7.6%	\$483.3	70.6%
Refractories Segment	\$256.6	31.5%	10.3%	\$232.6	30.9%	15.7%	\$201.1	29.4%
Net Sales	\$813.7	100.0%	8.0%	\$752.7	100.0%	10.0%	\$684.4	100.0%

Worldwide net sales in 2003 increased 8% from the previous year to \$813.7 million. Foreign exchange had a favorable impact on sales of approximately \$32.6 million or 4 percentage points of growth. Sales in the Specialty Minerals segment, which includes the PCC and Processed Minerals product lines, increased 7.1% to \$557.1 million compared with \$520.1 million for the same period in 2002. Sales in the Refractories segment grew 10.3% over the previous year to \$256.6 million. In 2002, worldwide net sales increased 10.0% to \$752.7 million from \$684.4 million in the prior year. Specialty Minerals segment sales increased approximately 7.6% and Refractories segment sales increased approximately 15.7% in 2002.

Worldwide net sales of PCC in 2003 increased 3.1% to \$436.1 million from \$423.0 million in the prior year. Paper PCC volumes grew slightly for the full year with volumes in excess of 3.4 million tons. In 2003, United States

printing and writing paper shipments were down 2.8 percent, and demand for uncoated freesheet, our largest market for PCC was down 1 percent, compared with 2002. Sales of PCC for paper were adversely affected by these decreases in production. In addition, one paper mill at which we have a satellite plant in Millinocket, Maine, has been idled since December 2002. The implementation of the International Paper agreements also had a negative impact on sales. However, the favorable effect of foreign exchange more than offset these factors. In the third quarter we also began operation of a one-unit PCC plant in Malaysia at a paper mill owned by Sabah Forest Industries Sdn. Bhd. A unit represents between 25,000 to 35,000 tons of annual PCC production capacity. Sales of Specialty PCC decreased slightly because of poor industry conditions and competition in the calcium supplement market from ground calcium carbonate. PCC sales in 2002 increased approximately 6.8% to \$423.0 million from \$396.1 million in 2001. Paper PCC sales and volumes grew 8% for the full year, even though the paper industry was affected adversely by consolidations, shutdowns and slowdowns.

Net sales of Processed Minerals products in 2003 increased 24.6% to \$121.0 million from \$97.1 million in 2002. This increase was primarily attributable to the acquisition of Polar Minerals Inc. Full year sales excluding Polar Minerals increased approximately 9% due to strong demand from the residential construction-related industries and from new polymer and health-care applications for our talc products. Processed Minerals net sales in 2002 increased 11.4% to \$97.1 million from \$87.2 million in 2001.

Net sales in the Refractories segment in 2003 increased 10.3% to \$256.6 million from \$232.6 million in the prior year. The increase in sales for the Refractories segment was primarily attributable to increased sales of equipment and application systems in Europe and the favorable impact of foreign exchange. In 2002, net sales in the Refractories segment increased 15.7% from the prior year. The increase in sales in 2002 was attributable primarily to the 2001 acquisitions of the Martin Marietta refractories business and Rijnstaal B.V. business, which more than offset unfavorable economic conditions in the worldwide steel industry.

Net sales in the United States was \$499.9 million in 2003, approximately 3.7% higher than in the prior year. Increased sales from the acquisitions were partially offset by the aforementioned weakness in the steel and paper industries. International sales in 2003 increased 16.0% primarily as a result of the impact of foreign exchange. In 2002, domestic net sales were 9% higher than the prior year due primarily to acquisitions, and international sales were approximately 12% greater than in the prior year primarily due to the international expansion of our PCC product line and acquisitions.

On May 28, 2003, we reached a two-part agreement with International Paper Company ("IP") that extended eight satellite precipitated calcium carbonate plant supply contracts and gave us an exclusive license to patents held by IP relating to the use of novel fillers, such as PCC-fiber composites. We made a one-time \$16 million payment to IP in exchange for the contract extensions and technology license. Approximately \$15.8 million of this payment was attributed to the revisions to the contracts, including extensions of their lives, and will be amortized as a reduction of sales over the remaining lives of the extended contracts. The result was a reduction of sales of approximately \$1.3 million in 2003, an anticipated overall reduction of approximately \$1.8 million per year over the next five years, and smaller reductions thereafter over the remaining lives of the contracts. In addition, prices were adjusted at certain of the IP facilities covered by the contract extensions. The overall impact of the revisions to the IP contracts was to reduce earnings by approximately \$0.12 per share in 2003.

In October 2003, we signed our first commercial contract with a major glass manufacturer for use of our SYNSIL[®] products.

Operating Costs and Expenses

Dollars in Millions	2003	Growth	2002	Growth	2001
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Cost of goods sold	\$615.7	8.4%	\$567.9	13.0%	\$502.5
Marketing and administrative	83.8	12.9%	\$ 74.2	5.2%	\$ 70.5
Research and development	25.1	10.6%	\$ 22.7	(3.4%)	\$ 23.5
Bad debt expenses	5.3	(14.5%)	\$ 6.2	59.0%	\$ 3.9
Restructuring charges	3.3	*	\$ --	*	\$ 3.4
Write-down of impaired assets	3.2	*	\$ 0.8	*	\$ --

* Percentage not meaningful

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Cost of goods sold was 75.7% of sales compared with 75.5% in the prior year. Our production margin increased at approximately the same rate as sales. In the Specialty Minerals segment, production margins increased 2% despite a 7% sales growth. Margins in this segment were affected by the shutdown of the Millinocket satellite PCC plant, continuing development costs in the coating PCC program, the effect of the revisions to the IP contracts, and weakness in the Specialty PCC product line. In the Refractories segment, production margins increased 19%, almost double the sales growth. This was due to an improved product mix, increased equipment sales, and improved manufacturing operations.

Marketing and administrative costs increased 12.9% in 2003 to \$83.8 million and represented 10.3% of net sales from 9.9% of net sales in 2002. The Refractories segment increased marketing expenses to support worldwide business development efforts. In addition, we realized higher information technology costs associated with the implementation of a new global enterprise resource planning system, and incurred higher employee benefit costs, particularly pension and medical expenses. In 2002, marketing and administrative costs increased 5.2% to \$74.2 million and decreased to 9.9% of net sales from 10.3% of net sales in 2001.

Research and development expenses increased 10.6% to \$25.1 million and represented 3.1% of net sales due to increased product development activities in both segments. In 2002, research and development expenses decreased 3.4% and represented 3.0% of sales. This decrease was primarily the result of the restructuring, a decrease in PCC trial activity and a shift of *SYNSIL*^{®} product activities from development to production.

We recorded bad debt expenses of \$5.3 million and \$6.2 million in 2003 and 2002, respectively. These charges were primarily related to additional provisions associated with potential risks to our customers in the steel, paper and other industries and several customer bankruptcy filings.

During the fourth quarter of 2003, we restructured our operations to reduce operating costs and improve efficiency. This resulted in a fourth quarter restructuring charge of \$3.3 million. The restructuring charges relate to workforce reductions from all business units throughout our worldwide operations and the termination of certain leases.

During the fourth quarter of 2003, we recorded a write-down of impaired assets of \$3.2 million. The impairment charges are related to the planned closure of our operations in River Rouge, Michigan, in 2004 and the retirement of certain *SYNSIL*^{®} assets that have been made obsolete. In 2002, we recorded a write-down of impaired assets of \$0.8 million for a satellite plant that ceased operations.

Income from Operations

Dollars in Millions	<u>2003</u>	<u>Growth</u>	<u>2002</u>	<u>Growth</u>	<u>2001</u>
Income from operations	\$77.2	(4.6%)	\$80.9	0.4%	\$80.6

Income from operations in 2003 decreased 4.6% to \$77.2 million from \$80.9 million in 2002. Income from operations decreased to 9.5% of sales as compared with 10.7% of sales in 2002. This decrease was primarily due to the aforementioned restructuring and impairment costs. Excluding these charges, income from operations was 10.3% of net sales and increased 3.5%.

Income from operations for the Specialty Minerals segment decreased 7.7% to \$55.4 million and was 9.9% of its net sales. Excluding the restructuring and impairment asset charges, operating income of this segment was 10.6% of its net sales and down 1.4% from the prior year. The margins of this segment continue to be affected in the near term by the IP agreement and the Millinocket temporary shutdown. Operating income for the Refractories segment increased 4.5% to \$21.8 million and was 8.5% of its net sales. Excluding the restructuring and impairment of asset charges, operating income of this segment was 9.6% of its net sales and increased 17.8% from the prior year. The improvement in operating income was primarily due to an improved product mix, increased equipment sales, and more efficient manufacturing operations.

Non-Operating Deductions

Dollars in Millions	<u>2003</u>	<u>Growth</u>	<u>2002</u>	<u>Growth</u>	<u>2001</u>
Non-operating deductions, net	\$4.9	(3.9%)	\$5.1	(35.4)%	\$7.9

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Non-operating deductions decreased 3.9% from the prior year. This decrease was due to lower interest expense and lower average borrowings in 2003 when compared with 2002. In 2002, interest expense decreased from 2001 due primarily to lower average borrowings than in 2001.

Provision for Taxes on Income

Dollars in Millions	<u>Restated 2003</u>	<u>Growth</u>	<u>2002</u>	<u>Growth</u>	<u>2001</u>
Provision for taxes on income	\$19.1	(5.4%)	\$20.2	(4.3)%	\$21.1

The effective tax rate decreased to 26.4% in 2003 compared with 26.7% in 2002. The effective tax rate was 29.1% in 2001.

Minority Interests

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Dollars in Millions	2003	Growth	2002	Growth	2001
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Minority interests	\$1.6	(11.1%)	\$1.8	5.9%	\$1.7

The consolidated joint ventures continue to operate profitably but decreased approximately \$0.2 million from the prior year due to higher support costs at our joint venture in Indonesia.

Net Income

Dollars in Millions	Restated 2003	Growth	2002	Growth	2001
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income	\$48.2	(10.4%)	\$53.8	8.0%	\$49.8

Income before the cumulative effect of an accounting change decreased 3.9% to \$51.7 million from \$53.8 million in 2002. This decrease was primarily due to the aforementioned restructuring and impairment costs. Diluted earnings per common share before the cumulative effect of the accounting change decreased 3.1% to \$2.53 compared with \$2.61 in 2002.

Effective January 1, 2003, we adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 establishes the financial accounting and reporting for obligations associated with the retirement of long-lived assets and the associated asset retirement costs. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

Upon adoption of SFAS No. 143, we recorded a non-cash, after-tax charge to earnings of approximately \$3.4 million for the cumulative effect of this accounting change related to retirement obligations associated with our PCC satellite facilities and mining properties, both within the Specialty Minerals segment. As a result of this pronouncement, we recorded in cost of goods sold additional depreciation and accretion expenses of approximately \$1.0 million in 2003. The pro forma effect on results, assuming that SFAS No. 143 were applied retroactively, would be a non-cash, after-tax charge to earnings of approximately \$0.5 million in 2002.

Net income decreased 10.4% in 2003 to \$48.2 million. In 2002, net income increased 8.0% to \$53.8 million. Earnings per common share, on a diluted basis, decreased 9.6% to \$2.36 in 2003 as compared with \$2.61 in the prior year.

Outlook

In 2003, despite pronouncements of economic recovery, we continued to see weakness in the two main industries we serve - paper and steel. However, unlike a number of manufacturers, we continue to show growth in sales and net income. We are hopeful that the improvement in the rest of the U.S. economy will carry through to the paper and steel industries, and feel confident that we have taken the necessary steps to position ourselves for continued growth and improved profitability in the coming year.

We continue to be affected by negative factors in the industries we primarily serve:

- In 2003, the PCC business was affected by paper mill shutdowns, curtailments in production due to weakened demand, and the temporary shutdown of the satellite PCC plant in Maine.

- The steel industry continued to experience difficulties in 2003 as several steel manufacturers ceased operations and eight North American steel companies filed for bankruptcy protection.

However, despite this difficult market environment, we were able to achieve low double-digit operating margins. Our operating margin as a percentage of sales, before restructuring and impairment of asset charges, declined to 10.3% in 2003 as compared with 10.8% in 2002. Reported operating income as a percentage of sales was 9.5% in 2003 as compared with 10.7% in 2002.

In 2004, we plan to continue our focus on the following growth strategies:

- Increase market penetration of PCC in paper filling at both free sheet and groundwood mills.
- Increase penetration of PCC into the paper coating market.
- Emphasize higher value specialty products and application systems to increase market penetration in the Refractories segment.
- Continue selective acquisitions to complement our existing businesses.
- Continue research and development and marketing efforts for new and existing products.

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

In 2003, we added one unit of production capacity for PCC from a satellite plant built at a paper mill owned by Sabah Forest Industries in Malaysia. This plant became operational in the third quarter of 2003. In addition, we added one unit of capacity through an expansion at an existing satellite PCC facility.

In August 2003, we announced that our merchant PCC plant in Walsum, Germany will be operational in September 2004. The project was announced in May 2001, and since then, we have received the necessary regulatory, planning and permitting approvals from state and local agencies. The initial capacity of the modular plant will be 125,000 metric tons of PCC for paper coating.

We also made the following acquisition in 2003:

- On September 15, 2003, the assets of ISA Manufacturing Inc., a company that produces pre-cast shapes primarily for the steel industry.

In 2004, we expect additional expansions at existing satellite PCC plants to occur and also expect to sign contracts for new satellite PCC plants.

As we continue to expand our operations overseas, we face the inherent risks of doing business abroad, including inflation, fluctuations in interest rates and currency exchange rates, changes in applicable laws and regulatory requirements, export and import restrictions, tariffs, nationalization, expropriation, limits on repatriation of funds, civil unrest, terrorism, unstable governments and legal systems, and other factors. Some of our operations are located in areas that have experienced political or economic instability, including Indonesia, Israel, Brazil, Thailand, China and South Africa. In addition, our performance depends to some extent on that of the industries we serve, particularly the paper manufacturing, steel manufacturing, and construction industries.

Our sales of PCC are predominantly pursuant to long-term contracts, initially ten years in length, with paper companies at whose mills we operate satellite PCC plants. The terms of many of these agreements have been extended, often in connection with an expansion of the satellite PCC plant. Failure of a number of our customers to

renew existing agreements on terms as favorable to us as those currently in effect could cause our future growth rate to differ materially from our historical growth rate, and could also result in impairment of the assets associated with the PCC plant.

There is presently one satellite location at which the contract with the host mill has expired and one location, representing less than one unit of PCC production, at which the host mill has informed us that the contract will not be renewed upon its expiration in 2004. We continue to supply PCC at both of these locations. At the location at which the contract has expired, we hope to reach agreement on a long-term extension of the contract; however, there can be no assurance that these negotiations will be successful.

In addition, Great Northern Paper, Inc. ceased operations at its two paper mills in Millinocket and East Millinocket, Maine, which were served by a PCC plant operated by us. Great Northern Paper filed for bankruptcy protection on January 9, 2003, and on April 29, 2003 the paper mills were sold to Brascan Corporation, the parent company of Nexfor Fraser Papers Inc. The East Millinocket mill has resumed operations, and we are supplying it from other nearby PCC production facilities. Brascan has announced its intention to begin production at the Millinocket mill later in 2004 where our satellite plant is located. If the Millinocket mill does not resume production, we could incur an impairment charge of approximately \$10 million.

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We have a consolidated interest in two joint venture companies that operate satellite PCC plants at paper mills owned by subsidiaries of Asia Pulp & Paper Company Ltd. ("APP"), one at Perawang, Indonesia, and one at Dagang, China. APP is a multinational pulp and paper company whose current financial difficulties have been widely publicized. While APP is negotiating with its creditors, the Perawang and Dagang facilities have remained in operation at levels consistent with the prior year. Both mills are continuing to use our PCC and to satisfy their obligations to the joint ventures. However, there can be no assurance that our operations at these paper mills will not be adversely affected by APP's financial difficulties in the future. Our net investment in these satellite plants was approximately \$4.4 million at December 31, 2003.

Liquidity and Capital Resources

Cash flows in 2003 were provided from operations and proceeds from stock option exercises. The cash was applied principally to fund \$52.7 million of capital expenditures and purchases of common shares for treasury. Cash provided from operating activities amounted to \$100.1 million in 2003 as compared with \$117.8 million in 2002. The reduction in cash from operations was primarily due to the IP payment of \$16 million in exchange for customer contract extensions and a technology license. Included in cash flow from operations was pension plan funding of approximately \$20.8 million, \$20.2 million, and \$10.7 million for the years ended December 31, 2003, 2002 and 2001, respectively.

We expect to utilize our cash reserves to support the aforementioned growth strategies.

On May 31, 2003, we acquired land and limestone ore reserves from the Cushenbury Mine Trust for approximately \$17.5 million. Approximately \$6.1 million was paid at the closing and \$11.4 million was financed through an installment obligation. The average interest rate on this obligation is approximately 4.25%. The principal payments are as follows: 2004 - \$0.8 million; 2005 - \$0.9 million; 2006 - \$0.9 million; 2007 - \$0.9 million; 2008 - \$6.5 million; 2013 - \$1.4 million.

On February 22, 2001, the Board authorized our Management Committee to repurchase, at its discretion, up to \$25 million in additional shares per year over the following three years. As of December 31, 2003, we had repurchased approximately 619,500 shares under this program at an average price of approximately \$40 per share.

On October 23, 2003, our Board of Directors authorized our Management Committee, at its discretion, to repurchase up to \$75 million in additional shares over the next three-year period.

On January 22, 2004, our Board of Directors declared a regular quarterly dividend on our common stock of \$0.05 per share. The dividend is an increase from the amount we have historically paid, which had been a quarterly dividend of \$0.025 per share since we became a publicly owned company in October 1992. No dividend will be payable unless declared by the Board and unless funds are legally available for payment thereof.

We have \$110 million in uncommitted short-term bank credit lines, of which \$30 million was in use at December 31, 2003. We anticipate that capital expenditures for 2004 should approximate \$80 million, principally related to the construction of PCC plants and other opportunities that meet our strategic growth objectives. 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: 2004 - \$3.2 million; 2005 - \$3.8 million; 2006 - \$54.0 million; 2007 - \$2.0 million; 2008 - \$7.0 million; thereafter - \$31.3 million.

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 accounting principles generally accepted in the United States. 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, goodwill and other intangible 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.

We believe the following critical accounting policies require us to make significant judgments and estimates in the preparation of our consolidated financial statements:

- Revenue recognition: Revenue from sale of products is recognized at the time the goods are shipped and title passes to the customer. In most of our PCC contracts, the price per ton is based upon the total number of tons sold to the customer during

the year. Under those contracts, the price billed to the customer for shipments during the year is based on periodic estimates of the total annual volume that will be sold to the customer. Revenues are adjusted at the end of each year to reflect the actual volume sold.

- Allowance for doubtful accounts: Substantially all of our accounts receivable are due from companies in the paper, construction and steel industries. Accounts receivable are reduced by an allowance for amounts that

may become uncollectible in the future. Such allowance is established through a charge to the provision for bad debt expenses. We recorded bad debt expenses of \$5.3 million, \$6.2 million, and \$3.9 million in 2003, 2002 and 2001, respectively. These charges were much higher than historical levels and were primarily related to bankruptcy filings by some of our customers in the paper and steel industries and to additional provisions associated with potential risks in the paper, steel and other industries. In addition to specific allowances established for bankrupt customers, we also analyze the collection history and financial condition of our other customers considering current industry conditions and determine whether an allowance needs to be established or increased.

- Property, plant and equipment, goodwill, intangible and other long-lived assets: Property, plant and equipment are amortized over their useful lives. Useful lives are based on management's estimates of the period that the assets can generate revenue, which does not necessarily coincide with the remaining term of a customer's contractual obligation to purchase products made using those assets. Our sales of PCC are predominantly pursuant to long-term contracts, initially ten years in length, with paper mills at which we operate satellite PCC plants. The terms of many of these agreements have been extended, often in connection with an expansion of the satellite PCC plant. We also continue to supply PCC at one location at which the PCC contract has expired. Failure of a PCC customer to renew an agreement or continue to purchase PCC from our facility could result in an impairment of assets charge at such facility.

In the third quarter of 2002, we reduced the useful lives of satellite PCC plants at International Paper Company's ("IP") mills due to an increased risk that some or all of these PCC contracts would not be renewed. As a result of this change, we also reviewed the useful lives of the assets at our remaining satellite PCC facilities and other plants. During the first quarter of 2003, we revised the estimated useful lives of machinery and equipment pertaining to our natural stone mining and processing plants and chemical processing plants from 12.5 years (8%) to 15 years (6.67%) and reduced the useful lives of buildings at certain satellite PCC facilities from 25 years (4%) to 15 years (6.67%). We also reduced the estimated useful lives of certain software-related assets due to implementation of a new global enterprise resource planning system. During the second quarter of 2003, we reached an agreement with IP that extended eight PCC supply contracts and therefore extended the useful lives of the satellite PCC plants at those IP mills. The net effect of the changes in estimated useful lives, including the deceleration of depreciation at the IP plants, was an increase to diluted earnings per share of approximately \$0.08 in 2003.

- Valuation of long-lived assets, goodwill and other intangible assets: We assess the possible impairment of long-lived assets and identifiable intangibles whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill and other intangible assets with indefinite lives are reviewed for impairment at least annually in accordance with the provisions of SFAS No. 142. Factors we consider important that could trigger an impairment review include the following:
 - ◆ significant under-performance relative to historical or projected future operating results;
 - ◆ significant changes in the manner of use of the acquired assets or the strategy for the overall business;
 - ◆ significant negative industry or economic trends.

When we determine that the carrying value of intangibles, long-lived assets or goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment by our ability to recover the carrying amount of the assets from expected future operating cash flow on a discounted basis. Net intangible assets, long-lived assets, and goodwill amounted to \$621.6 million as of December 31, 2003.

- Accounting for income taxes: As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves

estimating actual current tax exposure together with assessing temporary differences resulting from differing treatments of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the Statement of Income.

- **Pension Benefits:** We sponsor pension and other retirement plans in various forms covering substantially all employees who meet eligibility requirements. Several statistical and other factors which attempt to estimate future events are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate, expected return on plan assets and rate of future compensation increases as determined by us, within certain guidelines. Our assumptions reflect our historical experience and management's best judgement regarding future expectations. In addition,

our actuarial consultants also use subjective factors such as withdrawal and mortality rates to estimate these factors. The actuarial assumptions used by us may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants, among other things. Differences from these assumptions may result in a significant impact to the amount of pension expense/liability recorded by us.

For a detailed discussion on the application of these and other accounting policies, see "Summary of Significant Accounting Policies" in the "Notes to the Consolidated Financial Statements" in Item 15 of this Annual Report on Form 10-K, beginning on page F-6. This discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this report.

Cautionary Factors That May Affect Future Results

The disclosure and analysis set forth in this report contains certain forward-looking statements, particularly statements relating to future actions, future performance or results of current and anticipated products, sales efforts, expenditures, and financial results. From time to time, the Company also provides forward-looking statements in other publicly-released materials, both written and oral. Forward-looking statements provide current expectations and forecasts of future events such as new products, revenues and financial performance, and are not limited to describing historical or current facts. They can be identified by the use of words such as "expects," "plans," "anticipates," "will" and other words and phrases of similar meaning.

Forward-looking statements are necessarily based on assumptions, estimates and limited information available at the time they are made. A broad variety of risks and uncertainties, both known and unknown, as well as the inaccuracy of assumptions and estimates, can affect the realization of the expectations or forecasts in these statements. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially.

The Company undertakes no obligation to update any forward-looking statements. Investors should refer to the Company's subsequent filings under the Securities Exchange Act of 1934 for further disclosures.

As permitted by the Private Securities Litigation Reform Act of 1995, the Company is providing the following cautionary statements which identify factors that could cause the Company's actual results to differ materially from historical and expected results. It is not possible to foresee or identify all such factors. Investors should not consider this list an exhaustive statement of all risks, uncertainties and potentially inaccurate assumptions.

- Historical Growth Rate

Continuance of the historical growth rate of the Company depends upon a number of uncertain events, including the outcome of the Company's strategies of increasing its penetration into geographic markets such as Asia and Europe; increasing its penetration into product markets such as the market for paper coating pigments and the market for groundwood paper pigments; increasing sales to existing PCC customers by increasing the amount of PCC used per ton of paper produced; and developing, introducing and selling new products and acquisitions. Difficulties, delays or failures of any of these strategies could cause the future growth rate of the Company to differ materially from its historical growth rate.

- Contract Renewals

The Company's sales of PCC are predominantly pursuant to long-term agreements, generally ten years in length, with paper mills at which the Company operates satellite PCC plants. The terms of many of these agreements have been extended, often in connection with an expansion of the satellite plant. Failure of a number of the Company's customers to renew existing agreements on terms as favorable to the Company as those currently in effect could cause the future growth rate of the Company to differ materially from its historical growth rate, could have a substantial adverse effect on the Company's results of operations, and could also result in impairment of the assets associated with the PCC plant.

- Consolidation in Paper Industry

Several consolidations in the paper industry have taken place in recent years. These consolidations could result in partial or total closure of some paper mills at which the Company operates PCC satellites. Such closures would reduce the Company's sales of PCC, except to the extent that they resulted in shifting paper production and associated purchases of PCC to another location served by the Company. There can be no assurance, however, that this will occur. In addition, such consolidations concentrate purchasing power in the hands of a smaller number of papermakers, enabling them to increase pressure on suppliers, such as the Company. This increased pressure could have an adverse effect on the Company's results of operations in the future.

- Litigation; Environmental Exposures

The Company's operations are subject to international, federal, state and local governmental, tax and other laws and regulations, and potentially to claims for various legal, environmental and tax matters. The Company is currently a party to various litigation matters. While the Company carries liability insurance which it believes to be appropriate to its businesses, and has provided reserves for such matters which it believes to be adequate, an unanticipated liability arising out of such a

In addition, future events, such as changes in or modifications of interpretations of existing laws and regulations or enforcement policies or further investigation or evaluation of the potential health hazards of certain products may give rise to additional compliance and other costs that could have a material adverse effect on the Company.

- New Products

The Company is engaged in a continuous effort to develop new products and processes in all of its product lines. Difficulties, delays or failures in the development, testing, production, marketing or sale of such new products could cause actual results of operations to differ materially from expected results.

- Competition; Protection of Intellectual Property

Particularly in its PCC and Refractory product lines, the Company's ability to compete is based in part upon proprietary knowledge, both patented and unpatented. The Company's ability to achieve anticipated results depends in part on its ability to defend its intellectual property against inappropriate disclosure as well as against infringement. In addition, development by the Company's competitors of new products or technologies that are more effective or less expensive than those the Company offers could have a material adverse effect on the Company's financial condition or results of operations.

- Risks of Doing Business Abroad

As the Company expands its operations overseas, it faces the increased risks of doing business abroad, including inflation, fluctuation in interest rates and currency exchange rates, changes in applicable laws and regulatory requirements, export and import restrictions, tariffs, nationalization, expropriation, limits on repatriation of funds, civil unrest, terrorism, unstable governments and legal systems, and other factors. Adverse developments in any of these areas could cause actual results to differ materially from historical and expected results.

- Availability of Raw Materials

The Company's ability to achieve anticipated results depends in part on having an adequate supply of raw materials for its manufacturing operations, particularly lime and carbon dioxide for the PCC product line, magnesia for Refractory operations and talc ore for the Processed Minerals product line, and on having adequate access to the ore reserves at its mining operations. Unanticipated changes in the costs or availability of such raw materials, or in the Company's ability to have access to its ore reserves, could adversely affect the Company's results of operations.

- Cyclical Nature of Customers' Businesses

The majority of the Company's sales are to customers in two industries, paper manufacturing and steel manufacturing, which have historically been cyclical. The Company's exposure to variations in its customers' businesses has been reduced in recent years by the growth in the number of plants it operates; by the diversification of its portfolio of products and services; and by its geographic expansion. Also, the Company has structured some of its long-term satellite PCC contracts to provide a degree of protection against declines in the quantity of product purchased, since the price per ton of PCC generally rises as the number of tons purchased declines. In addition, many of the Company's product lines lower its customers' costs of production or increase their productivity, which should encourage them to use its products. However, a sustained economic downturn in one or more of the industries or geographic regions that the Company serves, or in the worldwide economy, could cause actual results of operations to differ materially from historical and expected results.

Inflation

Historically, inflation has not had a material adverse effect on us. The contracts pursuant to which we construct and operate our satellite PCC plants generally adjust pricing to reflect increases in costs resulting from inflation.

Cyclical Nature of Customers' Businesses

The bulk of our sales are to customers in the paper manufacturing, steel manufacturing and construction industries, which have historically been cyclical. These industries encountered difficulties in 2003. The pricing structure of some of our long-term PCC contracts makes our PCC business less sensitive to declines in the quantity of product purchased. For this reason, and because of the geographical diversification of our business, our operating results to date have not been materially affected by the difficult economic environment. However, we cannot predict the economic outlook in the countries in which we do business, nor in the key industries we serve. There can be no assurance that a recession, in some markets or worldwide, would not have a significant negative effect on our financial position or results of operations.

Recently Issued Accounting Standards

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The FASB recently indicated that they would require stock-based employee compensation to be recorded as a charge to earnings beginning in 2005. We continue to monitor their progress on the issuance of this standard as well as evaluating our position with respect to current guidance.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. We had no such instruments as of December 31, 2003.

Item 7A. 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 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 25% of our bank debt bear interest at variable rates; therefore our results of operations would only be affected by interest rate changes to such bank debt outstanding. 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 are exposed to various market risks, including the potential loss arising from adverse changes in foreign currency exchange rates and interest rates. 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 \$2.2 million of foreign currencies as of December 31, 2003. These contracts mature between January and June of 2004. The fair value of these instruments at December 31, 2003 was an asset of \$0.1 million. We entered into three-year interest rate swap agreements with a notional amount of \$30 million that expire in January 2005. These agreements effectively convert a portion of our floating-rate debt to a fixed rate basis. The fair value of these instruments was a liability of approximately \$1.0 million at December 31, 2003.

Item 8. Financial Statements and Supplementary Data

The financial information required by Item 8 is contained in Item 15 of Part IV of this report.

Item 9A. Controls and Procedures

Within the 90 days prior to the date of this report, and under the supervision and with the 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 SEC filings.

Subsequent to the date the Company carried out its evaluation, there have been no significant changes in the Company's internal controls or in other factors which could significantly affect these controls.

PART IV

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

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

1. Financial Statements. The following Consolidated Financial Statements of Minerals Technologies Inc. and subsidiary companies and Independent Auditors' Report are set forth on pages F-2 to F-27.

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Consolidated Balance Sheet as of December 31, 2003 and 2002

Consolidated Statement of Income for the years ended December 31, 2003, 2002 and 2001

Consolidated Statement of Cash Flows for the years ended December 31, 2003, 2002 and 2001

Consolidated Statement of Shareholders' Equity for the years ended December 31, 2003, 2002 and 2001

Notes to the Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

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

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

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

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

3.1	- Restated Certificate of Incorporation of the Company (11)
3.2	- Restated By-Laws of the Company (7)
3.3	- Certificate of Designations authorizing issuance and establishing designations, preferences and rights of Series A Junior Preferred Stock of the Company (11)
4	- Rights Agreement, executed effective as of September 13, 1999 (the "Rights Agreement"), between Minerals Technologies Inc. and Chase Mellon Shareholders Services L.L.C., as Rights Agents, including as Exhibit B the forms of Rights Certificate and of Election to Exercise (5)
4.1	- Specimen Certificate of Common Stock (11)
10.1	- Asset Purchase Agreement, dated as of September 28, 1992, by and between Specialty Refractories Inc. and Quigley Company Inc. (2)
10.1(a)	- Agreement dated October 22, 1992 between Specialty Refractories Inc. and Quigley Company Inc., amending Exhibit 10.1 (3)
10.1(b)	- Letter Agreement dated October 29, 1992 between Specialty Refractories Inc. and Quigley Company Inc., amending Exhibit 10.1 (3)
10.2	- Reorganization Agreement, dated as of September 28, 1992, by and between the Company and Pfizer Inc (2)
10.2(a)	- Letter Agreement dated October 29, 1992 between the Company and Pfizer Inc, amending Exhibit 10.2 (3)
10.3	- Asset Contribution Agreement, dated as of September 28, 1992, by and between Pfizer Inc and Specialty Minerals Inc. (2)
10.4	- Asset Contribution Agreement, dated as of September 28, 1992, by and between Pfizer Inc and Barretts Minerals Inc. (2)
10.4(a)	- Agreement dated October 22, 1992 between Pfizer Inc, Barretts Minerals Inc. and Specialty Minerals Inc., amending Exhibits 10.3 and 10.4 (3)
10.5	- Form of Employment Agreement (9), together with schedule relating to executed Employment Agreements (1) (+)
10.5(a)	

- 10.6 - Form of Employment Agreement (6), together with schedule relating to executed Employment Agreements (8) (+)
- 10.7 - Form of Severance Agreement (6), together with schedule relating to executed Severance Agreements (1) (+)
- 10.8 - Company Employee Protection Plan, as amended August 27, 1999 (4) (+)
- 10.8 - Company Nonfunded Deferred Compensation and Unit Award Plan for Non-Employee Directors, as amended effective April 24, 2003 (10) (+)

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- 10.9 - 2001 Stock Award and Incentive Plan of the Company, as amended and restated effective October 18, 2001 (9) (+)
 - 10.10 - Company Retirement Plan, as amended and restated effective as of January 21, 2004 (11) (+)
 - 10.11 - Company Nonfunded Supplemental Retirement Plan, as amended effective April 24, 2003 (10) (+)
 - 10.12 - Company Savings and Investment Plan, as amended and restated October 18, 2001, effective January 1, 2001 (9) (+)
 - 10.13 - Company Nonfunded Deferred Compensation and Supplemental Savings Plan, as amended effective April 24, 2003 (10) (+)
 - 10.14 - Company Health and Welfare Plan, effective as of April 1, 2003 (10) (+)
 - 10.15 - Grantor Trust Agreement, dated as of December 29, 1994, between the Company and The Bank of New York, as Trustee (11) (+)
 - 10.16 - Note Purchase Agreement, dated as of July 24, 1996, between the Company and Metropolitan Life Insurance Company with respect to the Company's issuance of \$50,000,000 in aggregate principal amount of its 7.49% Guaranteed Senior Notes due July 24, 2006 (11)
 - 10.17 - Indenture, dated July 22, 1963, between the Cork Harbour Commissioners and Roofchrome Limited (2)
 - 10.18 - Agreement of Lease, dated as of May 24, 1993, between the Company and Cooke Properties Inc. (11)
 - 21.1 - Subsidiaries of the Company (11)
 - 23.1* - Consent of Independent Auditors
 - 31* - Rule 13a-14(a)/15d-14(a) Certifications
 - 32* - Section 1350 Certification

1. Incorporated by reference to exhibit so designated filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2002.
2. Incorporated by reference to the exhibit so designated filed with the Company's Registration Statement on Form S-1 (Registration No. 33-51292), originally filed on August 25, 1992.
3. Incorporated by reference to the exhibit so designated filed with the Company's Registration Statement on Form S-1 (Registration No. 33-59510), originally filed on March 15, 1993.
4. Incorporated by reference to the exhibit so designated filed with the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 1999.
5. Incorporated by reference to the exhibit so designated filed with the Company's current report on Form 8-K, filed September 3, 1999.

6. Incorporated by reference to the exhibit so designated filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2000.
7. Incorporated by reference to the exhibit so designated filed with the Company's Quarterly Report on Form 10-Q for the quarter ended September 24, 2000.
8. Incorporated by reference to the exhibit so designated filed with the Company's Quarterly Report on Form 10-Q for the quarter ended April 1, 2001.
9. Incorporated by reference to the exhibit so designated filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2001.
10. Incorporated by reference to the exhibit so designated filed with the Company's Quarterly Report on Form 10-Q for the quarter ended March 30, 2003.
11. Incorporated by reference to the exhibit so designated filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

(*) Filed herewith.

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

(b) Reports on Form 8-K

Minerals Technologies Inc. filed the following reports on Form 8-K during the fourth quarter of 2003:

1. A report on Form 8-K dated October 24, 2003 under Item 5, reporting the resignation of William C. Steere Jr. from the Board of Directors, and Item 12, reporting earnings for the quarter ended September 28, 2003.
2. A report on Form 8-K dated December 4, 2003 under Item 5, reporting fourth quarter pre-tax charges for restructuring and impairment of assets.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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/ Paul R. Saueracker
Paul R. Saueracker
Chairman of the Board and Chief Executive
Officer

August 4, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/Paul R. Saueracker</u> Paul R. Saueracker	Chairman of the Board and Chief Executive Officer (principal executive officer)	August 4, 2004
<u>/s/John A. Sorel</u> John A. Sorel	Senior Vice President-Finance and Chief Financial Officer (principal financial officer)	August 4, 2004
<u>/s/Michael A. Cipolla</u> Michael A. Cipolla	Vice President - Controller and Chief Accounting Officer (principal accounting officer)	August 4, 2004

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<u>/s/John B. Curcio</u> John B. Curcio	Director	August 4, 2004
<u>/s/Duane R. Dunham</u> Duane R. Dunham	Director	August 4, 2004
<u>/s/Steven J. Golub</u> Steven J. Golub	Director	August 4, 2004
<u>/s/Kristina M. Johnson</u>	Director	August 4, 2004

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Kristina M. Johnson

<u>/s/Michael F. Pasquale</u> Michael F. Pasquale	Director	August 4, 2004
<u>/s/John T. Reid</u> John T. Reid	Director	August 4, 2004
<u>/s/William C. Stivers</u> William C. Stivers	Director	August 4, 2004
<u>/s/Jean-Paul Valles</u> Jean-Paul Valles	Director	August 4, 2004

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MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES

The restated consolidated financial statements and supplementary data, including the notes to the restated consolidated financial statements set forth below have been revised to reflect the restatement and, except for these revisions, do not reflect events and developments subsequent to December 31, 2003.

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MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET

(thousands of dollars)

	December 31,	
	Restated 2003	2002
Assets		
Current assets:		
Cash and cash equivalents	\$ 90,515	\$ 31,762
Accounts receivable, less allowance for doubtful accounts: 2003 - \$7,010; 2002 -- \$7,079	147,600	129,608
Inventories	86,378	82,909
	<u>15,632</u>	<u>14,770</u>
Prepaid expenses and other current assets		
Total current assets	340,125	259,049
Property, plant and equipment, less accumulated depreciation and depletion	561,588	537,424
Goodwill	52,721	51,291
Prepaid benefit cost	46,251	31,916
	<u>34,815</u>	<u>20,197</u>
Other assets and deferred charges		
Total assets	\$1,035,500	\$ 899,877
	=====	=====
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt	\$ 30,347	\$ 30,000
Current maturities of long-term debt	3,175	1,331

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Accounts payable	44,217	37,435
Income taxes payable	--	18,176
Accrued compensation and related items	21,710	15,086
	<u>22,586</u>	<u>21,909</u>
Other current liabilities		
Total current liabilities	122,035	123,937
Long-term debt	98,159	89,020
Accrued postretirement benefits	20,385	19,869
Deferred taxes on income	51,617	48,183
	<u>35,923</u>	<u>24,711</u>
Other noncurrent liabilities		
	<u>328,119</u>	<u>305,720</u>
Total liabilities		
Commitments and contingent liabilities		
Shareholders' equity:		
Preferred stock, without par value; 1,000,000 shares authorized; none issued	--	--
Common stock at par, \$0.10 par value; 100,000,000 shares authorized; issued 27,422,472 shares in 2003 and 26,937,260 shares in 2002	2,742	2,694
Additional paid-in capital, as restated	225,512	190,144
Deferred compensation	(1,220)	--
Retained earnings, as restated	724,936	678,740
	<u>3,814</u>	<u>(35,034)</u>
Accumulated other comprehensive income (loss)	955,784	836,544
Less common stock held in treasury, at cost; 6,930,973 shares in 2003 and 6,781,473 shares in 2002	<u>248,403</u>	<u>242,387</u>
	<u>707,381</u>	<u>594,157</u>
Total shareholders' equity		
Total liabilities and shareholders' equity	\$1,035,500	\$ 899,877
	=====	=====

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

MINERALS TECHNOLOGIES INC. AND
SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF
INCOME

(thousands of dollars, except per share data)

	Year Ended December 31,		
	Restated		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net sales	\$813,743	\$752,680	\$684,419
Operating costs and expenses:			
Cost of goods sold	615,749	567,985	502,525
Marketing and administrative expenses	83,809	74,160	70,495
Research and development expenses	25,149	22,697	23,509
Bad debt expenses	5,307	6,214	3,930
Restructuring charges	3,323	--	3,403
	<u>3,202</u>	<u>750</u>	<u>--</u>
Write-down of impaired assets			
	<u>77,204</u>	<u>80,874</u>	<u>80,557</u>
Income from operations			
Interest income	836	1,172	835
Interest expense	(5,423)	(5,792)	(7,884)
	<u>(273)</u>	<u>(520)</u>	<u>(838)</u>
Other deductions))))
	<u>(4,860)</u>	<u>(5,140)</u>	<u>(7,887)</u>
Non-operating deductions, net))))

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Income before provision for taxes on income and minority interests	72,344	75,734	72,670
Provision for taxes on income	19,116	20,220	21,148
	<u>1,575</u>	<u>1,762</u>	<u>1,729</u>
Minority interests			
Income before cumulative effect of accounting change	51,653	53,752	49,793
Cumulative effect of accounting change, net of tax benefit of \$2,072	<u>3,433</u>	<u>—</u>	<u>—</u>
Net income	\$ 48,220	\$ 53,752	\$ 49,793
	=====	=====	=====

Earnings per share:

Basic:

Before cumulative effect of accounting change	\$ 2.56	\$ 2.66	\$ 2.54
Cumulative effect of accounting change	<u>(0.17)</u>	<u>—</u>	<u>—</u>
)			
Basic earnings per share	\$ 2.39	\$ 2.66	\$ 2.54
	=====	=====	=====

Diluted:

Before cumulative effect of accounting change	\$ 2.53	\$ 2.61	\$ 2.48
Cumulative effect of accounting change	<u>(0.17)</u>	<u>—</u>	<u>—</u>
)			
Diluted earnings per share	\$ 2.36	\$ 2.61	\$ 2.48
	=====	=====	=====

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

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

(thousands of dollars)

	Year Ended December 31,		
	Restated 2003	2002	2001
Operating Activities			
Net income	\$ 48,220	\$ 53,752	\$ 49,793
Adjustments to reconcile net income			
to net cash provided by operating activities:			
Cumulative effect of accounting change	3,433	--	--
Depreciation, depletion and amortization	66,340	68,960	66,518
Write-down of impaired assets	3,202	750	--
Loss on disposal of property, plant and equipment	1,472	1,301	19
Deferred income taxes	5,085	2,643	(131)
Bad debt expenses	5,307	6,214	3,930
Other	1,270	1,519	1,446
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(7,946)	1,143	(11,886)
Inventories	767	5,166	(2,182)
Prepaid expenses and other current assets	(12,299)	621	(9,173)
Prepaid benefit costs	(14,335)	(16,486)	(1,447)
Accounts payable	4,706	(5,542)	(1,077)
Income taxes payable	(3,841)	465	(144)
	<u>(1,293)</u>	<u>(2,668)</u>	<u>2,661</u>
Other)))
	<u>100,088</u>	<u>117,838</u>	<u>98,327</u>
Net cash provided by operating activities			
Investing Activities			
Purchases of property, plant and equipment	(52,665)	(37,107)	(63,078)
Proceeds from disposal of property, plant and equipment	1,874	280	5,193
	<u>(1,958)</u>	<u>(34,100)</u>	<u>(37,363)</u>
Acquisition of businesses, net of cash acquired)))
	<u>(52,749)</u>	<u>(70,927)</u>	<u>(95,248)</u>
Net cash used in investing activities)))
Financing Activities			
Proceeds from issuance of short-term and long-term debt	5,659	154,908	268,684
Repayment of short-term and long-term debt	(6,019)	(194,876)	(248,677)

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Purchase of common shares for treasury	(6,016)	(17,332)	(16,000)
Cash dividends paid	(2,024)	(2,026)	(1,960)
	<u>15,884</u>	<u>29,384</u>	<u>3,158</u>
Proceeds from issuance of stock under option plan	<u>7,484</u>	<u>(29,942)</u>	<u>5,205</u>
Net cash provided by (used in) financing activities)		
	<u>3,930</u>	<u>1,747</u>	<u>(1,930)</u>
Effect of exchange rate changes on cash and cash equivalents)	
Net increase in cash and cash equivalents	58,753	18,716	6,354
	<u>31,762</u>	<u>13,046</u>	<u>6,692</u>
Cash and cash equivalents at beginning of year			
Cash and cash equivalents at end of year	\$ 90,515	\$ 31,762	\$ 13,046
	=====	=====	=====
Non-cash Investing and Financing Activities:			
Property, plant and equipment acquired by incurring installment obligations	\$ 11,368	\$ --	\$ --
	=====	=====	=====
Property, plant and equipment additions related to asset retirement obligations	\$ 6,762	\$ --	\$ --
	=====	=====	=====

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

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MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional	Deferred	Retained	Accumulated	Treasury Stock		Total
	Shares	Par Value	Paid-in Capital			Compensation	Other Comprehensive Income (Loss)	Shares	
Balance as of January 1, 2001	<u>25,853</u>	<u>\$2,585</u>	<u>\$155,001</u>	\$ --	<u>\$579,181</u>	<u>\$(44,073)</u>	<u>(5,886)</u>	<u>\$(209,055)</u>	<u>\$483,639</u>
Comprehensive income:									
Net income	--	--	--	--	49,793	--	--	--	49,793
Currency translation adjustment	--	--	--	--	--	(11,896)	--	--	(11,896)
Minimum pension liability adjustment	--	--	--	--	--	500	--	--	500
				<u>--</u>	<u>--</u>	<u>174</u>	<u>--</u>	<u>--</u>	<u>174</u>
Net gain on cash flow hedges	<u>--</u>	<u>--</u>	<u>--</u>						

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				--	<u>49,793</u>	<u>(11,222)</u>	--	--	<u>38,571</u>
Total comprehensive income	--	--	--)					
Dividends declared	--	--	--	--	(1,960)	--	--	--	(1,960)
Employee benefit transactions	109	11	3,147	--	--	--	--	--	3,158
Income tax benefit arising from employee stock option plans	--	--	411	--	--	--	--	--	411
Purchase of common stock for treasury	--	--	--	--	--	--	<u>(462)</u>	<u>(16,000)</u>	<u>(16,000)</u>
	--	--	--)					
Balance as of December 31, 2001	25,962	2,596	158,559	--	627,014	(55,295)	(6,348)	(225,055)	507,819
Comprehensive income:									
Net income	--	--	--	--	53,752	--	--	--	53,752
Currency translation adjustment	--	--	--	--	--	22,137	--	--	22,137
Minimum pension liability adjustment	--	--	--	--	--	(829)	--	--	(829)
Cash flow hedges:									
Net derivative losses arising during the year	--	--	--	--	--	(968)	--	--	(968)
	--	--	--	--	--	(79)	--	--	(79)
Reclassification adjustment	--	--	--	--	--	20,261	--	--	74,013
Total comprehensive income	--	--	--	--	<u>53,752</u>				
Dividends declared	--	--	--	--	(2,026)	--	--	--	(2,026)
Employee benefit transactions	975	98	29,286	--	--	--	--	--	29,384
Income tax benefit arising from employee stock option plans	--	--	2,299	--	--	--	--	--	2,299
Purchase of common stock for treasury	--	--	--	--	--	--	<u>(433)</u>	<u>(17,332)</u>	<u>(17,332)</u>
	--	--	--	--	<u>678,740</u>				<u>594,157</u>
Balance as of December 31, 2002	<u>26,937</u>	<u>2,694</u>	<u>190,144</u>			<u>(35,034)</u>	<u>(6,781)</u>	<u>(242,387)</u>	
Comprehensive income:									
Net income, as restated	--	--	--	--	48,220	--	--	--	48,220
Currency translation adjustment	--	--	--	--	--	39,695	--	--	39,695
Minimum pension liability adjustment	--	--	--	--	--	(1,368)	--	--	(1,368)
Cash flow hedges:									
	--	--	--	--	--	<u>521</u>	--	--	<u>521</u>

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Net derivative gains arising during the year				--	<u>48,220</u>	<u>38,848</u>	--	--	<u>87,068</u>
Total comprehensive income	--	--	--						
Dividends declared	--	--	--	--	(2,024)	--	--	--	(2,024)
Employee benefit transactions	485	48	15,836	--	--	--	--	--	15,884
Income tax benefit arising from employee stock option plans	--	--	3,176	--	--	--	--	--	3,176
Reversal of income tax reserves (Note 2)	--	--	15,000	--	--	--	--	--	15,000
Issuance of restricted stock	--	--	1,356	(1,356)	--	--	--	--	--
Amortization of restricted stock	--	--	--	136	--	--	--	--	136
				<u>--</u>	<u>--</u>	<u>--</u>	<u>(150)</u>	<u>(6,016)</u>	<u>(6,016)</u>
Purchase of common stock for treasury	<u>--</u>	<u>--</u>	<u>--</u>)))	
Balance as of December 31, 2003, as restated	<u>27,422</u>	<u>\$2,742</u>	<u>\$225,512</u>	<u>\$(1,220)</u>	<u>\$724,936</u>	<u>\$ 3,814</u>	<u>(6,931)</u>	<u>\$(248,403)</u>	<u>\$707,381</u>
	=====	=====	=====	=====	=====	=====	=====	=====	=====

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

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

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

Use of Estimates

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

Business

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

Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. Cash equivalents amounted to \$1.1 million and \$3.8 million at December 31, 2003 and 2002, respectively.

Trade Accounts Receivable

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

Inventories

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

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Significant improvements are capitalized, while maintenance and repair expenditures are charged to operations as incurred. The Company capitalizes interest cost as a component of construction in progress. In general, the straight-line method of depreciation is used for financial reporting purposes and accelerated methods are used for U.S. and certain foreign tax reporting purposes. The annual rates of depreciation are 3% - 6.67% for buildings, 6.67% - 12.5% for machinery and equipment, 8% - 12.5% for furniture and fixtures and 12.5% - 25% for computer equipment and software-related assets.

Property, plant and equipment are amortized over their useful lives. Useful lives are based on management's estimates of the period that the assets can generate revenue, which does not necessarily coincide with the remaining term of a customer's contractual obligation to purchase products made using those assets. The Company's sales of PCC are predominantly pursuant to long-term contracts, initially ten years in length, with paper mills at which the Company operates satellite PCC plants. The terms of many of these agreements have been extended, often in connection with an expansion of the satellite PCC plant. The Company also continues to supply PCC at one location at which the PCC contract has expired. Failure of a PCC customer to renew an agreement or continue to purchase PCC from a Company facility could result in an impairment of assets charge at such facility.

In the third quarter of 2002, the Company reduced the useful lives of satellite PCC plants at International Paper Company's ("IP") mills due to an increased risk that some or all of these PCC contracts would not be renewed. As a result of this change, the Company also reviewed the useful lives of the assets at its remaining satellite PCC facilities and other plants. During the first quarter of 2003, the Company revised the estimated useful lives of machinery and equipment pertaining to its natural stone mining and processing plants and chemical processing plants from 12.5 years (8%) to 15 years (6.67%) and reduced the useful lives of buildings at certain satellite PCC facilities from 25 years (4%) to 15 years (6.67%). The Company also reduced the estimated useful lives of certain software-related assets due to implementation of a new global enterprise resource planning system. During the second quarter of 2003, the Company reached an agreement with IP that extended eight PCC supply contracts

MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

and therefore extended the useful lives of the satellite PCC plants at those IP mills. The net effect of the changes in estimated useful lives, including the deceleration of depreciation at the IP plants, was an increase to diluted earnings per share of approximately \$0.08 in 2003.

Depletion of mineral reserves is determined on a unit-of-extraction basis for financial reporting purposes and on a percentage depletion basis for tax purposes.

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

Accounting for the Impairment of Long-Lived Assets

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

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. On January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and other intangible assets with indefinite lives are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to the estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

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

Prior to the adoption of SFAS No. 142, goodwill was amortized on a straight-line basis over 20-25 years, and assessed for recoverability by determining whether the amortization of the goodwill balance over its remaining life could be recovered through undiscounted future operating cash flows of the acquired operation. All other intangible

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

Accounting for Asset Retirement Obligations

Effective January 1, 2003, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 establishes the financial accounting and reporting for obligations associated with the retirement of long-lived assets and the associated asset retirement costs. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

Derivative Financial Instruments

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

Revenue Recognition

Revenue from sale of products is recognized at the time the goods are shipped and title passes to the customer. In most of the Company's PCC contracts, the price per ton is based upon the total number of tons sold to the customer during the year. Under

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

those contracts the price billed to the customer for shipments during the year is based on periodic estimates of the total annual volume that will be sold to such customer. Revenues are adjusted at the end of each year to reflect the actual volume sold.

Foreign Currency

The assets and liabilities of most of the Company's international subsidiaries are translated into U.S. dollars using exchange rates at the respective balance sheet date. The resulting translation adjustments are recorded in accumulated other comprehensive loss in shareholders' equity. Income statement items are generally translated at average exchange rates prevailing during the period. Other foreign currency gains and losses are included in net income. International subsidiaries operating in highly inflationary economies translate nonmonetary assets at historical rates, while net monetary assets are translated at current rates, with the resulting translation adjustments included in net income.

Income Taxes

Income taxes are provided for based on the asset and liability method of accounting pursuant to SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using

enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

Research and Development Expenses

Research and development expenses are expensed as incurred.

Stock-Based Compensation

The Company has elected to recognize compensation costs on the intrinsic value of the equity instrument awarded as promulgated in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." The Company has disclosed in Note 2, "Stock-Based Compensation" the pro forma effect of the fair value method on net income and earnings per share.

Pension and Post-retirement Benefits

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

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

Earnings Per Share

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

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

Reclassifications

Certain reclassifications have been made to prior-year amounts to conform with the current year presentation.

Note 2. Restatement of Previously Issued Financial Statements

The Company has restated its consolidated balance sheet at December 31, 2003, and consolidated statements of income, cash flows, and shareholders' equity for the year ended December 31, 2003. The restatement also impacts the third and fourth quarters of 2003. The restated amounts for these quarters are presented in "Note 25 - Quarterly Financial Data (Unaudited)," below. The restatement is due to a revision to the accounting treatment of the reversal of tax reserves for potential exposure items no longer necessary due to the expiration of the statute of limitations on the Company's U.S. tax returns for earlier years.

During the third and fourth quarters of 2003, the Company reversed tax reserves no longer necessary due to the expiration of the statute of limitations on the Company's U.S. tax returns for earlier years. Accordingly, the Company previously reported that this

MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

reversal resulted in a reduction to the income tax provision of approximately \$15 million and a reduction to the overall effective tax rate for 2003 from 26.4% to 5.7%.

The Company has now determined that the reversal of such tax reserves should be treated as an equity transaction and should be reflected as an increase in additional paid-in capital of \$15 million because such tax reserves were established for potential exposure items related to the tax bases of assets caused by the initial public offering of the Company's common stock in October 1992.

This technical restatement has no impact on the income from operations, cash flows, or assets and liabilities of the Company. In addition, the original treatment or the restatement had no effect on any payments under the Company's officer and management compensation plans.

The following table presents the impact of the restatement adjustments on the Company's previously reported 2003 results on a condensed basis:

Condensed Consolidated Statement of Income	2003	
	As Previously Reported	As Restated
	<u> </u>	<u> </u>
Net sales	\$ 813,743	\$ 813,743
Operating costs and expenses	<u>736,539</u>	<u>736,539</u>
Income from operations	77,204	77,204
Non-operating deductions, net	<u>(4,860)</u>	<u>(4,860)</u>
Income before provisions for taxes		
on income and minority interests	72,344	72,344
Provision for taxes on income	4,116	19,116
Minority interests	<u>1,575</u>	<u>1,575</u>
Income before cumulative effect		
of accounting change	66,653	51,653
Cumulative effect of accounting change, net of tax benefit of \$2,072	<u>3,433</u>	<u>3,433</u>
Net income	<u>\$ 63,220</u>	<u>\$ 48,220</u>

Earning per share:	2003	
	As Previously Reported	As Restated
	<u> </u>	<u> </u>
Basic:		
Before cumulative effect of accounting change	\$ 3.30	\$ 2.56
Cumulative effect of accounting change	<u>(0.17)</u>	<u>(0.17)</u>
Basic earnings per share	<u>\$ 3.13</u>	<u>\$ 2.39</u>

Diluted:

Before cumulative effect of accounting change	\$ 3.26	\$ 2.53
Cumulative effect of accounting change	<u>(0.17)</u>	<u>(0.17)</u>
Diluted earnings per share	<u>\$ 3.09</u>	<u>\$ 2.36</u>

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

Condensed Consolidated Balance Sheet	December 31, 2003	
	As Previously Reported	As Restated
<u>Assets</u>		
Total assets	\$ <u>1,035,500</u>	\$ <u>1,035,500</u>
<u>Liabilities</u>		
Total liabilities	\$ <u>328,119</u>	\$ <u>328,119</u>
<u>Shareholders' Equity</u>		
Preferred stock	\$ --	\$ --
Common stock	2,742	2,742
Additional paid-in capital	210,512	225,512
Deferred compensation	(1,220)	(1,220)
Retained earnings	739,936	724,936
Accumulated other comprehensive income	<u>3,814</u>	<u>3,814</u>
	955,784	955,784
Less common stock held in treasury	<u>248,403</u>	<u>248,403</u>
Total shareholders' equity	<u>707,381</u>	<u>707,381</u>
Total liabilities and shareholders' equity	<u>\$ 1,035,500</u>	<u>\$ 1,035,500</u>

This restatement had no impact on the net cash provided by operating activities, net cash used in investing activities or net cash provided by financing activities in the Consolidated Statement of Cash Flows for the year ended December 31, 2003.

Note 3. Stock-Based Compensation

In December 2002, The FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of SFAS No. 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation, and requires additional disclosures in interim and annual

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

	2003	2002	2001
	<u> </u>	<u> </u>	<u> </u>
Expected life (years)	7	7	7
Interest rate	3.74%	3.27%	4.69%
Volatility	30.61%	31.21%	30.41%
Expected dividend yield	0.21%	0.21%	0.28%

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As required by SFAS No. 123, the Company has determined that the weighted average estimated fair values of options granted in 2003, 2002 and 2001 were \$18.86, \$18.30 and \$14.36 per share, respectively. Pro forma net income for the fair value of stock options awarded in 2003, 2002 and 2001 were as follows:

	Restated 2003	2002	2001
	<u> </u>	<u> </u>	<u> </u>
(millions of dollars, except per share amounts)			
Income before cumulative effect of accounting change, as reported	\$ 51.7	\$ 53.8	\$ 49.8
Add: Stock-based employee compensation included in reported income before accounting change	0.1	--	--
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>(2.2)</u>	<u>(2.2)</u>	<u>(5.5)</u>
Pro forma income before cumulative effect of accounting change	49.6	51.6	44.3
	<u>3.4</u>	<u>--</u>	<u>--</u>
Cumulative effect of accounting change			
	\$ 46.2	\$ 51.6	\$ 44.3
Pro forma net income	=====	=====	=====

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Net income, as reported	\$ 48.2	\$ 53.8	\$ 49.8
	=====	=====	=====

Basic EPS

Income before cumulative effect of accounting change, as reported	\$ 2.56	\$ 2.66	\$ 2.54
Pro forma income before cumulative effect of accounting change	2.45	2.55	2.26
Pro forma net income	2.29	2.55	2.26
Net income, as reported	2.39	2.66	2.54

Diluted EPS

Income before cumulative effect of accounting change, as reported	\$ 2.53	\$ 2.61	\$ 2.48
Pro forma income before cumulative effect of accounting change	2.43	2.51	2.21
Pro forma net income	2.26	2.51	2.21
Net income, as reported	2.36	2.61	2.48

Note 4. Earnings Per Share (EPS)

Thousands of Dollars, Except Per Share Amounts

	Restated 2003	2002	2001
	-----	-----	-----
Basic EPS			
Income before cumulative effect of accounting change	\$51,653	\$53,752	\$49,793
	<u>3,433</u>		
Cumulative effect of accounting change		-----	-----
Net income	\$48,220	\$53,752	\$49,793
	=====	=====	=====
Weighted average shares outstanding	20,208	20,199	19,630
Basic earnings per share before cumulative effect of accounting change	\$ 2.56	\$ 2.66	\$ 2.54
	<u>(0.17)</u>		
Cumulative effect of accounting change)	-----	-----
Basic earnings per share	\$ 2.39	\$ 2.66	\$ 2.54
	=====	=====	=====

MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Restated 2003	2002	2001
	<u> </u>	<u> </u>	<u> </u>
Diluted EPS			
Income before cumulative effect of change	\$51,653	\$53,752	\$49,793
Cumulative effect of accounting change	<u>3,433</u>		
		--	--
Net income	\$48,220 =====	\$53,752 =====	\$49,793 =====
Weighted average shares outstanding	20,208	20,199	19,630
Dilutive effect of stock options	<u>223</u>		
		<u>370</u>	<u>433</u>
Weighted average shares outstanding, adjusted	<u>20,431</u>		
		<u>20,569</u>	<u>20,063</u>
Diluted earnings per share before cumulative			
effect of accounting change	\$ 2.53	\$ 2.61	\$ 2.48
Cumulative effect of accounting change	<u>(0.17)</u>		
)	--	--
Diluted earnings per share	\$ 2.36 =====	\$ 2.61 =====	\$ 2.48 =====

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

Note 5. Income Taxes

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

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Thousands of Dollars			

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Domestic	\$ 32,853	\$ 44,768	\$ 40,777
Foreign	<u>39,491</u>	<u>30,966</u>	<u>31,893</u>
Total income before provision for income taxes	\$ 72,344	\$ 75,734	\$ 72,670
	=====	=====	=====

The provision for taxes on income consists of the following:

	Restated 2003	2002	2001
Thousands of Dollars	<u> </u>	<u> </u>	<u> </u>
Domestic			
Taxes currently payable			
Federal	\$ 2,326	\$ 5,797	\$ 8,906
State and local	1,281	179	1,484
Deferred income taxes		<u>5,873</u>	<u>998</u>
	<u>4,036</u>		
Domestic tax provision		<u>11,849</u>	<u>11,388</u>
	<u>7,643</u>		
Foreign			
Taxes currently payable	10,424	11,601	10,889
Deferred income taxes		<u>(3,230)</u>	<u>(1,129)</u>
	<u>1,049</u>)	
Foreign tax provision		<u>8,371</u>	<u>9,760</u>
	<u>11,473</u>		
Total tax provision	\$19,116	\$ 20,220	\$ 21,148
	=====	=====	=====

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

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

Percentages	Restated 2003	2002	2001
	<u> </u>	<u> </u>	<u> </u>
U.S. statutory tax rate	35.0%	35.0%	35.0%
Depletion	(5.5)	(4.7)	(4.5)
Difference between tax provided on foreign earnings and the U.S. statutory rate	(3.3)	(3.2)	(1.9)
State and local taxes, net of Federal tax benefit	0.8	1.4	1.5
Tax credits and foreign dividends	2.3	(0.9)	(1.4)
Contribution of technology	(2.5)	--	--
Other	<u>(0.4)</u>	<u>(0.9)</u>	<u>0.4</u>
))	
Consolidated effective tax rate	26.4%	26.7%	29.1%
	=====	=====	=====

The Company reversed certain tax reserves for potential exposure items during the second half of 2003 as a result of the expiration of the statute of limitations on the Company's U.S. tax returns for certain earlier years. This one-time, non-cash item resulted in an increase in additional paid-in capital of \$15 million because such tax reserves were established for potential exposure items related to the tax bases of assets caused by the initial public offering of the Company's common stock in October 1992.

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

Thousands of Dollars	2003	2002
	<u> </u>	<u> </u>
Deferred tax assets:		
State and local taxes	\$ 4,218	\$ 3,554
Accrued expenses	2,432	3,131
Deferred expenses	5,425	4,244
Net operating loss carry forwards	9,339	7,745
Other	<u>4,520</u>	<u>1,125</u>
Total deferred tax assets	<u>25,934</u>	<u>19,799</u>
Deferred tax liabilities:		
Plant and equipment, principally due to differences in depreciation	66,172	63,590

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Pension and post-retirement benefits cost deducted for tax purposes in

excess of amounts reported for financial statements	8,441	2,885
Other	<u>2,938</u>	<u>1,507</u>
Total deferred tax liabilities	<u>77,551</u>	<u>67,982</u>
Net deferred tax liabilities	\$51,617	\$48,183
	=====	=====

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

The Company recorded \$9.3 million of deferred tax assets arising from tax loss carry forwards which will be realized through future operations. Carry forwards of approximately \$0.5 million expire over the next six years, and \$8.8 million can be utilized over an indefinite period.

Net cash paid for income taxes were \$15.6 million, \$14.6 million, and \$20.8 million for the years ended December 31, 2003, 2002, and 2001, respectively.

Note 6. Foreign Operations

The Company has not provided for U.S. federal and foreign withholding taxes on \$102.8 million of foreign subsidiaries' undistributed earnings as of December 31, 2003 because such earnings, for the most part, are intended to be reinvested overseas. To the extent the parent company has received foreign earnings as dividends, the foreign taxes paid on those earnings have generated tax credits, which have substantially offset related U.S. income taxes. On repatriation, certain foreign countries impose

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

withholding taxes. The amount of withholding tax that would be payable on remittance of the entire amount of undistributed earnings would approximate \$3.8 million.

Net foreign currency exchange gains, included in other deductions in the Consolidated Statement of Income, were \$476,000, \$233,000, and \$201,000 for the years ended December 31, 2003, 2002, and 2001, respectively.

Note 7. Inventories

The following is a summary of inventories by major category:

	<u>2003</u>	<u>2002</u>
Thousands of Dollars		

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Raw materials	\$34,132	\$32,967
Work in process	8,153	7,153
Finished goods	25,998	25,459
Packaging and supplies	<u>18,095</u>	<u>17,330</u>
Total inventories	\$86,378	\$82,909
	=====	=====

Note 8. Property, Plant and Equipment

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

Thousands of Dollars	2003	2002
	_____	_____
Land	\$ 19,873	\$ 21,516
Quarries/mining properties	49,770	27,918
Buildings	151,923	140,550
Machinery and equipment	837,659	801,788
Construction in progress	54,899	39,548
Furniture and fixtures and other	<u>95,826</u>	<u>84,684</u>
	1,209,950	1,116,004
Less: Accumulated depreciation and depletion	<u>(648,362)</u>	<u>(578,580)</u>
))
Property, plant and equipment, net	\$ 561,588	\$ 537,424
	=====	=====

Note 9. Restructuring Charges

During the fourth quarter of 2003, the Company announced plans to restructure its operations in an effort to reduce operating costs and to improve efficiency. The restructuring resulted in a total workforce reduction of approximately 70 people or three percent of the Company's worldwide workforce. The Company recorded a pre-tax restructuring charge of \$3.3 million in the fourth quarter of 2003 to reflect these actions. This charge consisted of severance, other employee benefits, and lease termination costs. As of December 31, 2003 substantially all of the employees identified in the workforce reduction were terminated and \$1.0 million of accrued restructuring liability was paid. As of December 31, 2003, the remaining restructuring liability was approximately \$2.3 million.

Note 10. Acquisitions

On September 15, 2003, the Company purchased for approximately \$2.0 million a pre-cast refractory shapes manufacturing facility.

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

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

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
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- On September 9, 2002, the Company acquired the business and assets of Polar Minerals Inc., a privately owned producer of industrial minerals in the Midwest United States, for approximately \$22.5 million.

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

Millions of Dollars	2003	2002
Current assets	\$ --	\$11.6
Property, plant and equipment	2.0	17.7
Intangible assets	--	0.7
Goodwill	--	5.5
		<u>3.4</u>
Net operating loss carry forwards	--	
Total assets acquired	2.0	38.9
		<u>(4.8)</u>
Liabilities assumed	--)	
Net cash paid	\$ 2.0	\$34.1
	====	=====

Note 11. Goodwill and Other Intangible Assets

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and other intangible assets with indefinite lives are not amortized, but instead reviewed for impairment at least annually in accordance with the provisions of SFAS No. 142. This statement also required an initial goodwill impairment assessment in the year of adoption. The Company completed the initial impairment analysis and performed a subsequent impairment analysis in the fourth quarter. These analyses did not result in an impairment charge.

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The carrying amount of goodwill was \$52.7 million and \$51.3 million as of December 31, 2003 and December 31, 2002, respectively. The net change in goodwill since January 1, 2003 was primarily attributable to the effect of foreign exchange.

The following table reconciles previously reported net income as if the provisions of SFAS No. 142 had come into effect in 2001:

(thousands of dollars)	<u>Year Ended December 31,</u>		
	Restated <u>2003</u>	<u>2002</u>	<u>2001</u>
Reported net income	\$48,220	\$53,752	\$49,793
Addback: goodwill amortization	<u> --</u>	<u> --</u>	<u> 818</u>
Adjusted net income	\$48,220 =====	\$53,752 =====	\$50,611 =====
Basic earnings per share:			
Reported net income	\$ 2.39	\$ 2.66	\$ 2.54
Goodwill amortization	<u> --</u>	<u> --</u>	<u> 0.04</u>
Adjusted net income	\$ 2.39 =====	\$ 2.66 =====	\$ 2.58 =====
Diluted earnings per share:			
Reported net income	\$ 2.36	\$ 2.61	\$ 2.48
Goodwill amortization	<u> --</u>	<u> --</u>	<u> 0.04</u>
Adjusted net income	\$ 2.36 =====	\$ 2.61 =====	\$ 2.52 =====

Acquired intangible assets subject to amortization as of December 31, 2003 and December 31, 2002 were as follows:

(millions of dollars)	<u>December 31, 2003</u>		<u>December 31, 2002</u>	
	Gross Carrying <u>Amount</u>	Accumulated <u>Amortization</u>	Gross Carrying <u>Amount</u>	Accumulated <u>Amortization</u>
	\$ 5.8	\$ 0.9	\$ 5.8	\$ 0.7
Patents and trademarks	1.4	0.2	1.4	0.1
Customer lists	<u>0.2</u>	<u>0.1</u>	<u>0.2</u>	=
Other	\$ 7.4	\$ 1.2	\$ 7.4	\$ 0.8
	===	===	===	===

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The weighted average amortization period for acquired intangible assets subject to amortization is approximately 15 years. Amortization expense was \$0.4 million in 2003 and the estimated amortization expense is \$0.4 million for each of the next five years through 2008.

Included in other assets and deferred charges is an intangible asset of approximately \$13.1 million which represents the non-current unamortized amount paid to a customer in connection with contract extensions at eight PCC satellite facilities. In addition, a current portion of \$1.8 million is included in prepaid expenses and other current assets. Such amounts will be amortized as a reduction of sales over the remaining lives of the customer contracts. Approximately \$1.3 million was amortized in 2003. Estimated amortization as a reduction of sales is as follows: 2004 - \$1.8 million; 2005 - \$1.8 million; 2006 - \$1.8 million; 2007 - \$1.8 million; 2008 - \$1.8 million; with smaller reductions thereafter over the remaining lives of the contracts.

Note 12. Accounting for Impairment of Long-Lived Assets

The Company accounts for impairment of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 establishes a uniform accounting model for disposition of long-lived assets. This Statement also requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. During 2003, the Company recorded a writedown of impaired assets of \$3.2 million for the planned closure of a plant and for assets made obsolete by improved technology. During 2002, the Company recorded a write-down of impaired assets of \$0.8 million for a precipitated calcium carbonate plant at a paper mill that had ceased operations.

Note 13. Derivative Instruments and Hedging Activities

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

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

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

Based on criteria established by SFAS No. 133, the Company designated its derivatives as a cash flow hedge. During 2001, the Company entered into three-year interest rate swap agreements with notional amounts totaling \$30 million that expire in January 2005. These agreements effectively convert a portion of the Company's floating-rate debt to a fixed-rate basis with an interest rate of 4.5%, thus reducing the impact of the interest rate changes on future cash flows and income. The Company uses FEC designated as cash flow hedges to protect against foreign currency exchange rate risks inherent in its forecasted inventory purchases. The Company had 13 open foreign exchange contracts at December 31, 2003.

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

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Financial Instruments and Concentrations of Credit Risk

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

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

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

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

Forward exchange contracts: The fair value of forward exchange contracts (used for hedging purposes) is estimated by obtaining quotes from brokers. If appropriate, the Company would enter into forward exchange contracts to mitigate the impact of foreign exchange rate movements on the Company's operating results. It does not engage in speculation. Such foreign exchange contracts would not subject the Company to additional risk from exchange rate movements because gains and losses on these contracts would offset losses and gains on the assets, liabilities and transactions being hedged. At December 31, 2003, the Company had open foreign exchange contracts to purchase \$2.2 million of foreign currencies. These contracts range in maturity from January 21, 2004 to June 23, 2004. The fair value of these instruments was an asset of \$0.1 million on December 31, 2003. There were no open foreign exchange contracts at December 31, 2002.

Interest rate swap agreements: The Company enters into interest rate swap agreements as a means to hedge its interest rate exposure on debt instruments. At December 31, 2003, the Company had two interest rate swaps with major financial institutions that effectively converted variable-rate debt to a fixed rate. One swap has a notional amount of \$20 million and the other swap has a notional amount of \$10 million. These swap agreements are under three-year terms expiring in January 2005 whereby the Company pays 4.50% and receives a three-month LIBOR rate plus 45 basis points. The fair value of these instruments was determined based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date. The fair value of these

instruments was a liability of approximately \$1.0 million and \$1.5 million at December 31, 2003 and December 31, 2002, respectively.

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

The Company's bad debt expense for the years ended December 31, 2003, 2002, and 2001 was \$5.3 million, \$6.2 million and \$3.9 million, respectively.

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
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Note 15. Long-Term Debt and Commitments

The following is a summary of long-term debt:

(thousands of dollars)	December 31, 2003	December 31, 2002
7.49% Guaranteed Senior Notes Due July 24, 2006	\$ 50,000	\$50,000
Yen-denominated Guaranteed Credit Agreement		
Due March 31, 2007	8,256	8,957
Variable/Fixed Rate Industrial		
Development Revenue Bonds Due 2009	4,000	4,000
Economic Development Authority Refunding		
Revenue Bonds Series 1999 Due 2010	4,600	4,600
Variable/Fixed Rate Industrial		
Development Revenue Bonds Due August 1, 2012	8,000	8,000
Variable/Fixed Rate Industrial Development Revenue		
Bonds Series 1999		
Due November 1, 2014	8,200	8,200
Variable/Fixed Rate Industrial		
Development Revenue Bonds Due March 31, 2020	5,000	5,000
Installment obligations	11,368	--
Other borrowings	<u>1,910</u>	<u>1,594</u>
	101,334	90,351
Less: Current maturities	<u>3,175</u>	<u>1,331</u>
Long-term debt	\$ 98,159	\$89,020
	=====	=====

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

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

The Variable/Fixed Rate Industrial Development Revenue Bonds due 2009 are tax-exempt 15-year instruments issued to finance the expansion of a PCC plant in Selma, Alabama. The bonds are dated November 1, 1994, and provide for an optional put by the holder (during the Variable Rate Period) and a mandatory call by the issuer. The bonds bear interest at either a variable rate or fixed rate, at the option of the Company. Interest is payable semi-annually under the fixed rate option and monthly under the variable rate option. The Company has selected the variable rate option on these borrowings and the average interest rates were approximately 1.18% and 1.57% for the years ended December 31, 2003 and 2002, respectively.

The Economic Development Authority Refunding Revenue Bonds due 2010 were issued on February 23, 1999 to refinance the bonds issued in connection with the construction of a PCC plant in Eastover, South Carolina. The bonds bear interest at either a variable rate or fixed rate, at the option of the Company. Interest is payable semi-annually under the fixed rate option and monthly under the variable rate option. The Company has selected the variable rate option on these borrowings and the average interest rates were approximately 1.16% and 1.51% for the years ended December 31, 2003 and 2002, respectively.

The Variable/Fixed Rate Industrial Development Revenue Bonds due August 1, 2012 are tax-exempt 15-year instruments that were issued on August 1, 1997 to finance the construction of a PCC plant in Courtland, Alabama. The bonds bear interest at either a variable rate or fixed rate, at the option of the Company. Interest is payable semi-annually under the fixed rate option and monthly under the variable rate option. The Company has selected the variable rate option on these borrowings and the average interest rates were approximately 1.16% and 1.56% for the years ended December 31, 2003 and 2002, respectively.

The Variable/Fixed Rate Industrial Development Revenue Bonds due November 1, 2014 are tax-exempt 15-year instruments and were issued on November 30, 1999 to refinance the bonds issued in connection with the construction of a PCC plant in Jackson, Alabama. The bonds bear interest at either a variable rate or fixed rate at the option of the Company. Interest is payable semi-annually under the fixed rate option and monthly under the variable rate option. The Company has selected the variable rate option on these borrowings and the average interest rates were approximately 1.16% and 1.56% for the years ended December 31, 2003 and 2002, respectively.

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On June 9, 2000 the Company entered into a twenty-year, taxable, Variable/Fixed Rate Industrial Development Revenue Bond agreement to finance a portion of the construction of a merchant manufacturing facility for the production of Specialty PCC in Mississippi. The Company has selected the variable rate option for this borrowing and the average interest rate was approximately 1.65% and 2.33% for the years ended December 31, 2003 and 2002, respectively.

On May 31, 2003, the Company acquired land and limestone ore reserves from the Cushenbury Mine Trust for approximately \$17.5 million. Approximately \$6.1 million was paid at the closing and \$11.4 million was financed through an installment obligation. The average interest rate on this obligation is approximately 4.25%. The principal payments are as follows: 2004 - \$0.8 million; 2005 - \$0.9 million, 2006 - \$0.9 million; 2007 - \$0.9 million; 2008 - \$6.5 million; 2013 - \$1.4 million.

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The aggregate maturities of long-term debt are as follows: 2004 - \$3.2 million; 2005 - \$3.8 million; 2006 - \$54.0 million, 2007 - \$2.0 million; 2008 - \$7.0 million; thereafter - \$31.3 million.

The Company had available approximately \$110.0 million in uncommitted, short-term bank credit lines, of which \$30.0 million was in use at December 31, 2003. The interest rate for these borrowings was approximately 4.09% for the year ended December 31, 2003.

During 2003, 2002 and 2001, respectively, the Company incurred interest costs of \$6.2 million, \$6.4 million and \$8.8 million including \$0.8 million, \$0.6 million and \$0.9 million, respectively, which were capitalized. Interest paid approximated the incurred interest costs.

Note 16. Benefit Plans

Pension Plans and Other Postretirement Benefit Plans

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

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

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

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 became law in December 2003 and introduced both a Medicare prescription-drug benefit and a federal subsidy to sponsors of retiree health-care plans that provide a benefit at least "actuarially equivalent" to the Medicare benefit. The Company's other postretirement benefits do provide for such prescription-drug benefits. The Company has made a one-time election to defer accounting for the economic effects of the Medicare Act, as permitted by FASB Staff Position 106-1. The FASB plans to issue authoritative guidance on the accounting for the subsidies in 2004. The issued guidance could require the Company to change previously reported information.

The funded status of the Company's pension plans and other postretirement benefit plans at December 31, 2003 and 2002 is as follows:

Obligations and Funded Status

Millions of Dollars	Pension Benefits		Other Benefits	
	2003	2002	2003	2002
Change in benefit obligation				
Benefit obligation at beginning of year	\$125.8	\$107.2	\$ 24.3	\$ 21.6
Service cost	5.7	5.1	1.2	1.1

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Interest cost	7.9	7.3	1.6	1.5
Actuarial gain	7.9	7.5	2.2	1.6
Benefits paid	(6.2)	(4.1)	(2.4)	(1.5)
Other	<u>1.6</u>	<u>2.8</u>	<u>--</u>	<u>--</u>
Benefit obligation at end of year	\$142.7 =====	\$125.8 =====	\$ 26.9 =====	\$ 24.3 =====

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Millions of Dollars	Pension Benefits		Other Benefits	
	2003	2002	2003	2002
Change in plan assets				
Fair value of plan assets at beginning of year	\$111.4	\$102.7	\$ --	\$ --
Actual return on plan assets	22.8	(9.2)	--	--
Employer contributions	20.8	20.2	2.4	1.6
Plan participants' contributions	0.2	0.2	--	--
Benefits paid	(7.2)	(4.1)	(2.4)	(1.6)
Other	<u>4.7</u>	<u>1.6</u>	<u>--</u>	<u>--</u>
Fair value of plan assets at end of year	\$152.7 =====	\$111.4 =====	\$ -- =====	\$ -- =====
Funded status	\$ 10.0	\$(14.4)	\$(26.9)	\$(24.3)
Unrecognized transition amount	(0.1)	--	--	--
Unrecognized net actuarial loss	31.3	42.0	6.4	4.4
Unrecognized prior service cost	<u>4.6</u>	<u>4.7</u>	<u>--</u>	<u>--</u>
Prepaid (accrued) benefit cost				

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\$ 45.8	\$ 32.3	\$(20.5)	\$(19.9)
=====	=====	===	===

Amounts recognized in the consolidated balance sheet consist of:

Millions of Dollars	Pension Benefits		Other Benefits		
	2003	2002	2003	2002	
Prepaid expenses		\$ 4.3	\$ --	\$ --	\$ --
Prepaid benefit cost		46.3	36.1	(20.5)	--
Accrued benefit liabilities		(7.3)	(7.2)	--	(19.9)
Intangible asset		1.1	1.2	--	--
		<u>1.4</u>	<u>2.2</u>	<u>--</u>	<u>--</u>
Accumulated other comprehensive loss					
Net amount recognized		\$ 45.8	\$ 32.3	\$(20.5)	\$(19.9)
		=====	=====	===	=====

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	December 31,	
	2003	2002
Projected benefit obligation	\$ 33.6	\$ 31.5
Accumulated benefit obligation	\$ 29.3	\$ 26.4
Fair value of plan assets	\$ 23.8	\$ 17.8

The accumulated benefit obligation for all defined benefit pension plans was \$131.9 million and \$109.8 million at December 31, 2003 and 2002, respectively.

The components of net periodic benefit costs are as follows:

Millions of Dollars	Pension Benefits			Other Benefits		
	2003	2002	2001	2003	2002	2001
Service cost	\$ 5.7	\$ 5.1	\$ 5.2	\$ 1.2	\$ 1.1	\$ 1.1
Interest cost	7.9	7.3	6.9	1.6	1.5	1.4
Expected return on plan assets	(10.1)	(9.0)	(9.5)	--	--	--
Amortization of transition amount	0.1	0.1	0.8	--	--	--

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Amortization of prior service cost	0.6	0.5	0.5	0.1	(0.4)	(1.7)
Recognized net actuarial loss (gain)	2.3	0.8	(0.2)	--	--	--
SFAS No. 88 settlement	<u>---</u>	<u>---</u>	<u>1.9</u>	<u>---</u>	<u>---</u>	<u>---</u>
Net periodic benefit cost	\$ 6.5	\$ 4.8	\$ 5.6	\$ 2.9	\$ 2.2	\$ 0.8
	=====	=====	=====	=====	=====	=====

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

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

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Additional Information

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

	2003	2002	2001
	<u> </u>	<u> </u>	<u> </u>
Discount rate	6.25%	6.75%	7.25%
Expected return on plan assets	8.75%	8.75%	9.25%
Rate of compensation increase	3.50%	3.50%	4.00%

The Company considers a number of factors to determine its expected rate of return on plan assets assumptions, including historical performance of plan assets, asset allocation and other third-party studies and surveys. The Company reviewed the historical performance of plan assets over a ten-year period (from 1993 to 2003), the results of which exceed the 8.75% rate of return assumption that the Company ultimately selected for domestic plans. The Company also considered the plan portfolios' asset allocations over a variety of time periods and compared them with third-party studies and surveys of annualized returns of similarly balanced portfolio strategies. The historical return of this universe of similar portfolios also exceeded the return assumption that the Company ultimately selected. Finally, the Company reviewed performance of the capital markets in recent years and, upon advice from various third parties, such as the pension plans' advisers, investment managers and actuaries, selected the 8.75% return assumption used for

domestic plans.

For measurement purposes, health care cost trend rates of approximately 10% for pre-age-65 and post-age-65 benefits were used in 2003. These trend rates were assumed to decrease gradually to 5.0% for 2009 and remain at that level thereafter.

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

Thousands of Dollars	1-Percentage-Point	1-Percentage-Point
	Increase	Decrease
Effect on total service and interest cost components	11	(12)
Effect on postretirement benefit obligation	150	(160)
Plan Assets		

The Company's pension plan weighted average asset allocations at December 31, 2003 and 2002 by asset category are as follows:

Asset Category	Plan Assets at December 31,	
	2003	2002
Equity securities	68.9%	68.4%
Fixed income securities	30.1%	30.6%
Real estate	0.4%	0.4%
	<u>0.6</u>	<u>0.6</u>
Other	%	%
Total	100%	100%
	===	===

The following table presents domestic and foreign pension plan assets information at December 31, 2003, 2002 and 2001 (the measurement date of pension plan assets):

Millions of Dollars	U.S. Plans			International Plans		
	2003	2002	2001	2003	2002	2001
Fair value of plan assets	\$123.5	\$87.6	\$77.9	\$29.2	\$23.7	\$24.7

Contributions

The Company expects to contribute \$7 million to its pension plan and \$10 million to its other postretirement benefit plan in 2004.

MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investment Strategies

The Plan Assets Committee has adopted an investment policy for domestic pension plan assets designed to meet or exceed the expected rate of return on plan assets assumption. To achieve this, the pension plans retain professional investment managers that invest plan assets, primarily in equity and fixed income securities. The Company has targeted an investment mix of 65% in equity securities and 35% in fixed income securities.

Savings and Investment Plans

The Company maintains a voluntary Savings and Investment Plan for most non-union employees in the U.S. Within prescribed limits, the Company bases its contribution to the Plan on employee contributions. The Company's contributions amounted to \$3.0 million, \$2.9 million and \$2.9 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Note 17. Leases

The Company has several noncancelable operating leases, primarily for office space and equipment. Rent expense amounted to approximately \$4.9 million, \$4.6 million and \$4.4 million for the years ended December 31, 2003, 2002 and 2001, respectively. Total future minimum rental commitments under all noncancelable leases for each of the years 2004 through 2008 and in the aggregate thereafter are approximately \$5.4 million, \$4.8 million, \$3.9 million, \$3.0 million, and \$4.7 million, respectively and \$8.1 million thereafter.

Total future minimum payments to be received under direct financing leases for each of the years 2004 through 2008 and in the aggregate thereafter are approximately \$2.8 million, \$2.6 million, \$2.0 million, \$1.3 million, and \$1.0 million respectively and \$3.3 million thereafter.

Note 18. Litigation

On April 9, 2003, the Connecticut Department of Environmental Protection ("DEP") issued an administrative consent order which had been agreed to by MTI, Specialty Minerals Inc. and Minteq International Inc. relating to the Canaan, Connecticut, site at which both Minteq and Specialty Minerals have operations. The order settled claims relating to an accidental discharge of machine oil alleged to have contained polychlorinated biphenyls at or above regulated levels, as well as alleged violations of requirements pertaining to stormwater and waste water discharge and to management of underground storage tanks. The order required payment of a civil penalty in the amount of \$11,000 and funding of several supplemental environmental projects totaling \$330,000. These amounts were paid on April 21, 2003. Cost of remediation at the site remains uncertain.

Certain of the Company's subsidiaries are among numerous defendants in a number of cases seeking damages for exposure to silica or asbestos-containing materials. 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 and its subsidiaries are not party to any other material pending legal proceedings, other than ordinary routine litigation that is incidental to their businesses.

Note 19. Stockholders' Equity

Capital Stock

The Company's authorized capital stock consists of 100 million shares of common stock, par value \$0.10 per share, of which 20,491,499 shares and 20,155,787 shares were outstanding at December 31, 2003 and 2002, respectively, and 1,000,000 shares of preferred stock, none of which were issued and outstanding.

Cash Dividends

Cash dividends of \$2.0 million or \$0.10 per common share were paid during 2003. In January 2004, a cash dividend of approximately \$1.4 million or \$0.05 per share, was declared, payable in the first quarter of 2004.

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Preferred Stock Purchase Rights

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

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

Stock and Incentive Plan

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

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

The following table summarizes stock option activity for the Plan:

	Under Option		
	Shares Available	Weighted Average	
	For Grant	Shares	Exercise Price Per Share (\$)
Balance January 1, 2001	1,252,989	2,519,214	34.23
Authorized	500,000	--	--
Granted	(252,500)	252,500	34.81
Exercised	--	(109,504)	29.04
Canceled	<u>42,057</u>	<u>(42,057)</u>	38.57
)			
Balance December 31, 2001	1,542,546	2,620,153	34.43
Granted	(285,728)	285,728	46.92
Exercised	--	(977,363)	30.03
Canceled	<u>20,335</u>	<u>(20,335)</u>	50.83
)			
Balance December 31, 2002	1,277,153	1,908,183	38.54
Granted	(82,435)	82,435	47.74
Exercised	--	(483,978)	32.92
Canceled	<u>23,874</u>	<u>(23,874)</u>	<u>39.17</u>
)			
Balance December 31, 2003	1,218,592	1,482,766	40.85
	=====	=====	=====

The following table summarizes information concerning Plan options at December 31, 2003:

Options Outstanding			Options Exercisable	
Number	Weighted Average Remaining	Weighted Average	Number	Weighted Average

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Range of Exercise Prices	Outstanding at 12/31/03	Contractual Term (Years)	Exercise Price	Exercisable at 12/31/03	Exercise Price
\$30.625 - 34.825	278,043	5.0	\$33.00	225,773	\$32.57
\$36.725 - 39.530	776,167	5.4	\$39.52	762,667	\$39.53
\$42.070 - 53.120	428,556	7.9	\$48.40	191,685	\$49.07

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20. Comprehensive Income

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

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

	Currency Translation Adjustment	Minimum Pension Liability	Net Gain (Loss) On Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2001	\$(43.1)	\$(1.0)	\$ --	\$(44.1)
	<u>(11.9)</u>	<u>0.5</u>	<u>0.2</u>	<u>(11.2)</u>
Current year change))))
Balance at December 31, 2001	(55.0)	(0.5)	0.2	(55.3)
	<u>22.2</u>	<u>(0.8)</u>	<u>(1.1)</u>	<u>20.3</u>
Current year change))))
Balance at December 31, 2002	(32.8)	(1.3)	(0.9)	(35.0)
Current year change	<u>39.7</u>	<u>(1.4)</u>	<u>0.5</u>	<u>38.8</u>

)			
Balance at December 31, 2003	\$ 6.9	\$(2.7)	\$(0.4)	\$ 3.8
	=====	====	====	=====

The income tax expense (benefit) associated with items included in other comprehensive income (loss) was approximately \$0.8 million, (\$1.1) million, and \$0.4 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Note 21. Accounting for Asset Retirement Obligations

Effective January 1, 2003, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 establishes the financial accounting and reporting for obligations associated with the retirement of long-lived assets and the associated asset retirement costs. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

Upon adoption, the Company recorded a non-cash, after-tax charge to earnings of approximately \$3.4 million for the cumulative effect of this accounting change related to retirement obligations associated with the Company's PCC satellite facilities and its mining properties, both within the Specialty Minerals segment. As a result of this pronouncement, the Company recorded additional depreciation and accretion expenses of approximately \$1.0 million for full year 2003. Such charge is

included in cost of goods sold. The pro forma effect on results, assuming that SFAS No. 143 were applied retroactively, would be a non-cash, after-tax charge to earnings of approximately \$0.5 million for the full year 2002.

The following is a reconciliation of asset retirement obligations as of December 31, 2003:

(thousands of dollars)

Asset retirement liability, beginning of period	\$8,953
Accretion expense	712
Payments made	<u>(350)</u>
)
Asset retirement liability, end of period	\$9,315
	=====

Note 22. Accounting for Costs Associated with Exit or Disposal Activities

Effective January 1, 2003, the Company adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities. During the first quarter of 2003, the Company paid approximately \$660,000 of one-time termination benefits to a group of employees at the Specialty Minerals facility in the United Kingdom. Such charge is included in cost of goods sold.

Note 23. Deferred Compensation

In July 2003, the Company granted to certain corporate officers rights to receive 27,600 shares of the Company's common stock under the Company's 2001 Stock Award and Incentive Plan (the 2001 Plan). The rights will be deferred for a specified

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

number of years of service, subject to restrictions on transfer and other conditions. Upon issuance of the rights, a deferred compensation expense equivalent to the market value of the underlying shares on the date of the grant was charged to stockholders' equity and is being amortized over the estimated average deferral period of approximately 5 years. The compensation expense amortized with respect to the units during 2003 was approximately \$135,600.

Note 24. Segment and Related Information

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

The Company has two operating segments: Specialty Minerals and Refractories. The Specialty Minerals segment produces and sells precipitated calcium carbonate and lime, and mines, processes and sells the natural mineral products limestone and talc. This segment's products are used principally in the paper, building materials, paints and coatings, glass, ceramic, polymers, food, and pharmaceutical industries. The Refractories segment produces and markets monolithic and shaped refractory materials and services used primarily by the steel, cement and glass industries.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on the operating income of the respective business units. Depreciation expense related to corporate assets is allocated to the business segments and is included in their income from operations. However, such corporate depreciable assets are not included in the segment assets. Specialty Minerals' segment sales to International Paper Company and affiliates represented approximately 10.0%, 11.5% and 13.0% of consolidated net sales in 2003, 2002 and 2001, respectively. Intersegment sales and transfers are not significant.

Segment information for the years ended December 31, 2003, 2002 and 2001 was as follows (in millions):

2003		
Specialty Minerals	Refractories	Total

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Net sales	\$557.1	\$256.6	\$813.7
Income from operations	55.4	21.8	77.2
Restructuring charges	1.7	1.6	3.3
Writedown of impaired assets	2.0	1.2	3.2
Bad debt expenses	1.1	4.2	5.3
Depreciation, depletion and amortization	56.9	9.4	66.3
Segment assets	672.3	253.9	926.2
Capital expenditures	37.1	12.4	49.5

2002

	Specialty Minerals	Refractories	Total
Net sales	\$520.1	\$232.6	\$752.7
Income from operations	60.0	20.9	80.9
Bad debt expenses	3.8	2.4	6.2
Writedown of impaired assets	0.8	--	0.8
Depreciation, depletion and amortization	59.0	10.0	69.0
Segment assets	612.7	238.6	851.3
Capital expenditures	27.3	9.7	37.0

2001

	Specialty Minerals	Refractories	Total
Net sales	\$483.3	\$201.1	\$684.4
Income from operations	55.5	25.1	80.6
Restructuring charges	3.0	0.4	3.4
Bad debt expenses	0.6	3.3	3.9
Depreciation, depletion and amortization	55.9	10.6	66.5
Segment assets	587.9	231.4	819.3
Capital expenditures	54.3	8.6	62.9

MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	2003	2002	2001
Income before provision for taxes on income and minority interests			
Consolidated income from operations	\$ 77.2	\$ 80.9	\$ 80.6
Interest income	0.8	1.1	0.8
Interest expense	(5.4)	(5.8)	(7.9)
	<u>(0.3)</u>	<u>(0.5)</u>	<u>(0.8)</u>
Other deductions)))
Income before provision for taxes on income and minority interests	\$ 72.3 =====	\$ 75.7 =====	\$ 72.7 =====
	2003	2002	2001
Total assets			
Total segment assets	\$ 926.2	\$851.3	\$819.3
			<u>28.5</u>
Corporate assets	<u>109.3</u>	<u>48.6</u>	
Consolidated total assets	\$1,035.5 =====	\$899.9 =====	\$847.8 =====
	2003	2002	2001
Capital expenditures			
Total segment capital expenditures	\$ 49.5	\$ 37.0	\$ 62.9
			<u>0.2</u>
Corporate capital expenditures	<u>3.2</u>	<u>0.1</u>	
Consolidated total capital expenditures	\$ 52.7 =====	\$ 37.1 =====	\$ 63.1 =====

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

(thousands of dollars)	Amortization of Goodwill		
	Year Ended December 31,		
	2003	2002	2001
Specialty Minerals	\$ --	\$ --	\$ 373
Refractories	<u>--</u>	<u>--</u>	<u>991</u>
Total	\$ --	\$ --	\$1,364
	=====	=====	====

The carrying amount of goodwill by reportable segment as of December 31, 2003 and December 31, 2002 was as follows:

(thousands of dollars)	Goodwill	
	2003	2002
Specialty Minerals	\$ 15,682	\$ 14,637
Refractories	<u>37,039</u>	<u>36,654</u>
Total	\$ 52,721	\$ 51,291
	=====	=====

The net change in goodwill since December 31, 2002 was primarily attributable to the effect of foreign exchange.

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

Net sales	2003	2002	2001
	<u> </u>	<u> </u>	<u> </u>
United States	<u>\$499.9</u>	<u>\$482.2</u>	<u>\$442.7</u>
Canada/Latin America	72.4	68.5	63.6
Europe/Africa	192.6	156.0	129.6
			<u>48.5</u>
Asia	<u>48.8</u>	<u>46.0</u>	
			<u>241.7</u>
Total International	<u>313.8</u>	<u>270.5</u>	
	\$813.7	\$752.7	\$684.4
Consolidated total net sales	=====	=====	=====

MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

assets.

	2002		
	2003		2001
Long-lived assets			
United States	<u>\$402.4</u>	<u>\$400.6</u>	<u>\$411.1</u>
Canada/Latin America	24.5	21.5	28.5
Europe/Africa	154.7	141.3	115.3
Asia	<u>37.1</u>	<u>31.9</u>	<u>31.4</u>
Total International	<u>216.3</u>	<u>194.7</u>	<u>175.2</u>
	\$618.7	\$595.3	\$586.3
Consolidated total long-lived assets	=====	=====	=====

Note 25. Quarterly Financial Data (unaudited)

Thousands of Dollars, Except Per Share Amounts

	First	Second	Third		Fourth	
			As Previously Reported	As Restated	As Previously Reported	As Restated
2003 Quarters						
Net Sales by Product Line						
PCC	\$109,252	\$106,587	\$108,541	\$108,541	\$111,711	\$111,711
Processed Minerals	<u>28,523</u>	<u>30,770</u>	<u>30,564</u>	<u>30,564</u>	<u>31,201</u>	<u>31,201</u>
Specialty Minerals Segment	137,775	137,357	139,106	139,106	142,912	142,912
Refractories Segment	<u>63,675</u>	<u>65,017</u>	<u>59,128</u>	<u>59,128</u>	<u>68,773</u>	<u>68,773</u>
Consolidated net sales	201,450	202,374	198,234	198,234	211,685	211,685
Gross profit	49,767	49,996	47,486	47,486	50,745	50,745
Income before cumulative effect						
of accounting change	14,917	14,283	24,251	12,769	13,202	9,684
Cumulative effect of accounting change	<u>3,433</u>	---	---	---	---	---
Net income	\$ 11,484	\$ 14,283	\$ 24,251	\$ 12,769	\$ 13,202	\$ 9,684

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Earnings per share before accounting change:

Basic	\$ 0.74	\$ 0.71	\$ 1.20	\$ 0.63	\$ 0.65	\$ 0.47
Diluted	\$ 0.74	\$ 0.70	\$ 1.18	\$ 0.62	\$ 0.64	\$ 0.47

Earnings per share after accounting change:

Basic	\$ 0.57	\$ 0.71	\$ 1.20	\$ 0.63	\$ 0.65	\$ 0.47
Diluted	\$ 0.57	\$ 0.70	\$ 1.18	\$ 0.62	\$ 0.64	\$ 0.47

Market Price Range Per Share of Common Stock:

High	\$ 44.25	\$ 50.20	\$ 53.15	\$ 53.15	\$ 60.75	\$ 60.75
Low	\$ 35.45	\$ 37.57	\$ 47.09	\$ 47.09	\$ 50.90	\$ 50.90
Close	\$ 37.79	\$ 48.14	\$ 51.44	\$ 51.44	\$ 59.25	\$ 59.25

Dividends paid per common share	\$ 0.025	\$ 0.025	\$ 0.025	\$ 0.025	\$ 0.025	\$ 0.025
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In the fourth quarter of 2003, the Company recorded a \$3.2 million writedown of impaired assets relating to the planned closure of the Company's operations in River Rouge, Michigan and the retirement of certain Synsil^{®} product assets made obsolete by an improved manufacturing process. In addition, the Company recorded restructuring charges of \$3.3 million in the fourth quarter of 2003.

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MINERALS TECHNOLOGIES AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2002 Quarters	First	Second	Third	Fourth
Net Sales by Product Line				
PCC	\$102,876	\$103,320	\$107,562	\$109,230
Processed Minerals	<u>21,439</u>	<u>24,380</u>	<u>24,546</u>	<u>26,726</u>
Specialty Minerals Segment	124,315	127,700	132,108	135,956
Refractories Segment	<u>54,685</u>	<u>59,128</u>	<u>60,026</u>	<u>58,762</u>
Consolidated net sales	179,000	186,828	192,134	194,718

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Gross profit	45,576	46,166	46,397	45,806
Net income	\$ 13,543	\$ 13,997	\$ 14,213	\$ 11,999

Earnings per share:

Basic	\$ 0.68	\$ 0.68	\$ 0.70	\$ 0.60
Diluted	\$ 0.66	\$ 0.67	\$ 0.70	\$ 0.59

Market Price Range Per Share of Common Stock:

High	\$ 53.91	\$ 53.84	\$ 48.99	\$ 46.07
Low	\$ 44.06	\$ 49.12	\$ 33.17	\$ 36.38
Close	\$ 52.93	\$ 49.32	\$ 37.07	\$ 43.15

Dividends paid per common share	\$ 0.025	\$ 0.025	\$ 0.025	\$ 0.025
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In the second quarter of 2002, the Company recorded a \$0.75 million write-down of impaired assets related to a satellite PCC plant at a paper mill that has ceased operations.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Minerals Technologies Inc.:

We have audited the accompanying consolidated balance sheet of Minerals Technologies Inc. and subsidiary companies as of December 31, 2003 and 2002 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2003. In connection with our audits of the consolidated financial statements, we also have audited the related financial statement schedule. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial

statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Minerals Technologies Inc. and subsidiary companies as of December 31, 2003 and 2002 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003 in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in the notes to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" effective January 1, 2003 and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" effective January 1, 2002.

As discussed in Note 2, the Company has restated the consolidated balance sheet as of December 31, 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the year ended December 31, 2003.

KPMG LLP

New York, New York

January 22, 2004 (July 28, 2004 as to Note 2)

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

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

The Company maintains a system of internal control over financial reporting, which it believes provides reasonable assurance that transactions are executed in accordance with management's authorization and are properly recorded, that assets are safeguarded, and that accountability for assets is maintained. Even an effective internal control system, no matter how well designed, has inherent limitations and, therefore, can provide only reasonable assurance with respect to financial statement preparation. The system of internal control is characterized by a control-oriented environment within the Company, which includes written policies and procedures, careful selection

and training of personnel, and audits by a professional staff of internal auditors.

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

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

Paul R. Saueracker

Chairman of the Board, President and
Chief Executive Officer

John A. Sorel

Senior Vice President, Finance
and Chief Financial Officer

Michael A. Cipolla

Vice President, Corporate Controller
and Chief Accounting Officer

July 28, 2004

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

<u>Description</u>	<u>Balance at beginning of Period</u>	Additions Charged to Costs, Provisions and	Deductions <u>(a)(b)</u>	Balance at End of <u>Period</u>
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Expenses

Year ended December 31, 2003

Valuation and qualifying accounts

deducted from assets to
which they apply:

Allowance for doubtful accounts	\$7,079	\$5,307	\$(5,376)	\$7,010
	=====	=====	=====	=====

Year ended December 31, 2002

Valuation and qualifying accounts

deducted from assets to
which they apply:

Allowance for doubtful accounts	\$3,697	\$6,214	\$(2,832)	\$7,079
	=====	=====	=====	=====

Year ended December 31, 2001

Valuation and qualifying accounts

deducted from assets to
which they apply:

Allowance for doubtful accounts	\$2,898	\$3,930	\$(3,131)	\$3,697
	=====	=====	=====	=====

(a) Includes impact of translation of foreign currencies.

(b) Uncollectible accounts charged against allowance for doubtful accounts, net of recoveries of \$618.